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Cabinet Agenda

City of Westminster

Title:	**Cabinet**
Meeting Date:	**Monday 30th October, 2017**
Time:	**7.00 pm**
Venue:	**Room 3.6 and 3.7, 3rd Floor, 5 Strand, London, WC2 5HR**
Members:	**Councillors:** Heather Acton Nickie Aiken (Chairman) Daniel Astaire Danny Chalkley Robert Davis, MBE, DL David Harvey Tim Mitchell Rachael Robathan Richard Holloway Antonia Cox **Also invited:** Councillors Angela Harvey and Richard Beddoe

Members of the public are welcome to attend the meeting and listen to the discussion Part 1 of the Agenda

Admission to the public gallery is by ticket, issued from the ground floor reception at 5 Strand. If you have a disability and require any special assistance please contact the Committee Officer (details listed below) in advance of the meeting.

An Induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter. If you require any further information, please contact the Committee Officer, Mick Steward, Head of Committee and Governance Services.

Tel: 7641 3134; Email: msteward@westminster.gov.uk
Corporate Website: www.westminster.gov.uk

Note for Members: Members are reminded that Officer contacts are shown at the end of each report and Members are welcome to raise questions in advance of the meeting. With regard to item 2, guidance on declarations of interests is included in the Code of Governance; if Members and Officers have any particular questions they should contact the Director of Law in advance of the meeting please.

AGENDA

PART 1 (IN PUBLIC)

1.	**WELCOME**	
2.	**DECLARATIONS OF INTEREST** To receive declarations by Members and Officers of the existence and nature of any personal or prejudicial interests in matters on this agenda.	
3.	**MINUTES** To approve the minutes of the meeting held on 10 July 2017.	**(Pages 1 - 8)**
4.	**2018-2019 BUDGET PROPOSALS** Report of the City Treasurer, attached (Schedule and Annexes set out in Additional Papers)	**(Pages 9 - 84)**
a)	**Additional Papers: Agenda Item 4: 2018-2019 Budget Proposals: Budget Schedules and Appendices**	(Pages 85 - 98)
5.	**2016-2017 ANNUAL ACCOUNTS AND OUTTURN** Report of the City Treasurer, attached.	**(Pages 99 - 118)**
6.	**CAPITAL STRATEGY 2018-2019 TO 2022-2023, FORECAST POSITION FOR 2017-2018 AND FUTURE YEARS FORECASTS SUMMARISED UP TO 2031-2032** Report of the City Treasurer, attached (Appendices to follow).	**(Pages 119 - 174)**
7.	**TREASURY MANAGEMENT STRATEGY STATEMENT FOR 2018-2019 TO 2022-2023** Report of the City Treasurer, attached.	**(Pages 175 - 202)**
8.	**TREASURY MANAGEMENT STRATEGY MID-YEAR REVIEW 2017-2018** Report of the City Treasurer, attached.	**(Pages 203 - 214)**

9.	**INTEGRATED INVESTMENT FRAMEWORK** Report of the City Treasurer, attached.	**(Pages 215 - 234)**
10.	**HOUSING INVESTMENT STRATEGY AND HOUSING REVENUE ACCOUNT BUSINESS PLAN 2018-2019** Report of the City Treasurer, attached.	**(Pages 235 - 286)**
11.	**SHARED LEGAL SERVICES ALTERNATIVE BUSINESS STRUCTURE PROPOSAL** Report of the Director of Law, attached.	**(Pages 287 - 334)**
12.	**ANY OTHER BUSINESS WHICH THE CHAIRMAN CONSIDERS URGENT**	

Charlie Parker
Chief Executive
20 October 2017

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CITY OF WESTMINSTER

MINUTES

Cabinet

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Cabinet** held on **Monday 10th July, 2017**, Room 3.1, 3rd Floor, 5 Strand, London, WC2 5HR.

Members Present: Councillors Nickie Aiken (Chairman), Heather Acton, Daniel Astaire, Danny Chalkley, Robert Davis, MBE, DL, David Harvey, Richard Holloway, Tim Mitchell and Rachael Robathan.

Also Present: Councillors Richard Beddoe, Angela Harvey and Gotz Mohindra.

Apologies for Absence: Councillor Antonia Cox

1 WELCOME

1.1 The Leader welcomed everyone to the meeting.

2 DECLARATIONS OF INTEREST

2.1 Councillor Tim Mitchell, Cabinet Member for Finance and Corporate Services, declared that in relation to item 4, Leicester Square Development Review – Huguenot House, and item 6, Westminster Chinese Library: Response to Petition that these were in his Ward. However, he did not regard these as a prejudicial interest and remained present to consider these items.

3 MINUTES - 5 JUNE 2017

3.1 The Leader, with the consent of the Members present, signed the Minutes of the meeting held on 5 June 2017 as a true and correct record of the proceedings.

4 LEICESTER SQUARE DEVELOPMENT REVIEW - HUGUENOT HOUSE

4.1 The Leader introduced the item and advised that whatever decision was taken at the meeting, any redevelopment would require approval by a Planning Applications Sub-Committee, following extensive consultation. The concerns raised by Huguenot House Residents' Associations were taken seriously and residents would be engaged extensively during consultation.

4.2 Guy Slocombe, Director of Property Investments and Estates, then presented the report and stated that Huguenot House was an important Council owned asset located in a prominent location in Central London. The building was mixed use and the Council owned a number of the flats. There was an opportunity to redevelop the building in order to improve the area in social, economic and environmental terms and the report sought to seek a way forward on this.

4.3 Guy Slocombe drew Members' attention to the various options outlined on page 13 of the report and stated that all options were examined in detail against the strategic, economic, commercial, financial and management cases for the project. He referred to the representation made by Huguenot House Residents' Association and emphasised that any redevelopment proposals would be subject to open and transparent consultation.

4.4 Councillor Daniel Astaire, Cabinet Member for Planning and Public Realm, emphasised that it was important that any decision taken reflected the goals of City for All, particularly in respect of growth and providing more affordable housing. A number of keynote speeches had been made by the Leader and himself on this matter and it was important that the City Council took a lead in providing more affordable housing. Councillor Astaire therefore felt that Option 4A* , which proposed a mixed use of a cinema, retail, office and residential (65% private housing and 35% affordable housing) was the only option that could fully realise these objectives and that it would demonstrate a commitment to delivering more housing and in particular affordable housing.

4.5 Councillor Tim Mitchell, Cabinet Member for Finance, Property and Corporate Services, stated that as Ward Councillor he acknowledged the residents of Huguenot House's preference for Option 2. However, in terms of the options proposing redevelopment, in his capacity as Cabinet Member for Finance, Property and Corporate Services, he felt that Option 4A* was the best option, as although it would generate less capital receipts than Option 4A, this would be outweighed by the social and economic benefits it would bring. Councillor Mitchell stated that Officers could consider if a partner could be identified to help fund Option 4A*, or whether funds could be identified from the Council's overall budget.

4.6 Councillor Rachael Robathan, Cabinet Member for Housing, supported the comments made by Councillor Daniel Astaire and reaffirmed her commitment to providing more affordable housing.

4.7 Councillor Heather Acton, Cabinet Member for Adult Social Services and Public Health, referred to comments made in the Huguenot House Residents' Association representation in respect of faulty lifts for both the residents' lift on the Oxendon Street side and the office lift at the Whitcomb Street entrance, fire extinguishers being removed, the feeling that the building had been purposefully neglected and claims that the car park survey had been undertaken when access to it was difficult and she sought officers' responses to these.

4.8 Councillor David Harvey, Cabinet Member for Environment, Sports and Community, expressed concern about the effectiveness of the managing agents for Huguenot House in general and he felt that this needed to be addressed swiftly. He referred to the table in 3.6 of the report that had given Option 4A* a weight score of 0.04 for contributing to placemaking and asked how this had been calculated.

4.9 In reply to issues raised, Guy Slocombe acknowledged that the problems with the lifts were regrettable, however they were now obsolete and some of the parts were no longer manufactured. Efforts were being made to make the lifts operational again and Guy Slocombe advised that if the site was not redeveloped, then the lifts would be replaced. He informed Members that the Council was aware that the managing agents had not been up to the required standard in managing Huguenot House and a new managing agent had been appointed. However, the new managing agent had also failed to demonstrate effectiveness to date and a meeting was due to take place with them and Council officers to address this issue.

4.10 Guy Slocombe advised that a fire risk assessment undertaken in March 2017 had determined that fire extinguishers were not necessary, so these had been removed. However, fire safety measures were being considered for all of the City Council's buildings, including Huguenot House. In respect of the car park, there had since been a further survey with results indicating that the car park is on average 25% full, with the busiest times on Saturday evening with an average peak of 50%. Guy Slocombe advised that he had met with the Managing Director of Q-Park, the company operating the car park, who had advised that the car park was not viable financially and that Q-Park would not be interested in extending its lease. Guy Slocombe advised that the contributing to placemaking score for Option 4A* in the table in 3.6 of the report was incorrect and that he would undertake to obtain the correct score which on subsequent inspection was found that it should read 1.2.

4.11 The Leader emphasised the importance of addressing issues where managing agents were failing to manage properties properly and she requested that this matter be resolved swiftly for Huguenot House. She expressed surprise at the property specialists' comments in respect of affordable housing and emphasised the importance of using opportunities to increase affordable housing.

4.12 **RESOLVED:**

1. That Appendix E to this report be exempt from disclosure by virtue of the Local Government Act 1972, Schedule 12A, Part 1, paragraph 3 (as amended) in that these documents contain information relating to the financial or business affairs of any particular person (including the authority holding that information).

2. That the Cabinet noted the content of the report and considered the early analysis of all the options so far in relation to this property.

3. That the Cabinet noted and considered the feedback on all commercial and residential engagement and informal consultation undertaken so

far in relation to the options and noted the opposition to redevelopment from the Huguenot House Resident's Association.

4. That the Cabinet having considered the recommendations above, agreed that Option 4A* as set out in paragraph 6.3 of the report be the preferred option that best meets the Council's aspirations for the property, subject to further formal consultation with all residents and occupiers.

5. That the Cabinet confirmed that Option 4A* be progressed by the development team, and subject to providing a report back to Cabinet with a full analysis of the feedback from a formal consultation with residents, commercial occupiers and local stakeholders, Option 4A* be compared to the current 4 options as noted in 6.3 of this report.

6. That the Cabinet approved expenditure from the General Fund capital budget to enable the team to progress the design and cost certainty of the preferred option by procuring a multidisciplinary design team, surveys and professional services to advance the preferred option to RIBA Stage 2 and instructed Officers to develop the final business case in parallel with the design process, working with the City Treasurer to seek a recommendation to proceed with that option from the Capital Review Group.

Councillor Mitchell requested that his vote for Option 2 as the preferred option be recorded.

4.13 **Reasons for Decision**

A revised City for All programme has been launched with three new key priorities. These were to put civic leadership and responsibility at the heart of all we do, to promote opportunity and fairness across the city and to set the standards for a world class city. The development proposals for the Property will enable the Council to best meet its 'City for All' aspirations as follows:

- Civic leadership and responsibility; the options include proposals which will provide an enhanced rental income from the asset in support of the Council's fiscal demands and asset retention. The Council's objective to create new business space, homes and Page 7 entertainment space will be met through redevelopment and an increase in the density and quality of the final product above the current provision.

- Promote opportunity; the options include proposals to create new jobs and employment opportunities in the office, retail and leisure market as a result of an improved office space, cinema and public parking provision. The number of estimated operational jobs range from between 327 to 598 depending on the option. In addition to this, if a redevelopment option is selected; further jobs will be created during the construction phase, creating further economic prosperity within Westminster.

- A world class city; the options for the Property will add to the built environment and revitalise an uninviting area of the West End through the enhancement of the public realm, encouraging further regeneration and footfall in the vicinity and making it a safer, attractive and more vibrant location.

5 EBURY BRIDGE ESTATE RENEWAL

5.1 Barbara Brownlee, Director of Housing and Regeneration, presented the report and advised that the City Council had been working with residents of Ebury Bridge since 2010 to redevelop the site. Residents had voted on proposals in 2013 and a planning application had been duly prepared and approved. However, by 2015 it had become clear that the scheme was not commercially viable for developers and a subsequent review of the scheme determined that it was not deliverable.

5.2 Barbara Brownlee advised that it was proposed to explore in detail an entirely new scheme and the City Council was commissioning a team to undertake a comprehensive Estate Renewal Options Study, ranging from a refurbishment of the existing buildings to an entire estate redevelopment, in full consultation with residents. The Study would be underpinned by three main themes, these being desirability, viability and feasibility. Members noted the delivery timeline as set out in the table in section 7.8 of the report. Barbara Brownlee added that residents who still wanted to be re-housed following the 2013 vote would have this commitment honoured.

5.3 Councillor Robathan commented that although the delay in the redevelopment was regrettable, the proposals demonstrated the City Council's commitment to redeveloping the Ebury Bridge Estate and there would be comprehensive and constructive engagement with residents to obtain their views. It was hoped that a viable option would be identified by the end of the financial year.

5.4 Councillor Acton welcomed the proposals, including the intention to improve the health and wellbeing of residents.

5.5 **RESOLVED:**

That Cabinet:

1. Authorised spend to explore and work-up renewal options with the community which are both commercially viable and meet the aspirations of the residents.

2. Agreed the assessment criteria for testing options as set out in Section 5 of the report.

3. Agreed that officers work with residents to reach a preferred option.

4. Agreed that the Council continue to honour the rehousing commitments made to both tenants and leaseholders within the existing scheme.

5. Agreed to bring a Cabinet report forward outlining a preferred option following the comprehensive period of engagement.

5.6 **Reasons for Decision**

1. The Estate is one of five priority housing estates identified in the City Council's Housing Renewal Strategy 2010, noted as requiring improvement and significant investment over the next five years.

2. The aim of regenerating the Ebury Bridge Estate is to bring about long term physical, economic and social sustainability of the area, and to create a high quality, mixed use urban neighbourhood that is attractive to residents and visitors alike, integrates successfully with the surrounding area and delivers a significant number of new homes in line with the Leader's City for All 2017/18 priorities.

3. An entirely new scheme is required to meet the aspirations of residents by providing innovative affordable tenure solutions, attracting the market through commercial viability, balance demand on the Housing Revenue Account, and deliver a development of exceptional quality driven by scale, value, quality and underpinned by design principles that ensure the optimum outcome for housing numbers, financial returns and regeneration benefits.

6 WESTMINSTER CHINESE LIBRARY: RESPONSE TO PETITION

6.1 Mike Clarke, Tri-borough Director of Libraries and Archives, presented the report and advised that the library service was being remodelled as part of proposals to save £750,000 in revenue costs and ensure the service is sustainable in the future. The Chinese library service had a strong focus on community partnership, including through hosting events. In referring to the petition, Mike Clarke confirmed that there were no plans to close the Chinese library service at Charing Cross Hospital, as had erroneously been claimed on social media. Efforts would be made to communicate plans for the Chinese library service more clearly and engagement would continue with the Chinese community groups and also with Friends of Charing Cross Library who had organised and submitted the petition.

6.2 Councillor David Harvey advised that the City Council remained nationally the highest spender in library services according to statistics that were available. He had met with the Political Secretary of the Chinese Embassy who was aware that there were no plans to make cuts to the Chinese library service and that there had been erroneous claims in social media in respect of this. Councillor Harvey stated that there would be further engagement with the Chinese community in taking forward the future of the Chinese library service.

6.3 Councillor Mitchell, in noting that Charing Cross Library was in his Ward, welcomed future engagement with Chinese community groups and Friends of Charing Cross Library on the Chinese library service.

6.4 **RESOLVED:**

6.5 That Cabinet:

1. Noted the receipt of a petition relating to the Chinese library service at Charing Cross library.

2. Endorsed the actions set out in the report as the response to the petition and the petitioners be advised accordingly.

6.6 **Reasons for Decision**

The report seeks confirmation that the Cabinet is confident in the decision making process that was in place in relation to the changes to the library service and that officers should continue to engage with a wide range of Chinese community groups in relation to the library service.

7 FEES AND CHARGES

7.1 Steven Mair, City Treasurer, presented the report and began by stating that fees and charges were a major part of the City Council's overall budget and he advised that there were no proposals to change policy. He advised that the confidential appendix set out where there were proposed changes to fees and charges.

7.2 Councillor Mitchell emphasised the importance of undertaking a rigorous examination of fees and charges on an annual basis in order to ensure that these were up to date and comparable with other local authorities. He added that fees and charges also played an important role in helping to achieve costs and savings targets.

7.3 Councillor Davis MBE, DL, confirmed that he was content with the proposed fees and charges that related to his portfolio.

7.4 **RESOLVED:**

1. That Cabinet:

   a) Approved changes to fees and charges as outlined in Appendix 3 of the report.

   b) Noted changes already approved by other committees/members for 2017/18 highlighted in section 6 of this report and in Appendix 2.

   c) Noted fees for which no increase is proposed for 2017/18, with details of such fees included in Appendix 2 of this report.

   d) Noted overall proposed contribution from fees and charges to the Medium Term Plan (MTP) for 2017/18 and 2018/19 as highlighted in table 2 of section 7 of this report.

e) Agreed that all areas of fees and charges work towards alignment of date of approval and that this is coordinated on an annual basis as part of an annual Fees and Charges report.

f) Noted the fees and charges policy as set out at Appendix 1 of the report.

2. That Appendix 2 and 3 be exempt from public disclosure by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972, as amended – information relating to the financial and business affairs of the authority; and

3. That the information set out in Appendix 2 of the report be noted.

7.5 **Reasons for Decision**

To agree the Council's fees and charges policy and position.

8 ANY OTHER BUSINESS

8.1 There was no other business.

The Meeting ended at 7.41 pm.

CHAIRMAN: ______________________ **DATE** ___________________

City of Westminster Cabinet Report

Decision Maker:	**Cabinet**
Date:	**30th October 2017**
Classification:	**For General Release**
Title:	**2018/19 Budget Proposals**
Wards Affected:	**All**
Policy Context:	**To manage the Council's finances prudently and efficiently**
Finance Summary:	**This report sets out the Council's proposed outline budget for the 2018/19 financial year**
The Report of:	**Steven Mair, City Treasurer** **Tel: 0207 641 2904** **Email: smair@westminster.gov.uk**

1 Executive Summary

City For All: the council's strategy and priorities

1.1 Westminster City Council's strategy, City for All, aims to make Westminster a place where every single person has the opportunity to realise their potential, where providing affordable housing gives the best possible prospects for people to thrive and where enabling businesses to flourish creates economic prosperity that everyone can benefit from.

1.2 There are three clear priorities for 2017/18 to achieve this:

- We will put civic leadership and responsibility at the heart of all we do;
- We will promote opportunity and fairness across the city;
- We will set the standards for a world class city.

1.3 These priorities are underpinned by an open, working partnership between residents, businesses and stakeholders –through which the Council will work with across the community to build an even fairer, stronger and more cohesive Westminster.

1.4 All budget proposals presented have been carefully tested against the City for All priorities.

1.5 To support the delivery of these priorities and the underpinning delivery programmes, the Council will continue to embed the staff values of being:

- **Productive** – to show initiative, drive and determination and help others to be productive and make informed decisions;
- **Ambitious** – to constantly challenge, create new solutions and work as a team;
- **Collaborative** – to work with partners, show local leadership, treat everyone with courtesy and fairness and challenge one another respectfully; and
- **Enterprising** – to constantly seek better Value for Money and to reduce cost, seeking to generate growth and take managed risks to achieve the best outcomes.

1.6 The challenging financial climate resulting from year on year funding reductions, increased demands for services and wider macro uncertainty has continued to adversely impact Local Government. Based on indicative settlement information from Central Government and the Council's internal modelling, it is anticipated that further savings will be required in 2018/19 and beyond.

1.7 For 2018/19, the Council has continued to build on the time invested in the 2017/18 Medium Term Planning process and is in a position to put forward budget proposals for 2018/19 for consideration and approval now. This provides a greater period of time for review and planning of budget proposals allowing more time to be spent ensuring a smooth implementation and supporting the achievement of these budget changes.

1.8 It should also be noted that there is the potential for further changes to the Council's financial position between the date of this report and Full Council 7 March 2018. These matters may include:

- Changes made by Central Government to the Council's grants which may become apparent in December 2017;

- Pressures to budgets not currently anticipated;

- Other changes which are unforeseen e.g. a material change to interest rates;

- As a result of consideration of consultations or equality impact assessments.

1.9 Issues of this type will be closely monitored as the 2017/18 financial year progresses. A great deal of work has gone into the development of these budget proposals which has again been a challenging process and has to date identified gross savings of £37.695m. As in previous years, the majority of the proposed savings are from measures which avoid service reductions e.g. expenditure reduction through income generation, efficiencies and other transformation means.

1.10 While some uncertainties remain, the Council is confident the budget proposals presented in this report offer a strong basis of a fully balanced budget for 2018/19. Furthermore, the Council is well placed to meet its future financial challenges if management action on budget proposals continues as currently envisaged and planned.

1.11 A decision on the West End Partnership (WEP) funding is expected as part of the Chancellor's 2017 Autumn Budget Statement. It is expected that DCLG will make an announcement on whether they will fund WEP, and potentially the funding mechanism that will be used – which is most likely to be Tax Increment Financing (TiF) or grant.

1.12 At period 6, services area revenue budgets are projected to underspend by £2.982m by year-end. All variances will be subject to active management through the financial year and it is anticipated that a favourable variance will delivered by year end in line with the Council's track record. The Council tracks and monitors performance monthly and any risks are reported through routine management reporting along with the progress being made against the savings and growth targeted for the year. Westminster adopts a robust and pro-active approach to budget management, with a focus on strategic (corporate) and operational (service areas) risks and opportunities.

1.13 The capital programme is set in detail over the period from 2018/19 to 2031/32 at a gross budget of £3.02bn (including first five years of planned HRA investment) and is funded through the use of external funding, capital receipts and borrowing. Capital investment is targeted to deliver the aims of City for All, delivering affordable homes, improved facilities and well-maintained infrastructure and public realm. This will help Westminster to maintain its status as a key global centre for business, retail, entertainment and tourism and continue to provide first class services for our residents. The Capital Strategy contains further details on the capital schemes and is reported separately on this agenda.

1.14 The Council has examined every area of operation to identify opportunities to reduce costs and generate additional income. The Council is also investing through its capital programme to ensure its property portfolio remains fit for purpose to deliver first class services and generate commercial income. This climate of austerity and increasing demands will continue for the foreseeable future but with our track record of continued leadership and management action the Council can deliver a balanced budget for 2018/19 and beyond.

2 Recommendations

2.1 That Cabinet approve the following:

- That budget proposals for the 2018/19 budget where relevant external consultations have been completed and as reviewed by the Budget and Performance Task Group as detailed in Annex A be approved;
- That in principle, the budget proposals for the 2018/19 budget where relevant external consultations have not been completed as separately listed in Section 16 is approved. Such proposals will be further considered, by Full Council on 7 March 2018, once all consultations and EIAs have been completed;
- That the views of the Budget and Performance Task Group set out in Annex A be considered as required;
- That the draft estimated cash limited budgets for each service with overall net expenditure for 2018/19 of £168.163m (as set out in Schedules 1 to 6) be noted. These figures are draft and based on 2017/18 Period 6 budgets which may change before final budget setting is completed in March 2018;
- That the Equality Impact Assessments included in Annex B be received and noted to inform the consideration and approval of this report;
- That the Cabinet receives a further report in February 2018 which will finalise the budget for 2018/19.

3 Reasons for Decision

3.1 The presentation of this Budget Proposals report offers an early opportunity to note and approve budget changes for the 2018/19 financial year. All proposals have been assessed for whether they require consultations and equality impact assessments, whether these have been completed or not and, where they have not been completed, timescales for completion. Completed EIAs are available to all members at Annex B.

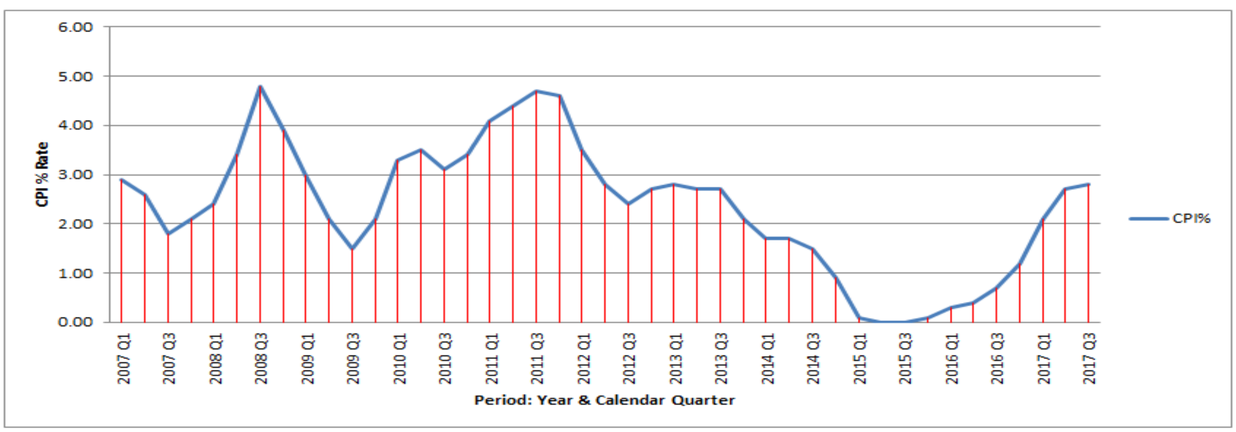
4 **Financial Context**

Central Government: Funding Landscape and Westminster

4.1 Since 2010 Westminster City Council has faced significant financial challenges stemming from the economic downturn which first began to manifest in late 2007. This resulted in austerity measures announced in the Government's October 2010 Spending Review and was accompanied by higher expectations on the Council. Specifically, the Council has had to contend with:

- Grant funding reductions from Central Government;
- Demand led pressures impacting services e.g. due to demographic changes;
- Uncertainty on inflation;
- Service pressures;
- Other issues e.g. Government policy changes as part of managing austerity.

4.2 These financial challenges have created a climate of uncertainty for councils that have had to manage funding reductions against the need to provide for risks and pressures, many of which are volatile and subject to variables outside of the council's control e.g. inflation. The graph below illustrates the unpredictable nature of CPI inflation as recorded by the Office of National Statistics for the period between January 2007 to September 2017:



Source: Office of National Statistics

4.3 This climate is expected to last for the foreseeable future and the Council will continue to adapt by developing stronger understanding of future developments e.g. fully localised business rates retention and implications of Brexit. The Government's Autumn Statement and Spending Reviews from the past few years have set out the strategic direction for public expenditure. These have confirmed significant reductions in the funding for Local Authorities. The last Autumn Statement saw the focus move away from balanced public sector spending by 2020 to the middle of the next decade – but has seen no reduction to previously planned reductions to Local Government funding up to 2020.

4.4 The Local Government Finance system has fundamentally changed in recent years, the previous system was highly centralised and allocated funding on the basis of relative needs and resources. At the start of 2017/18, the expectation was that by the end of the decade, this would be replaced with a fully localised system. This system was envisaged to make Local Government as a whole self-funding but consequently meant that individual Councils would bear more risk than ever before.

4.5 This shift in risk has occurred since 2010, in the gradual move away from centralisation to that of localisation and greater emphasis on the provision of financial incentives in the funding system. The most visible examples were the introduction of the Business Rates Retention scheme, New Homes Bonus grant and abolition of Council Tax Benefit Subsidy. Projected national flat real growth in business rates poses real risks to the adequacy of long term local government funding.

Overview of Financial Context and Challenges

4.6 The Council accepted the Government's offer of a four year funding allocation in the 2016/17 in order to gain some level of certainty on future funding and assist in service planning and collaboration with partner organisations. This gave the Council a Settlement Funding Assessment (SFA) reducing from £140.570m in 2016/17 down to £119.860m in 2019/20. The Council was assured by DCLG that by accepting this four-year deal it will not be worse off than if it had not taken up the offer.

4.7 For 2018/19 it is anticipated that the Council's loss of Revenue Support Grant will total £8.100m which will need to be found from budget savings along with other pressures and funding reductions. However, the government's commitment to fix the four year funding allocation was caveated with the following conditions:

- The uplifting of the Business Rates multiplier by RPI inflation rate in September of every year (changing to CPI in 2020). Inflation has fluctuated in recent years;

- Future events such as the transfer of responsibilities to local authorities and transfers between authorities would impact an annual settlement.

- The extent to which the Council may by impacted by any changes to government funding will be known in December 2017. In the event any changes presented and adverse pressure to the Council additional budget proposals may have to be brought forward to bridge any gap.

2018/19 Budget Gap

4.8 As a result of the challenges and financial climate above, for 2018/19 it is currently estimated that the Council will have to meet a total gross savings requirement of £37.695m. This encompasses savings required to meet reduced government grants and cross cutting pressures of £30.800m and additional savings finance the impact of direct service pressures of £6.895m for 2018/19. The proposals identified through the medium term financial planning (MTP) process to meet these challenges are set out in Schedule 4 to this report.

4.9 Some of the most significant strategic financial challenges the Council will face in 2018/19 are set out below:

- On-going Austerity – further government cuts. The Council's Revenue Support grant is anticipated to be reduced in 2018/19 by £8.1m. It is possible further changes will be made to the Council's funding by central government which will be known in December 2017.

- The Business Rates system continues to expose the Council to financial pressures which are beyond its control. The primary issue for Westminster is that of outstanding appeals which include those from prior revaluations. DCLG's spending power assumptions take inadequate account of original NNDR valuation errors and thus, despite real underlying growth in the Council's business rate taxbase, the Council has found itself over time with substantially lower NNDR yields than required to meet its DCLG-assumed Baseline Funding levels. For 2017/18, this shortfall in funding was calculated at the start of the year to be £6.33m although current monitoring suggests the position will be more positive than this by year end. Council officers have been actively working with officials in the formal Systems Design Working Group (consisting of various local government representative bodies and others including the Local Government Association, the Valuation Office, CIPFA and DCLG) to engage with Central Government. The group is working to highlight on-going problems with Business Rate localisation arrangements and to propose viable, long-term solutions ahead of the full planned national localisation of Business Rates in 2020.

- Brexit - The potential effects of Brexit are currently un-quantified but are explored within Section 4 of this report. Potential effects are both short term and longer term and could impact on revenue budgets, capital projects, treasury management and the pension scheme.

- On-going exposure to risk – the Council is an extremely complex organisation and is subject to a wide range of risks many of which are unknown and cannot be quantified. It is therefore essential that the Council maintains adequate general reserves to provide a buffer against these risks. This issue is explained further in Section 11.

- Other Pressures - the Council will continue to face pressures arising through commercial, legislative, demographic and operational issues across the whole range of its services. Combined with these factors, the Council also has to finance contractual and salary inflation, pension cost increases, capital financing and other pressures.

March 2017 Government Spring Budget

4.10 On 8 of March 2017, the Chancellor delivered the Spring Budget, which as mentioned above will be the last. Future budget announcements will be made in autumn and the Government will use the spring period to respond to Office of Budget Responsibility forecasts in a “Spring Statement.”

4.11 This change in timetable could benefit the Council as Budget announcements made in the autumn can be analysed and along with the December finance settlement be incorporated in the final Council Tax and Budget Report in time for submission to Cabinet and Full Council in March.

4.12 The announcement in March 2017 included the following:

- Additional social care funding of £2bn would be made available for Local Government in England over the next three years. In 2017/18, £1bn would be distributed, followed by £674m in 2018/19 and £337m in 2019/20. This is over and above any Social Care Funding reported in the 2017/18 Council Tax and Budget Report which Full Council approved on the 1 March 2017. The Council’s share of additional funding in 2017/18 was later confirmed as £6.647m. In total, £12.317m of iBCF funding has been allocated to Westminster City Council in 2018/19;

- Announcement of a Green Paper to be published by the end of 2017 which would discuss the long-term sustainability of the social care sector;

- A memorandum of understanding published by the Government on London Devolution. This covered funding infrastructure, transport, criminal justice, health, skills and employment support;

- The memorandum also set out a commitment for the Government to explore options for granting more powers and flexibility to London over the administration of Business Rates.

- Measures following the September 2016 revaluation of Business Rates, effective from April 2017:

i. In 2017/18, a £1k discount for all pubs with a rateable value of less than £100,000 (90% of all pubs nationally – 195 premises in Westminster out of a total of 397). Details subsequently announced suggest this will only be available for those owning just one public house rather than chains;

ii. A £300m discretionary fund to allow Local Authorities to deliver discretionary relief to target individual hard cases in their area – it was unclear if the GLA, not being the billing authority, will be given any role in this;

iii. A relief for any business coming out of Small Business Rate Relief due to the Revaluation which will provide a further additional cap such that their rates bill will not rise by more than £50 a month (and in subsequent years capped at either the transitional relief cap or £50/month – whichever is higher);

- Previously announced Central Government departmental savings of £3.5bn following efficiency reviews by 2019/20 are still expected. There is a possibility as in previous savings reviews that some departments e.g. Health, Defence, International Aid will be ring-fenced and so either protected from any savings or have savings requirements capped. This then magnifies the overall reduction on non-ring fenced departments such as DCLG which in turn could impact the Council;

- The expansion of Free Schools is set to continue with the availability of £320m of funding nationally. The intention is to fund up to 140 new schools which include independent-led faith, selective and other specialist schools.

- Entitlement to free school transport will be expanded to include children aged 11-16 who receive free school meals or whose parents claim full working tax credit to their nearest selective school. This is already available to eligible pupils attending a faith school. This is estimated to cost £5m per year.

Tri-Borough to Bi-Borough

4.13 The Tri-borough to Bi-borough programme aims to build on the most successful elements of Tri-borough shared services over the past six years to deliver effective, modern public services to meet the needs of our residents and stakeholders now and in the future. By working together, we will continue to ensure that public money goes further, and build on our reputation for providing innovative services that support the most vulnerable.

- In Adult Social Care, we will continue to champion shared hospital discharge services across London, and create more personalised, integrated and locally focused services;

- In Public Health, we will increase collaboration with other departments and the NHS to tackle complex issues such as social isolation. This will bring a step change in the way we use our funding to improve people's health and wellbeing;

- In Children's Services, we will increase support for vulnerable children, through early intervention in education, greater protection from exploitation and increased support for young carers.

4.14 Bi-borough will also establish joined-up commissioning across Adult Social Care, Public Health and Children's Services. This innovative move will enable us to create more unified services, transforming the way we serve families and communities.

Adult Social Care Precept

4.15 The offer by the Secretary of State for Communities and Local Government to Adult Social Care authorities, effective from 2016/17, gave upper-tier authorities with ASC responsibilities the option to charge an additional precept on their Core Council Tax without the need to hold a referendum, to thus assist those authorities in meeting expenditure pressures in Adult Social Care.

4.16 There are on-going pressures on Adult Social Care budgets due to particular market cost pressures and forecast demand growth for care services as a result of increasing numbers of older people, people with disabilities and people with long term health conditions needing care. These demographic pressures are exacerbated by increasing pressure from hospitals to discharge patients in a timely fashion, particularly during the winter months. There is also added pressure from reduced capacity to make efficiencies from external care providers without affecting the quality of care they provide, along with an increase in homecare costs – potentially exacerbated by changes to the Living Wage.

4.17 The state of the market and unavoidable cost pressures will continue to be a major challenge. Activity and level of complexity is increasing alongside demographic changes, workforce pressures from the Living Wage and the driving down of price are all major dynamics that are impacting on the availability and quality of services.

4.18 Between 2015/16 and 2016/17 the number of Adult Social Care packages provided has increased from 2,095 to 2,287. This is an increase of 192 cases, or 9.16% increase over a 12 month period.

4.19 For financial modelling purposes it has been currently assumed that for 2018/19 the Council will apply the precept for Adult Social Care (ASC) of 2% on its share of Council Tax bills. This will not be considered or approved until March 2018 and should it not be taken forward revisions will have to be made in the period before March 2018. Should any authority choose to apply 2% onto Council Tax bills for the ASC precept, it is assumed that the Council will have to complete a declaration to DCLG within 21 days of its annual budget being approved by Council. This declaration will compare budget changes in adult social care to the rest of the general fund to demonstrate that the Council has spent the funds raised from the precept on the purpose for which it was intended.

Sustainability Transformation Programme

4.20 The Sustainability Transformation Programme (STP) sets out a shared ambition across the NHS and Local Government to create an integrated health and care system that enables people to live well and be healthy.

4.21 This shared ambition aims to address the following gaps in:

- **Health and wellbeing** – preventing people from getting ill and supporting people to stay as healthy as possible;

- **Care and quality** – consistent high quality services, wherever and whenever they are needed;

- **Finances and efficiency** – making sure we run and structure our services as effectively as possible.

4.22 The Council lies within the North-West London region with 7 other Local Authorities (LAs) and 8 Clinical Commissioning Groups (CCGs). It is an NHS led process and a draft plan of NW London's STP vision was developed with involvement from commissioner, provider, local government and patient representative groups. The plan recognises funding pressures and identifies delivery areas to bridge any gap. The key driver for the NW London STP plan is to improve health and wellbeing, enhance clinical outcomes and achieve financial sustainability.

4.23 In October 2016, North West London submitted a draft plan to NHS England. This draft plan set out five delivery areas:

- Radically upgrading prevention and wellbeing;
- Eliminating unwarranted variation and improving long term condition management;
- Achieving better outcomes and experiences for older people;
- Improving outcomes for children and adults with mental health needs; and
- Ensuring we have safe, high quality and sustainable acute services.

4.24 Funding restrictions from NHS England on the STP have required CCGs and LAs to rethink the scope of the original plans, and instead develop local programmes for efficiencies and savings. These local programmes will be set up throughout the North-West London area. The impact from STP plans on local authorities is something that is continuously assessed. Indicatively, there will be an increased burden on social care services provided by local authorities but offset by funding to be devolved from the NHS.

4.25 The Joint Health and Care Transformation Group has been set up to oversee the STP plan and approve/decline proposed business cases.

Better Care Fund (BCF)

4.26 The Department of Health (DoH) and DCLG released the BCF Policy Framework on 31st March 2017. This policy framework for the Fund covers two financial years (2017-19) to align with NHS planning timetables and to give areas the opportunity to plan more strategically.

4.27 There are a few changes compared to previous years, including a reduction in the number of national conditions and the introduction of the Improved Better Care Fund (iBCF) of £2bn over the next 3 years. £1bn of this fund became available from 2017/18 and is being paid as a DCLG grant direct to councils and ring-fenced to social care; the grant comes with conditions that it should be pooled into the Better Care Fund.

4.28 The guidance outlines that the funding is to be paid as a direct grant under Section 31 of the Local Government Act 2003. The Policy Framework sets out that the following conditions apply to the grant:

- a requirement that local authorities include the funding in their contribution to the pooled Better Care Fund, unless an area has explicit Ministerial exemption from the Better Care Fund;
- a requirement that the funding is used to support adult social care to ensure it has the expected impact at the care front line and;
- that the funding does not replace, and should not be offset against, the NHS minimum contribution to adult social care.

4.29 The Council is proposing to continue its existing transformation programme to deliver better and more personalised services and outcomes for residents entitled to support under the Care Act.

4.30 However it has been agreed, along with RBKC to utilise the additional funds to provide greater stability for the local highly challenging care market, to sustain and increase additional short term capacity procured to assist with better hospital discharge and also to work with health partners to reduce delayed transfers of care.

4.31 In total, £12.317m of iBCF funding has been allocated to Westminster City Council in 2018/19. Further work is underway as part of the development of the full Better Care Fund Plan to prioritise the utilisation of the additional funding but at present, it is anticipated that funds will support the following priorities:

- To deliver greater market stabilisation and in particular increased domiciliary care and direct payment rates and an inflationary uplift for residential care providers.
- To purchase additional capacity, primarily within domiciliary care to assist with better hospital discharge. Part of this will include some capacity previously funded by health commissioners on a none recurrent basis through the existing BCF Pooled Budget;
- To create a pooled fund with health commissioners to deliver system-wide changes and in particular to assist with implementation of the High Impact Delayed Transfer of Care Model.

4.32 The care market across inner London is particularly fragile with Inner London highlighted as having significant pressures across all care groups. While pressures have been building over the last five years, prices have been driven down in real terms and this has resulted in increased concerns about the quality of provision and its continuity.

4.33 A number of providers have exited the market in recent months and the Council expects this trend to continue. Westminster City Council, along with other Councils within the West London Alliance continue to work together to increase the sustainability of the local care market. It is anticipated that utilisation of part of the additional iBCF funding will play a major part in bringing additional stability and sustainability to the care market in inner West London.

4.34 Enhancing health in Care Homes - The Council is working with the CCG and other members of the West London Alliance to implement the NHSE Enhanced Care in Care Homes Framework. All patients have a named GP and under whole systems a number of high risk patients will have access to case management; this includes access to geriatrician and specialist services as required.

Wider Environment - “Brexit” and Developments in 2017/18

4.35 The Department for Exiting the European Union was established to lead on the negotiations for the UK to withdraw from the EU.

4.36 In March 2017, the “European Union (Notification of Withdrawal) Bill” became an Act of Parliament and will enable the Government to invoke Article 50 of the Treaty of the European Union and begin the formal negotiations to withdraw.

4.37 In May 2017, a white paper, “The United Kingdom’s exit from and new partnership with the European Union” set out the twelve priorities for the UK that negotiations will be centred on:

4.38 One of the largest areas of uncertainty and risk for the Council has been on the future of EU citizens in the UK and potential impacts to workforce, rights of residency, access to public services, etc. Discussions in respect of the rights of EU citizens in the UK and UK nationals in the EU remain ongoing.

4.39 Irrespective of the developments above, commentators such as the Institute for Fiscal Studies have speculated on the potential implications of a withdrawal on the UK's public finances. Some of these may have more of a direct impact on the Council than others. Also, some of these may be short term whilst others have longer term implications. For instance:

- The fall in value of Sterling as a result of the reduction in demand for Sterling-based assets could theoretically lead to higher inflation due to the rising price of imported goods. Higher inflation impacts the Council two-fold in that the Council's contracts will be indexed annually based on this higher inflation value and because the Council may have to pay more for general goods and services. Additionally it could impact on future local government pay settlements;

- Over the medium to long-term, there could be implications for trade costs between the UK and European nations, foreign direct investment into the UK, regulatory changes and net migration.

Brexit Impacts on Treasury Management

4.40 In late 2016/17, treasury advisors speculated that "Brexit" could have implications on the Council and its investment counterparties. For instance,

- The Bank of England's decision to lower reduce the Bank Rate to 0.25% directly impacted the Council's percentage return on cash investments. The Government's long-term approach to monetary and fiscal policy and therefore the impact on the Council will be influenced by a potential withdrawal from the European Union and the path this takes.

- The Council currently invests with financial institutions based in London who possess "passporting" rights which enable them to sell their products and services across the European Union. If any company or financial institution did relocate to Europe away from the UK (as some sector commentators have suggested may occur) due to the UK withdrawing the European Union, their domicile status would change and so could mean they fall outside of the Council's sovereign rating criteria and thus lead to a required change in the investment portfolio mix.

4.41 Cabinet has formed an informal sub-group to understand more fully how Brexit may impact both positively and negatively on different business sectors, the City's communities and the Council, as well as making sure that the Council is well prepared to actively lobby for changes to legislation if and when the opportunities present themselves. Specifically the Council will continue to review and plan for developments including:

- how negotiations on withdrawing from the EU could impact the retention and wage costs of certain sectors and therefore the Council such as in the case of social care e.g. care homes. According to one estimate, three out of five care workers in London were born outside of the UK and of this, 28% in the EU;

- modelling how unexpected “spikes” in inflation could impact the Council’s gross expenditure e.g. contract costs, utilities and supplies and services;

- examining potential risks and ensuring that there are adequate resources set aside to mitigate or manage these in the short term; and utilising all possible means such as: the offer of a multi-year finance settlement; flexibility on using new capital receipts to generate efficiencies; and regular project monitoring.

Pension Fund

4.42 The Council's Pension Fund advisor indicated in a recent report that the levels of uncertainty around 'Brexit' and the domestic political environment has had a weakening effect on growth in the UK. The Pension Fund investments are diversified across regions which should lessen any impact of uncertainty, however this could impact the funding levels resulting in an increase in employer contributions to the Fund.

Business Rates

4.43 The current Business Rates Localisation Scheme whereby local authorities retain 50% of their NNDR tax yield (30% Westminster and 20% GLA) was introduced from the start of 2013/14. A series of top-ups and tariffs was applied to re-distribute these locally retained shares back to a starting baseline position – after which local authorities would benefit from subsequent growth, or bear their share of the losses (down to a capped level of loss at 7.5% below Baseline levels). As part of a pilot arrangement the GLA will retain 37% of the yield from 2017/18 – offset by a lowering of the DCLG share.

4.44 Government intends to amend this system by 2020 so that all business rates are retained by local authorities. At the same time, they will revise the data and formulae used to determine the SFA and re-baseline local authority needs assessments. This system reset has the potential to see further changes to the Council's funding assessment and lead to further reductions beyond 2020/21 (subject to any damping arrangements that apply).

4.45 Westminster would have seen real growth in its NNDR yield since 2013 had it not been for the impact of back-dated appeals against the original 2010 rating assessments. The Council has experienced a very high number of appeals (43,750 by the end of June 2017) of which around 37% have been successful.

4.46 The Council is protected from losses caused by these back-dated appeals where net retained yield falls below 92.5% of Baseline funding levels.

4.47 Westminster has been below this level in every year since 2013/14 until the latter stages of 2016/17. The 2017/18 Revaluation has introduced further uncertainty with regard to future NNDR yield and is compounded by the new "Check-Challenge-Appeal" process introduced by the Valuation Office Agency so far giving little data on which to forecast the future likely appeals provision requirement. That said, the average 25% increase in values in 2017 compared to the 62% increase in 2010 has allowed the Council to forecast future yield to match assumed Baseline funding levels rather than remaining in Safety Net.

West End Partnership

4.48 Westminster City Council, in partnership with other public and private sector partners, has established the West End Partnership (WEP) to transform the long term performance and success of the West End of London. The West End is the cultural and economic capital of the UK which belongs to and benefits everyone in the UK. It generates greater economic output than anywhere else in the UK with more than £51bn in Gross Value Added per year, 15% of London's economic output. Employing more than 650,000 people, the area generates the largest proportion of taxes with more than £17 billion of tax receipts per year.

4.49 The West End is primarily responsible for London's status as the world's most popular visitor destination with more than 31m international visitors spending over £11bn in the West End. The West End is an important gateway to other UK tourist destinations and drives growth across the UK. Oxford Street is also the UK's high street with more than 50m UK based visitors. The West End's success and long term growth cannot be taken for granted and investment is needed to ensure that the West End can continue to compete with its global competitors.

4.50 The WEP has developed a £1bn WEP investment programme that will transform the international competitiveness and productivity of the West End and the UK. The WEP programme will unlock growth, attract investment, improve competitiveness, improve air quality, create jobs and generate substantial tax revenues to the Exchequer.

4.51 Public and private sector funding has already been secured for the WEP's priority projects and business cases have been submitted to government to secure the additional funding required to mobilise the programme. Business cases have been submitted for the WEP's priority projects including the transformation of £425m Oxford Street District, the £30m redevelopment of The Strand / Aldwych and the West End Jobs programme. The WEP strongly supports a Tax Incremental Finance (TIF) mechanism to underpin the long term development and reinvestment across the West End.

4.52 The three identified priority projects have a funding gap of £320m and it is hoped the Chancellor will consider favourably the business case and funding proposals already with HM Treasury and DCLG and provide for the funding requested to progress these proposals as part of the Autumn Budget so that the West End can strengthen its economic contribution to the UK economy and unlock private sector investment into the UK.

Developing Mayoral Policy

4.53 A number of current and future consultations on a range of planning-related topics are being brought forward by the Mayor of London which the council will be considering and responding to.

- **The Mayor's Transport Strategy (consulted on until October 2017**) sets out ambitions to change car use to increase walking, cycling and public transport, make all vehicles zero emission capable by 2050, and achieve a 10% reduction in freight across the city;
- **London Environment Strategy (Consultation expected Autumn 2017)** which is anticipated will look to bring together seven existing pan-London environmental strategies into a single strategy;
- **Housing Supplementary Guidance.** The Supplementary Planning Guidance (SPG) proposes:
  - Introducing a threshold approach to viability whereby schemes which do not provide 35% affordable housing must submit detailed viability information to justify this, while schemes which provide 35% affordable housing will not be required to submit any viability information.
  - Introducing a comprehensive review mechanism for schemes which provide less than 35% affordable housing to ensure that contributions to affordable housing are increased if viability improves over time.
  - Introducing a "CIL-type" tariff approach for affordable housing which Westminster strongly supports.
  - Grant funding for the delivery of affordable housing. For schemes which provide less than 35% affordable housing, if the affordable proportion with grant is below 40% then a grant will only apply to the additional units over and above the "baseline level" of affordable housing - the amount shown as being viable without grant funding. If the total meets or exceeds 40% then grant funding may be available for all affordable units in the scheme.
  - Changes to the preferred tenure mix of affordable housing– at the moment the London Plan has a strategic requirement for 60% affordable units to be social and 40% intermediate. The SPG proposes changing this to require 30% low cost rent (social or affordable rent), 30% intermediate products with London Living Rent and shared ownership being the default tenures, and the remaining 40% to be determined by the Local Authority.
  - That the Mayor does not consider the vacant building credit (VBC) should apply in London, that the 'existing use +' (EUV+) viability approach should be used for all viability assessments in London and that the distinct economics of build to rent should be taken into account in viability assessments.
- **Culture Strategy (expected November).** Early indications from the GLA are that its Culture Strategy for 2030 will cover a wide range of issues – from protecting affordable workspace (via the London Plan), to the London Borough of Culture programme and Creative Enterprise Zones;

- **London Plan.** Informal consultation took place between October and December 2016. The programme for the Full Review of the London Plan includes consultation on the draft Autumn 2017, Examination in Public (Summer 2018) and Publication of the Final London Plan (Autumn 2019). Officers have met counterparts at the GLA to discuss emerging potential areas of change, to ensure that these are broadly 'in general conformity' with the Mayor's emerging approach. The council's City Plan is on track to be consulted on and adopted before the London Plan. Inevitably this means a further City Plan revision will be required after the adoption of the new London Plan to take account of these changes;

- **MCIL2 Proposal.** On 26th June 2017 the Mayor published for public consultation the Mayor of London Community Infrastructure Levy 2 Preliminary Draft Charging Schedule (MCIL2 PDCS). It is the Mayor's intention that from April 2019 MCIL2 will supersede the current Mayor's Community Infrastructure Levy (MCIL1). It is intended that MCIL2 will be used to contribute to funding for Crossrail 2. The consultation documents make clear that the Mayor may however choose to apply the MCIL2 to any other strategically important transport project that is listed in the London Plan;

  Proposed MCIL2 rates in Westminster are set out below. This includes a significant change to the current MCIL rate of £50 charged for all uses (excluding health and education) across the whole of Westminster.

Land Use	**Geographical Area of Westminster**	**Proposed Rate (£ per sq m)**
All uses (except for health and education)	Outside of the Central Area	£80
All uses excluding office, retail, hotel, health and education	Central Area	£80
Office	Central Area	£185
Retail	Central Area	£165
Hotel	Central Area	£140

5 Underlying Financial Strategy

5.1 The Council's financial strategy is to:

- balance recurrent expenditure with estimated income in order that the Council has a sustainable financial position, is able to deliver on its key objectives and successfully operate in a radically changed financial environment;

- maintain an appropriate level of reserves to protect the Council against future budgetary impacts and the continuing financial pressures which the Council faces;

- strengthen the Council's balance sheet to provide long term financial benefits. For example, in the 2017/18 Council Tax and Budget Report approval was received to utilise one-off underspends or apply the flexible use of capital receipts towards the Pension Fund for long term benefits;

- continue to proactively explore with partners possibilities of pooling resources to achieve joint outcomes e.g. STP and BCF;

- risk manage its budget estimates to ensure that they are robust and, to ensure that the budgets agreed are managed and delivered in year as required;

- operate to the highest standards of financial management in all areas in order that the Council's finances are robustly secured, value for money is obtained, all professional standards are properly maintained, step change improvements in finance are brought about at pace and rigorous review and quality assurance of all financial matters is undertaken;

- investigate and pursue external funding and investment opportunities that are appropriate for the Council;

- plan over a medium term of 10 years in order that the Council is fully informed as to future scenarios and can prepare appropriate action; and

- challenge and improve all financial management practices seeking to (by way of example) minimise cost, maximise working capital opportunities, pro-actively manage its balance sheet, operate rigorous financial modelling and budget management, ensure financial advice is of the highest quality and bring about step changes improvement in its accounts.

5.2 The Council is confident the budget proposals contained within this report form a strong basis to deliver a balanced budget for 2018/19. The Council is managed with strong financial discipline and as part of year-end planning it is intended to strengthen Earmarked and General Reserves in line with the Reserves policy if the opportunity presents itself. In line with Council practice, any further reductions in specific grants will be matched by reductions in associated expenditure.

6 Financial Performance – Revenue 2017/18

6.1 At period 6, services area revenue budgets are projected to underspend by £2.982m by year-end. All variances are subject to continued active management throughout the financial year.

6.2 The main areas contributing to the projected underspend are summarised below:

- (£1.927m) - City Management & Communities - Licensing £0.800 Highways £0.600m; Parking £0.329m; Waste & Parks £0.269m;
- (£0.820m) - PPC – Vacancies £0.620m; £0.200m supplies & services;
- (£0.750m) - City Treasurer – Interest Earnings;
- £0.970m - Growth, Planning & Housing – Property Investment & Estates;
- (£0.455m) - Other Net Variances

6.3 The forecast outturn for this month on the HRA is an adverse variance of £1.820m.This is largely due to:

- A projected shortfall in budgeted income of £2.077m which is mainly due to a shortfall in lessees' contribution to major works income;
- This is offset by a projected increase in Other Income of £0.257m e.g. from non-dwellings rent and lease extensions.

6.4 Fundamental to any well managed organisation is a strong finance service. In times of unprecedented pressure on public sector finances this becomes all the more pertinent. Within Westminster City Council the finance service has been developed to lead the industry in its innovation, quality and value added to the organisation.

6.5 An illustrative list of the activities the service has undertaken so far during 2017/18 to raise standards are as follows:

- A business planning processes with objectives which include supporting the City for All plan, adding value, creating a positive working environment and fostering a culture of innovation and excellence in everything we do;
- Continuing to deliver a comprehensive training and development programme putting staff development at the heart of what we do;
- Enhanced communication and staff engagement through new workgroups, forums and communication channels;
- Effecting a positive culture change through the introduction of initiatives focussed on employee motivation;
- Process reviews to reflect a best in class service;

- Development and implementation of a workforce plan aligned to both current and future service needs;
- Embedding a coaching culture across the finance team through targeted training sessions to further drive culture change and staff empowerment;
- Assessment of the internal audit process and overall risk management;
- Modelling a 10 year zero-based budget plan based on analysis of identified operating costs drivers;
- Refined finance graduate scheme to align with future departmental needs and those of the new generation of graduates;
- Quarterly full close down of accounts; and
- Completion of a continuous programme of improvement for the Statement of Accounts.

6.6 The finance service is seeking to achieve further improvements, efficiencies and achievements in 2018/19 in line with the department's drive for continuous improvement. This will be achieved through the motivation and empowerment of the workforce.

7 Revenue Budget 2018/19

Funding Gap

7.1 As noted in Section 1, to meet the funding challenges in 2018/19, the Council has had to meet a total gross savings requirement of £37.695m. This encompasses savings of £30.8m needed due to reduced government grants, capital financing costs, inflation (contractual and employee), pension deficit contribution and a further £6.895m to finance the net additional impact of direct service pressures. The net of these savings and pressures which have resulted in the gap are summarised as follows:

Budget Gap 2018/19

Description	£'m
Core Funding Loss	8.100
New Homes Bonus Loss	1.900
Inflation	6.200
Risks	3.000
Pension Fund Deficit Recovery	4.000
Pressures	4.300
Capital Programme	3.300
Total	**30.800**

7.2 The gross savings agreed in the MTP process are summarised as follows:

MTP Budget Change Classification

Budget Change Category	£'m	%
Financing	14.832	39.30%
Commercial	5.045	13.40%
Transformation	8.567	22.70%
Efficiency	9.251	24.50%
Total	**37.695**	**100.00%**

Approach to Meeting the Estimated Funding Gap in 2018/19

7.3 The process for identifying the 2018/19 savings proposals has been accelerated in comparison to previous years. The benefit of this is that services have a greater period of time in which to prepare implementation plans and to complete staff consultations, public consultations and the like. The Council believes in long term planning and many of the savings are a continuation of transformation plans from the previous financial year and are expected to run into future years.

7.4 The governance of the process is managed through a series of monthly “Star Chamber” meetings throughout the financial year which review draft budget proposals. The intention of these meetings is to review budget proposals for deliverability, acceptability and fit with strategic objectives.

7.5 Regular liaison and leadership by Cabinet continue throughout the process. Presentations for the Budget and Performance Task Group took place in October 2017.

7.6 EIAs are prepared in respect of all proposals and are made available within this report for consideration. In addition, all of the full EIAs were presented to the Budget and Performance Task Group meetings.

7.7 As far as possible, the Council has targeted financing and commercial revenues, efficiency and transformation as being the main sources of the budget savings in order to minimise the impact on the end service received by service users. As per the analysis in paragraph 7.2, no savings have resulted from service reductions.

8 **2018/19 Risks and Budget Robustness**

8.1 The Council is a large, complex organisation with a wide scale and diversity of assets, interests, liabilities and other responsibilities. These require considerable on-going monitoring and review particularly in light of the challenging financial climate. With this in mind, the Council has recognised the on-going need to identify risks and have measures in place to mitigate should they occur (risks by their nature can never be completely removed). The Council has long had processes built into its Medium Term Planning (MTP) process to address this.

8.2 For example, a Corporate Budget Group consisting of representatives from the City Treasurer, People Services, Policy, Communications, Legal Services and Procurement hold regular meetings to review budget options. These reviews cover requirements on Stakeholder Consultations, staff restructures and Trade Union liaison (where budget options involve staffing changes), legal implications and deliverability etc.

8.3 The 2018/19 revenue budget has been prepared on the basis of robust estimates and adequate financial balances and reserves over the medium term. As part of on-going reviews for these, the City Treasurer's department leads on:

- monthly budget monitoring and financial challenge to ensure budget options are being adhered to and that any other base budget variances, risks and opportunities are being suitably identified and mitigated; and

- continuing to replenish reserves and balances towards an appropriate level in order to provide an adequate buffer for any series of one-off pressures – or to provide sufficient time to identify on-going mitigations in a systematic way.

Overleaf is a summary of selected key, strategic risks / weaknesses and mitigating actions:

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MTP Risk Analysis

Risk / Weakness	Implications	RISK	Mitigating actions	Relevance to Services
1. Financial Management				
Significantly reduced funding levels pose a high risk for the Council. Reshaping and improving Council services requires strong financial management skills across the organisation. The Council has been required to find savings year on year from its budget since 2010/11. It is becoming harder to identify low risk savings opportunities and thus the need to protect the General Fund by holding suitable levels of reserves to mitigate higher risk becomes more essential.	Decisions may be taken which have potentially adverse consequences for the Council in later years.		1) Robust Budget preparation, budget setting, and a Budget Accountability Framework are key elements in ultimately eliminating this risk. 2) Regularly reviewing balances, and forecasting income and expenditure against budgets can assist in reducing the underfunding risk. 3) Implementation of best practice within the finance department	All
2. Localising Business Rates				
On-going substantial risk from appeals and also the impact on collection rates as following the implementation of localising business rates, 100% of outcome will fall on Local Government.	Adverse financial outcome for the Council in future years In addition the Council faces the prospect of future transfer of responsibilities or “new burdens” with the potential full localisation of Business Rates. The Government has already indicated that new responsibilities would transfer over to Local Government (to ensure the new Business Rate’s scheme is revenue neutral). The Council must ensure it is well resourced to manage the responsibility of new services that could potentially be demand led (or historically under-funded).		1) Continuing efforts to collaborate and interact with DCLG, Valuation Office, London Councils, etc. 2) Leading on responses to consultations. 3) Lobbying "Central Government" (i.e. Valuation Office, DCLG)	All

Risk / Weakness	Implications	RISK	Mitigating actions	Relevance to Services
3. Business Rates Appeals				
Reduction in funding and impact of backdating of appeals. Localising of Business Rates will increase this risk from 50% to 100% for Local Authorities. The related opportunity is from consultations on dealing with Business Rates appeals process - checking and challenging might reduce the number of live appeals.	Adverse financial outcome(s) for the Council in future years		1) Review data with Valuation Agency and other relevant stakeholders to reduce number of appeals 2) Continuing discussions with DCLG and the Valuation Office on measures to resolve outstanding appeals	All

Continued Overleaf

Risk / Weakness	Implications	RISK	Mitigating actions	Relevance to Services
4. Pension Fund Assets / Pension Fund Deficit				
Pension Fund assets failing to deliver returns in line with the anticipated returns underpinning valuation of Pension Fund Liabilities over the long-term.	The Council's Pension Fund being under-funded resulting in an increase in the employer contribution rate and deficit funding that the Council pays into the fund.		1) Exercising prudence when anticipating long-term returns, analysing progress, providing quarterly comparisons, regularly benchmarking assets to re-valued liabilities, roll-forward of liabilities between formal valuations at whole fund level. The deficit is being addressed as part of the budget process.	All
5. Reliance on Commercial Income				
Exploring alternative sources of income to offset core funding reductions and also ensure value for money for residents	A recession or other unexpected/uncontrollable event could leave the Council exposed to under-funding or large losses in income. Competition - As well as individual factors influencing demand the Council has to consider competitive forces in certain service areas. Especially trading activities.		1) Rigorous monthly monitoring which scrutinises forecast projections and challenges material movements against budgeted targets.	Specific Services
6. Parking Income				
The Council's Parking Service is in high demand due to the Council's central location.	Uncontrollable reductions in income could leave the service under-funded or exposed to large losses in income which could affect the services specifically supported by this income.		1) Rigorous monthly monitoring which scrutinises forecast projections and challenges material movements against budgeted targets.	Specific Service
7. Inflation				
The Council's expenditure (pay and non-pay) is subject to annual inflation based on indexation that is determined by external stakeholders e.g. Central Government for pay and suppliers through agreed contracts for other service expenditure	Sharp increases in inflation would result in higher for day to day expenditure and costs related to employment. Other issues include: Each 1% change in inflation adds around £6m to the Council's cost pressures		1) Monitoring actual inflation and forecast projection (e.g. at key milestones such as HM Treasury's Budget announcement) and modelling the impact of incremental increases on the Council's applicable expenditure. 2) Exploring all opportunities during the tendering process for all service contracts to minimise indexation clauses, negotiate for favourable fees etc.	All
8. Delivery of Budgeted Savings				
Agreed MTP Savings are not fully achieved or slip into future years.	Potential for in-year overspends and funding gaps		1) Robust challenge of all proposed MTP Savings during the MTP process (e.g. through Corporate Budget Group) 2) In-year monitoring of agreed MTP Savings	All

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Risk / Weakness	Implications	RISK	Mitigating actions	Relevance to Services
9. Planned Use of Capital Receipts				
Capital receipts are generated when an asset is disposed of and are source of financing capital expenditure. However there can be delays in completing the disposal of an asset which then delays the inflow of a capital receipt.	Shortfalls in financing of capital expenditure, possibly resulting in higher borrowing costs.		1) In-depth analysis and challenge of capital project cash flow projections. 2) Rigorous monthly monitoring which scrutinises forecast projections and challenges material movements against budgeted targets.	Specific Services
10. Review of needs and resource allocations				
A review of the funding allocation formulas used by Central Government could mean that the Council's share of funding is proportionately reduced in favour of other Local Authorities post 2019/20.	Whilst there could be gains and losses which will alter the business rates top up / tariff adjustment for individual authorities, the Council may experience a larger loss in funding than expected in shorter space of time		1) Responding to consultations. 2) Engaging and lobbying DCLG.	All
11. Interest Rate changes				
Changes to the Bank Base Rate and returns on investments.	The Council earns an amount of income from its Treasury function. A decrease in the interest rate could mean returns on investment are lower, reducing the amount of income earned e.g. from Government Bonds		The Council has a number of options available to it to mitigate these risks. These include: placing fixed term deposits as opposed to instant access, limiting deposits in money market funds and closely monitoring interest rate forecasts and available market rates.	Specific Service
12. Public Health Grant Funding				
The Government is proposing reductions to Public Health grant funding, along with possible removal of the ring-fence for the grant/potential changes to the Public Health grant conditions.	The proposed changes to the grant would cause a funding pressure for the service and have the potential to cause short-medium term disruptions to the service and on-going projects.		Budget savings proposals, in line with outcome of a national consultation process which was initiated by Public Health England at end of July 2015 on the four possible options proposed for the budget reductions. An implementation plan with proposed efficiencies to ensure that the budget commitments are met.	Specific Service

Risk / Weakness	Implications	RISK	Mitigating actions	Relevance to Services
13. Strategic Transformation Partnerships				
Failure to secure appropriate monies towards an increase in demand for social care services due to a shift in activities from acute to community setting.	Increase demand on social care services which may result in financial pressures and impact on the quality of care offered.		An Out of Hospital (OOH) strategy has been developed which is expected to be reflected in the transformational business cases for the STP. WCC sits on the Health and Care Transformation Board (HCTB) and the Finance and Estate Group (FEG). All financial implications for local authorities are presented at both these groups.	Specific Service
14. Demographic Changes				
Customer needs and behaviours continue to change which brings new challenges and opportunities to the Council. There is the potential to see changes to population levels caused by uncertainty of status of existing overseas workers / residents as well as ability for new workers to come to the country	Demographic changes have led to continuing pressures on social services budgets. The age profile is changing as the number of families leaving is reflected in falling numbers of children in some age-groups. The children left are increasingly benefit dependent or in fee paying schools. Schools are good so the main issues are likely to be housing costs and the cost and availability of childcare, as well as possibly community safety.		The Council is engaged in long term planning and transformational programmes to mitigate the action of demographic changes on budgets and services.	Specific Services

9 Medium-Term Financial Outlook 2018/19 to 2019/20

9.1 The Council's medium term modelling takes into account indicative government grant reductions, inflation (both pay and contract), superannuation costs, increasing capital financing pressures and national insurance changes as well as allowances for specific and general risks. The net budget gap is £30.8m in 2018/19 excluding direct service pressures and has been addressed as detailed in Schedule 4 and Annex A.

9.2 The Council's latest working assumptions would suggest that further reductions in core funding plus inflation, demographic and other pressures are likely to require further significant savings to be identified for 2019/20. The quantum at this stage is not yet determined and will be tested and updated during 2018/19.

9.3 The Council continues to develop a 10 year view of its financial position. While there are a great deal of unknowns going forward, longer term projections of demographic changes suggest a growth in the demand for services as they are currently delivered. As part of this work, services across the Council were approached to identify the significant cost drivers, opportunities and pressures impacting them to help better understand individual operating environments within the organisation.

10 Capital Programme to 2022/23

10.1 The Council has embarked on an ambitious long-term capital programme which will help deliver on the aims and objectives of its City for All strategy and maintain its status as a global centre for business, retail, entertainment and tourism. Full details are available in the Capital Strategy Report - 2018/19 to 2022/23 being considered on this same agenda which includes forecasts up to 2031/32.

10.2 The Council's General Fund Capital Programme is split into:

- Development – these schemes will help the Council achieve strategic aims and generate income (£1.021bn);

- Investment – schemes within this category will help to generate income and increase the diversification of the Council's property portfolio and will be self-funded by creating additional income and efficiency savings (£87.613m);

- Operational – these schemes are related to day to day activities that will ensure the Council meets its statutory requirements (£1.488bn).

10.3 The General Fund's Capital programme is fully funded via capital receipts, grants, other external contributions and borrowing. The on-going revenue implications are included within the MTP.

10.4 The HRA capital programme over the five year period starting 2018/19 is £794m, which is funded via capital receipts, reserves, grants and borrowing.

11 Reserves and Balances Policy

Usable vs Unusable Reserves

11.1 Local authorities hold two categories of reserves; "usable" and "unusable". Usable reserves are defined as those which contain resources that the Council could utilise to finance capital investments or fund revenue expenditure. Within this, some of these reserves could be applied generally but others will have stipulations attached on their use.

11.2 The Council's usable reserves can be grouped into the following sub-categories:

- General Reserves – working balances held to ensure long term solvency and to mitigate risks e.g. the General Fund balance and the Housing Revenue Account balance;
- Earmarked Reserves – to fund specific projects or as a means to build up funds for known contingencies. e.g. the Insurance reserve;
- Ring-fenced Reserves – carried forward balances or grant funding which have certain conditions or restrictions attached to them preventing their general use by the Council e.g. Schools balances; and
- Capital Reserves – amounts held to finance capital expenditure e.g. receipts from asset disposals and capital grants.

11.3 Conversely, unusable reserves are those that the Council would not be able to use to finance capital investment or fund revenue expenditure. This is because this category includes reserves which hold unrealised gains or losses for assets not yet disposed of and also adjustments which are required by statute and differ in basis from International Financial Reporting Standards.

11.4 This distinction between usable and unusable reserves and also between the different types of usable reserves themselves is important in being able to understand exactly what resources the Council holds and under what circumstances they can be used.

11.5 Whilst usable general and earmarked revenue reserves can be used to fund costs incurred in the provision of services, such use cannot be regarded as a sustainable medium-term strategy to fill the gap in on-going service provision from core funding reductions. This is because a usable reserve is a cash balance which can only be used once whereas the reduction in core funding is a permanent year-on-year loss to the Council's base budget.

General Reserves

11.6 The Council's General Reserves includes the General Fund balance; this is held to:

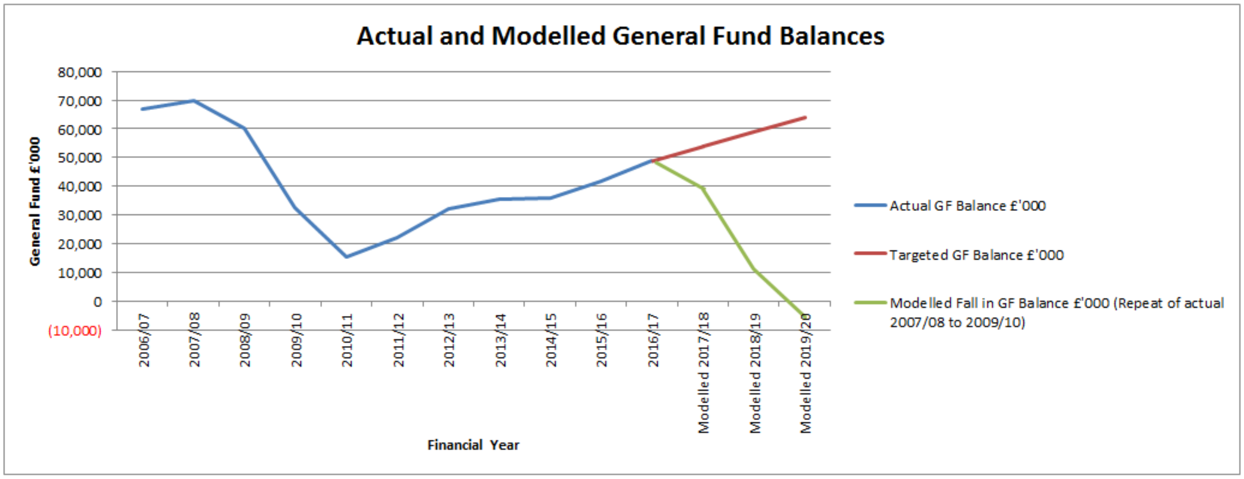
- Comply with the law;
- Provide funds for emergencies or other unexpected requirements for funds;
- Mitigate against risks faced in day to day operations;
- Provide a balance to insulate it from the need to borrow on a short term basis due to uneven cashflows.

11.7 The table below details the movement for the Council's General Reserve balance since 2006/07. This can be considered a reasonable period of time over which to consider movements as the Council has faced a number of challenges during this time including significant turbulence in the wider economy.

Year	2006/07 £'000	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Closing Balance	66,864	69,930	60,090	32,396	15,578	22,054	32,027	35,295	36,035	41,576	48,777
Balance Movement	-	3,066	(9,840)	(27,694)	(16,818)	6,476	9,973	3,268	740	5,541	7,201

11.8 The table above and the graph below demonstrates how over time there have been significant movements in the General Reserve balance including a three year period 2008/09 to 2010/11 when the general reserve balance decreased by £54.352m. The Council could not manage a similar reduction in reserves over the next three financial years as it no longer has that level of reserves

General Reserves Movements (actual and modelled)



11.9 When assessing what level of General Reserve balance should be held, the Council must consider a number of factors. These include the risks which are set out in detail in paragraph 8.3 but include by way of example:

- Based on the Council's gross expenditure, approximately £2.33m is (budgeted) to be spent a day on the provision of General Fund services. The General Reserve balance when viewed in this context represents just 18 days of expenditure;
- The Council has been required to find savings year on year from its budget since 2010/11 and it is becoming harder to identify low risk savings opportunities;
- Future levels of uncertainty are compounded by the Council's growing reliance on commercial income as these income streams have the potential to fluctuate;
- Emerging risks such as Brexit have the potential to impact unfavourably on Westminster;
- Future transfer of responsibilities or "new burdens" with the potential full localisation of Business Rates;
- Demographic changes have led to continuing pressures on social services budgets; and

- Inflation and its impact on budgets.

General Reserves Policy

11.10 In assessing the level of General Reserves balance, the City Treasurer has taken into consideration the following:

- The wider economy currently appears to be more stable than in previous years although significant uncertainties remain particularly in respect of the UK's exit from the European Union;

- The Council's framework of governance and controls has been assessed by audit as being satisfactory. In addition, Internal Audit completed its audit of budgetary controls in February 2017 and concluded that the Council had provided "substantial assurance" on these controls;

- The overall track record of Directorate teams in recent years of delivering on-going budget savings has been successful.

11.11 However, there are a number of other factors which suggest that it would be highly desirable to increase the level of the General Reserve balance at the earliest opportunity as set out in the previous section.

11.12 It is not considered at this point that further budget reductions should be made to accommodate an increase in reserves. However, any resources which become available from the following should be added to the General Reserve where possible:

- In year revenue underspends as reported through the monthly revenue monitor to Cabinet;

- One off revenue funds which become available e.g. one off unbudgeted income or rebates;

- Short term underspends from unexpected upsides on treasury management;

- Any other spare resources which become available on an unforeseen or unbudgeted basis.

12 **Cash and Financing**

12.1 An annual Treasury Management Strategy Statement (TMSS) is presented to Full Council as part of the budget process each year following discussions at other committees including Scrutiny. The purpose of the TMSS is to set the boundaries and limitations for borrowing and investment decisions over the next year and the two subsequent years so as to ensure security, liquidity and return.

12.2 Early indications are that the 2018/19 TMSS will not forecast additional external borrowing in 2018/19 but the potential for additional borrowing in later years to meet the capital programme.

12.3 The investment strategy was set in the current environment of ultra-low interest rates that has significantly reduced the capacity to generate revenue from short-term cash balances. The July 2016 cut to the base rate further reduced income.

12.4 Over the summer various opportunities to diversify the treasury portfolio, ensure security of cash balances and increase the yield have been investigated. Potential opportunities have been explored and are currently undergoing due diligence review.

12.5 Monitoring of treasury activity is a key control to ensure that dealing accords with the agreed TMSS. In addition to half yearly reports on activity to Full Council and Scrutiny Committee, weekly updates are provided to the City Treasurer and monthly reviews of the investment portfolio are undertaken by the Council's treasury advisor. 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 separate basis.

13 **Council Tax, the Collection Fund, Business Rates and Discretionary Housing Payments**

Council Tax

13.1 The Council Tax Base (the number of Band D equivalent properties estimated to be billable for the year 2018/19) will be considered by Cabinet in December 2017 and is expected to be approved by Full Council in January 2018.

13.2 Any decision to increase the standard Band D Council tax charge will be made at the final budget setting in March 2018. However, budget options detailed in this report include the option to increase the Adult Social Care Levy by 2% which will impact on the amount payable by Council Tax payers.

The Collection Fund

13.3 Statutory regulations require local authorities to account for annual Council Tax income in a manner different to normal accounting arrangements as would apply if using International Financial Reporting Standards (IFRS). This statutory override necessitates that any variance between the originally estimated net Council Tax yield and that subsequently achieved in year is not immediately transferred to the Comprehensive Income and Expenditure Account, but is held on the Balance Sheet and instead distributed in a subsequent year.

Business Rates (NNDR)

13.4 Business Rates were partly localised from the start of 2013/14. Fifty percent of net business rate yield is currently retained and shared by local authorities with the remainder pooled by DCLG and returned in the form of Revenue Support Grant and other specific grants. A series of Tariffs and Top-ups operates to additionally redistribute retained income from those authorities with high yield to those with low NNDR receipts. Local authorities are potentially able to encourage the growth of local NNDR yield and keep fifty percent of the growth (being subject to a 50% levy on any surplus). The reverse however also operates in so far as local authorities bear 50% of the cost of any shortfall in business rate income if it is lower than the government's target level (Baseline). A Safety Net scheme operates to protect individual local authorities from losses should their retained yield fall below 92.50% of their anticipated Baseline Funding level (this is paid for from the 50% levy charged on those authorities exceeding their Baseline Funding level).

13.5 Westminster is by far the biggest collector of business rates in the country, collecting around 8% of the national total. Westminster businesses are some of the most economically active and productive in the country and demand for business premises, and hence rent levels, continue to grow at rates well above the national average. This has seen significant increases in rateable values at both the 2010 Revaluation (63% increase) and the 2017 Revaluation (25%). A consequence of the high revaluation increases has been to see record levels of appeals lodged against the Valuation Office Agency's rating assessments, which in turn has led to particularly high levels of subsequent rate refunds – the majority of which have been back-dated to the very start of the 2010 Valuation List.

13.6 This has led to a situation for Westminster whereby, after the impact of making refunds for successful appeals, the net amount collected has fallen below the Safety Net threshold for every year since the current scheme start in 2013/14. Had the impact of appeals caused by original errors in the VOA assessments been discounted, rather than being below the Safety Net level, the Council would have seen real growth and reward above Baseline.

14 Schools

Dedicated Schools Grant

14.1 The Dedicated Schools Grant (DSG) is a specific ring-fenced grant received by local authorities to fund schools and central expenditure to support the schools budget. The grant also covers wider support for High Needs and Early Years for funding of pupils with Special Educational Needs and for two, three and four year olds in nursery and associated provision. Schools are funded primarily by the DSG and not by council tax income. The 2018/19 financial year will be the first year of the National Funding Formula.

14.2 The DSG consists of three separate blocks, Schools, High Needs and Early Years. The overall distribution of the DSG is ring-fenced; however, the three blocks that make up the DSG aren't separately ring-fenced but movement between blocks is subject to specific conditions and limits.

14.3 Westminster City Council (WCC) is able to retain DSG funding to pay for the education of pupils who are the responsibility the Council but who are not being educated in a WCC school. The Council does not contribute any of its own resources to fund schools but is required to fund the management and administration of education services from Council Tax and funding settlement resources.

14.4 Given the proposed changes to schools funding it is important to understand the overall impact on the balance of DSG during the transition period. An initial estimate of how pressures on the DSG will present themselves over the next three years is set out below:

DSG Projections Over 3 Years

Description	2018/19 £000's	2019/20 £000's	2020/21 £000's
Brought Forward Reserves	**2,634**	**917**	**317**
Early Years			
Nursery Full Time Places	292		
Nursery Schools Sustainability	400	200	
Schools Block			
Minimum Funding Levels - Primary	350		
High Needs			
EHCP Transition	150		317
Post 16 Unfunded Growth	125		
Central Schools Block			
ESG Reduction	400	400	
Total Expenditure	**1,717**	**600**	**317**
Projected Year End Reserves	**917**	**317**	**0**

Implementation of the National Funding Formula:

Schools and High Needs Block

14.5 The national funding formula has been introduced from the 2018/19 financial year. The main headlines are:

- Increasing the basic amount that every pupil will attract in 2018/19 and 2019/20;
- For the next two years, this investment will provide for up to 3% gains a year per pupil for underfunded schools, and a 0.5% a year per pupil cash increase for every school;
- Protection of funding for pupils with additional needs;
- This formula settlement to 2019/20 will provide at least £4,800 per pupil for every secondary school;

- In 2018/19 and 2019/20, the national funding formula will set indicative budgets for each school, and the total schools funding received by each local authority will be allocated according to our national fair funding formula and transparently for the first time;

- Local authorities will continue to set a local formula to distribute that funding, and to determine individual schools' budgets in 2018/19 and 2019/20, in consultation with schools in the area;

- To support local authorities planning, all local authorities will receive some increase to the amount they plan to spend on schools and high needs in 2018/19.

14.6 The indicative figures show an overall increase of funding of 1% equivalent to £1.2m in 2018/19 and a further increase of 0.5% in 2019-20. No individual school will see a reduction in funding with increases between 0.3% and 2.68% in 2018/19 providing there is not a decrease in pupil numbers.

14.7 The high needs block for 2018/19 will be £24.971m, an increase of £0.634m.

14.8 The 2016/17 year end closing position was a collective balance of £3.7m for the LA-maintained primary and secondary schools. For the 2017/2018 financial year 8 schools are projecting a year end deficit, 4 of which could have deficits in excess of £100,000. To prevent this from happening officers will support schools to ensure that they set sustainable budgets commensurate with their resource levels.

14.9 A pupil count will be completed in October 2017. However, whilst it is expected that the number of children in secondary schools will increase, the current number of children in primary schools is unlikely to increase and there is current capacity in the system of approximately 15%. As school funding is pupil-based this represents a further cost pressure for schools.

14.10 Schools in England report that they are facing rising cost pressures, especially from increased staffing costs. The Institute for Fiscal Studies (IFS) estimated in April 2016 that there would be at least a 7% real terms reduction in per-pupil spending between 2015/16 and 2019/20, or about 8% if changes in the costs likely to be faced by schools were also accounted for. The spending pressures that schools face make it imperative for the service to work with schools to ensure that they are equipped to face the challenges ahead and to insulate the local authority.

Early Years Block

14.11 In December 2016, the government set out its funding proposal to introduce an early years' national funding formula from 2017/18. A new entitlement for the additional 15 hour entitlement for eligible families was introduced in September 2017.

14.12 Westminster City Council in consultation with the school's forum introduced the new funding formula from September 2017. The key priority was to establish transitional arrangements from the current funding levels and the delivery of full time places to the new national funding formula without destabilising individual setting. The government expects all authorities to have implemented the new funding model by 2019/20. Transitional funding has been allocated to enable the delivery of the new proposals without causing excessive turbulence within the current system.

Pupil Premium

14.13 In 2018/19 schools will receive pupil premium funding for each child registered as eligible for free school meals at any point in the last six years. The per pupil figure is £1,320 per primary school pupil and £935 per secondary school pupil.

14.14 For each pupil identified in the spring school census as having left local authority care because of one of adoption, a special guardianship order, a child arrangement order or a residence order, schools will receive £1,900 per eligible pupil.

14.15 Pupil premium for three and four year old children is at a rate of £300 per eligible child. Schools can decide how they use the pupil premium.

Education Services Grant

14.16 The Education Services Grant (ESG), which funds spending on school improvement, management of school buildings and tackling non-attendance, was cut by £200 million (around 20 per cent) in 2015/16. For 2016/17 to 2019/20, the Chancellor announced a further cut of £600 million.

14.17 School and Early Years Finance Regulations will be amended to allow local authorities to top-slice schools block funding in order to fund services previously provided by ESG.

14.18 The 2017/18 allocation is £335k, with an additional transitional grant of £275k totalling £610k for the financial year.

14.19 The retained duties allocation for 2018/19 of £335k now forms part of the newly created central services block of the DSG.

Academies and Free Schools

14.20 WCC schools that convert to academy status or newly established free schools obtain their funding directly from the Education Funding Agency. These schools receive a school budget share equivalent to what they would have received if they were a WCC school. This is funded in most cases by an adjustment to the DSG received by the Council.

15 Housing Revenue Account (HRA)

15.1 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.

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

15.3 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 the HRA out of the subsidy system through taking on £68m of extra borrowing within the HRA, but in return retains all future rental income and economic benefit.

15.4 The Council's Arm's 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 £1.864bn over 30 years.

15.5 The Government continues to control rent levels and rent increases through Rent Rebate Subsidy Limitation. A mechanism which limits the amount of eligible housing benefit payable if average rent increases by a Local Authority exceed Government determined limits. The Government have also legislated that HRA rents reduce in real terms over a 4 year period by 1%. This has cost the HRA c.£32m over this period and over 30 years the NPV cost is estimated to be c.£237m.We are currently in year 2 of this 4 year rent reduction process. Recent announcements indicate that the policy on rent rises will return to CPI plus 1% for 5 years from 2020.

15.6 Self-financing itself presents the Local Authority with a number of uncertainties and risks that will need to be monitored and actively managed. These include the impact on cash flow of funding the Council's ambitious Regeneration programme, the impact of the Right to Buy, interest rate risk, and the impact of welfare reform upon future rent collection.

15.7 The proposed HRA budget for 2018/19 is still under review at present. The Housing Investment Strategy and HRA 30 year Business Plan report will be presented to Cabinet in either November or December to approve the five year (2018/19 to 2022/23) capital budget for the HRA. The proposals will continue to see the immediate capacity of the HRA applied to help deliver the Council's objectives of City for All. This means HRA reserves will fall to close to a minimal level of circa £11m and all borrowing headroom will be utilised by 2025/26, which will necessitate a focus on managing budgets closely.

16 2018/19 Proposals Requiring Consultations

External consultations

16.1 The draft balanced budget for 2018/19 contains 10 savings proposals totalling £5.360m which have been identified as requiring external consultation. A full list of these proposals can be found below:

2018/19 Budget Proposals Requiring External Consultation

Directorate	Description	2018/19 Amount £'m
Adults	Alternative delivery models including Commercial Trading	**0.100**
Adults	Review care pathways and re-commission key services	**0.630**
Adults	Asset Based Commissioning of prevention services	**0.100**
Adults	Remodel In-House service Portfolio	**0.150**
Children's	Income Generation Traded Services and Education	**1.055**
Children's	Commissioning Contracts	**0.467**
GPH	Corporate Property Strategy	**0.476**
GPH	Property Rationalisation and Asset Management	**2.007**
GPH	Electronic Consultation	**0.100**
GPH	Planning Performance Agreements	**0.275**
Total		**5.360**

It should be noted that whilst the following does not require consultation it nonetheless will be decided at March 2018 Council.

Adults	Adult Social Care Precept	£1.003m

16.2 It is expected that all consultations will be complete by December 2017 and the responses will be considered by Cabinet and where necessary reported to full council when the budget is confirmed in March 2018.

The Scrutiny Process

16.3 The Westminster Scrutiny Commission agreed in July 2007 to set up a Budget and Performance Task Group as a standing group, with the following terms of reference: “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.”

16.4 Cabinet must take into account and give due regard of any views and recommendations 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.

16.5 The minutes of the meetings held are presented in Annex A to this report. Annex A also highlights a number of risks associated with the Council’s budget for 2018/19 and makes a number of recommendations.

17 Legal implications

17.1 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.

17.2 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.

17.3 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.

17.4 Section 25 of the Local Government Act 2003 requires that when a local authority is making its budget calculations, the Chief Finance Officer of the authority must report to the Council on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. The Council has a statutory duty to have regard to the report of the City Treasurer on these issues when making decisions about its budget calculations. Attention is drawn to the report as set out in Sections 4, 7, 8, 9, and 11 above respectively and in particular paragraphs 1.13 and 11.10, where it is stated that the estimates are sufficiently robust for the purposes of the calculations and that the proposed financial balances and reserves over the medium term are adequate.

17.5 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 or cabinet member (as appropriate) may be required.

17.6 Apart from statutory duties relating to specific proposals the Council must consider its obligations under the Equality Act. This is addressed in Section 19 below. In developing a 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.

17.7 Section 106, 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.

17.8 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.

17.9 The use of General Fund and HRA (non-Right to Buy) capital receipts funds to fund transformation projects detailed in this report is compliant with the Statutory Guidance on the Flexible Use of Capital Receipts (updated) issued under section

15(1) of the Local Government Act 2003 (which authorities are required to have regard to). The guidance applies with effect from 1 April 2016 to 31 March 2019

18 People's Services Comments

18.1 In accordance with statutory requirements, an HR1 form was issued in order to inform the Department for Business, Energy and Industrial Strategy (BEIS) of up to 48 potential redundancies.

18.2 A consultation will commence in January 2018 on the review of Highways services including Road Management Services. The new structure will be implemented from the start of 2018/19 and it is estimated that it may result in up to 10 redundancies.

18.3 A consultation will commence in January 2018 on the Effective Neighbourhood Working Programme. The new structure will be implemented from early 2018/19 and it is estimated that this has the potential for up to 20 redundancies. However, given current vacancies the actual number is expected to be significantly less.

18.4 As a consequence of the Tri to Bi-Borough changes there are a number of restructures with the possibility that some redundancies may arise, which could amount to approximately 18 redundancies.

19 **Equalities Implications**

19.1 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/ civil partnership, pregnancy/ maternity, race, religion or belief and sexual orientation.

19.2 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.

19.3 A screening of all budget measures has been undertaken to ensure that the equality duty has been considered where appropriate. Details of the Equality Impact Assessments (EIAs) are included in Annex B. Where it has been identified that a proposal may have an adverse impact on people who share a protected characteristic, an assessment of the impact has been undertaken to ensure that "due regard" is paid to the equality duties as required by statute. Where budget proposals required a full EIA to be undertaken, these have been published and shared with the Budget & Performance Task Group to ensure they form part of the budget scrutiny process.

Schedules

1 Gross Income

2 Gross Expenditure

3 Net Budget Requirement (by Cabinet Member and EMT)

4 Details of Budget Changes

5 Subjective Analysis

6 Housing Revenue Account

Annexes

A Budget and Performance Task Group Meeting Notes

B Equalities Impact Assessments

Background Papers

2017/18 Budget and Council Tax Report and Medium Term Plan - Council Meeting 1 March 2017

Treasury Management Strategy Statement for 2017-2018 to 2021/22 - Council Meeting 1 March 2017

Capital Strategy 2017/18 to 2021/22, Forecast Position for 2016/17 and Future Years Forecasts Summarised up to 2030/31 - Council Meeting 1 March 2017

If you have any queries about this report or wish to inspect any of the background papers, please contact: David Hodgkinson on 0207 641 8162 or at dhodgkinson@westminster.gov.uk

Annex A

Budget and Performance Task Group – Summary Report on 2018/19 Budget Scrutiny

1. Executive Summary - The Scrutiny Process

The Westminster Scrutiny Commission agreed in July 2007 to set up a Budget and Performance Task Group as a standing group, with the following Terms of Reference:

- "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."

- These Terms of Reference were agreed by the current Budget and Performance Task Group at its first meeting on 12 October 2017.

- Cabinet must take into account and give due regard of any views and recommendations 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.

The Task Group examined five key themes:

- the potential impact of savings proposals on affected groups

- whether or not the budget proposals would affect the Council's ability to fulfil its legal obligations

- the need to identify and address potential optimism bias (over-confidence about the ability to secure third party income)

- the need to examine the Capital Programme as closely as the revenue budget

- the potential impact of any external factors (for example, Brexit).

The minutes of the Task Group's meetings are attached to this summary.
The Task Group would like to offer enormous thanks to the officers of all directorates for the rigour and commitment that went into preparing papers and

Equality Impact Assessments for the Task Group's meetings, answering members' questions and following up on requests.

2. Overall Budget

The overall 2018/19 draft budget appears robust, and officers provided assurances on a number of points members across all Directorates, including in relation to managing changing service demand priorities, and around the deliverability of a number of projects.

3. Risks

Despite the overall confidence in the draft budget there are a number of risks which the task group wishes to highlight. The savings proposals for the 2018/19 were subject to a more robust Equality Impact Assessment (EIA) process than previous years; however in at least one case (planning and licensing electronic consultations) it was evident that officers working closer to the service were not involved in the process and key considerations had been overlooked because of this. This could have left the decision open to challenge and affected the achievability of the saving.

Adult Social Care is an area subject to immense cost pressures. The relevant Policy and Scrutiny Committee (Adults, Health and Public Protection Policy and Scrutiny Committee) has a wide remit and takes a service quality based approach to its work rather than focusing on the financial performance of the service. This could lead to a lack of member-level oversight of budget pressures. This will be discussed at the next meeting of the Westminster Scrutiny Commission.

Westminster City Council is proposing to increase its use of s106 funding for the schools expansion programme. Although this approach has been taken in other local authorities, it has not been used widely in Westminster before as the Building Schools for the Future programme had provided most of the funding in the past. This approach creates a dependency on the availability of s106 funding, which should be continually monitored.

The Council is using increasingly varied methods of delivering services and projects with other organisations, such as entering into a shared legal services ABS and being a member of the West End Partnership. Partnership can make it possible for member level financial oversight to be difficult. These joint projects should be regularly reported on to the relevant Policy and Scrutiny Committee and the West End Partnership budget should be reported separately from the Council budget. When these projects are expected to generate income, this should be clearly and realistically displayed in the business case and budget.

The Capital Programme planned for 2018/19 will cause high levels of disruption in specific geographical areas of the City. The Cabinet and Executive Directors need to be clear with non-executive members and residents about the level of disruption to avoid as far as possible delays to the delivery of capital projects. Similarly the digitalisation of planning and licensing consultations requires political buy-in to achieve.

4. General Observations

The Council should be bold when designing new services instead of taking an overly cautious approach and then identifying savings later, as has been the case with direct deployment of parking marshals. The direct deployment of parking marshals is forecast to save the authority £500,000; this could have been achieved from the outset of the contract.
Savings proposals should be communicated using clear language to ensure the effects that they will have on services users can be understood. This was not always the case with some of the language used in Task Group's papers.

5. Positive Observations

The Task Group found clear examples of proposals avoiding optimism bias including removing unachievable targets for external advertising and taking a cautious approach to forecasting income from City Hall once it has been redeveloped.

The Task Group commended the approach to accessing project management expertise to deliver the significantly expanded capital programme. Sourcing project managers from contractors is prudent and will protect the Council from incurring staffing costs should the projects be delayed (e.g. through delays in external funding)

Budget and Performance Task Group Day 1 12th October 2017

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Budget and Performance Task Group** held on **Thursday 12 October 2017**, Rooms 3.6-3.7, 3rd Floor, 5 Strand, Westminster, London, WC2N 5HR.

Members Present: Councillors Brian Connell (Chairman) Barbara Arzymanow, Adam Hug and Andrew Smith.

Also Present: Barbara Brownlee (Executive Director, Growth, Planning and Housing), Siobhan Coldwell (Chief of Staff), Jonathan Cowie (CEO, CityWest Homes), Dick Johnson (SFM, Growth, Planning and Housing), Artemis Kassi (Policy and Scrutiny Officer), Steven Mair (City Treasurer) and Steve Muldoon (Assistant City Treasurer)

1 WELCOME

1.1 The Chairman, welcomed members and officers to the Task Group meeting, which opened at 7.02 pm.

2 TERMS OF REFERENCE

2.1 The Chairman reminded members of the Task Group's terms of reference and noted that the observations and recommendations of the task group would be shared in a report to Cabinet Members and the Council. He mentioned that he would be speaking at the Cabinet meeting on behalf of the Task Group.

2.2 The Chairman reminded members that, in order to fulfil the Terms of Reference, the Task Group should keep in mind any potential impact on affected groups (as discussed in respect of EIAs), whether or not the budget proposals would affect the Council's ability to fulfil its legal obligations, the need to identify and address potential optimism bias (over-confidence about the ability to secure third party income), the need to examine the Capital Programme as closely as the revenue budget and the potential impact of any external factors (for example, Brexit).

3 APOLOGIES

3.1 Apologies were received from Cllr Tony Devenish.

4 DECLARATIONS OF INTEREST

4.1 There were no declarations of interest.

5 EQUALITY IMPACT ASSESSMENTS

5.1 The Chairman explained that Equality Impact Assessments (EIAs) are formally acknowledged as part of the review process and that EIAs come in two stages. They are required if a budget recommendation will have an impact on a particular community. It was noted that there were no full (second stage) EIAs for the areas under review at this meeting but that an example of a full EIA had been provided to members for information.

5.2 A concern was raised that there was a risk that EIA preparers determine that an EIA is not necessary but in retrospect later find that an EIA was in fact necessary. A past example was given of the Charing Cross Library whereby the EIA did not register the impact of changes upon Westminster’s Chinese community. It was clarified that the EIA process this year included a review by an independent barrister in addition to review by the Council’s Policy team.

6 BUDGET OVERVIEW

6.1 The Chairman invited the City Treasurer to provide members with a brief overview of the proposed budget for 2018/2019. Members noted that £30.8m of net savings were identified for 2018/2019. The City Treasurer stated that, whilst £130m of gross savings would be delivered between 2015 and 2018, further savings would continue to be required in future years due to anticipated continued reductions in government funding, new legislative requirements, service delivery pressures and inflation on staff and contract costs. Members heard that, whilst the Council spends approximately £850m per year, the Council will still have to generate efficiencies to fund issues such as demographic pressures due to population longevity, the pension fund deficit recovery, inflation and legislative changes.

Action: Members to be provided with a breakdown by category of the drivers of the savings requirement.

6.2 The City Treasurer gave an overview of the capital programme both in terms of expenditure and income.

6.3 The City Treasurer highlighted the forecast capital spend for 2017/2018 of £370.02m, with an income of £205.1m. It was noted that the programme extends to 2031/2032 and that the largest area of gross spend would be in Growth, Planning and Housing. The West End Partnership was noted as a new area with a gross budget of £421.5m up to 2031/2032.

6.4 The City Treasurer advised that, concerning pensions pressures, Westminster had had one of the lowest funded pension funds. An increase in the annual contribution rate of £4m into the pension fund is helping to reduce the period for the repayment of that debt to 19 years.

7 CHIEF OF STAFF

7.1 The Chairman invited Siobhan Coldwell, Executive Director, to provide a brief overview of the budget for Chief of Staff.

7.2 Siobhan Coldwell advised that there were no proposals for savings in the coming year for two reasons. The first reason was that, in an election year, there is a significant particular demand on electoral and committee services. The second reason was that the department had not delivered all the savings for 2017/18 of £185k. Only one post had been removed from the Complaints function in the Triborough Services and there had been concerns that the department might have been making redundancies when there were re-deployment needs. The Chief of Staff stated that there would be a clearer picture at the end of the year once the consultation process had been completed.

7.3 In response to members' questions concerning the non-delivery of savings, it was stated that a virement in recognition of this was reflected in the 2017/18 budget table. The Task Group was informed that the focus at EMT is on the delivery of the whole budget, not individual savings line items, and that Executive Directors are ultimately tasked with the management of their total budget envelope, which would naturally have ups and downs across the service portfolio. It was added that there has been an overall underspend in the last three years and that it was anticipated that there would be an underspend this year as well.

7.4 The Chief of Staff stated that the Council had committed to delivering savings within the Lord Mayor's Secretariat but that they had been unable to deliver the transformation, which would now take effect next year. She stated that the department would be on track by the end of the financial year.

7.5 In response to members' questions, Siobhan Coldwell stated that staffing restructures and re-shaping of jobs would subsequently bring costs down. Members sought clarification concerning the cost implications for the Coroner's Service as a result of the Criminal Justice Act. There were between 200 and 300 inquests per year as a result of "deaths in care". The Coroner in Westminster was responsible for undertaking high profile cases, including inquests those resulting from the Grenfell Tower fire and the Westminster Bridge incident, but the biggest impact on the service was caused by those who die in care. In response to members' questions concerning the cost impact of the Grenfell Tower fire inquests, the City Treasurer clarified that costs were being recovered from RBKC and that the transactions would be reflected in the Council's annual accounts, but not be separately visible in the budget.

Action: Siobhan Coldwell to write separately to Cllr Arzymanow about the cost implications of the Criminal Justice Act.

8 GROWTH, PLANNING AND HOUSING

8.1 The Chairman invited Barbara Brownlee, Executive Director of Growth, Planning and Housing (GPH), to provide members with an overview of budget proposals for the Directorate.

8.2 A number of key issues facing the Directorate were highlighted and discussed. The Executive Director highlighted that the directorate was responsible for an expenditure budget of £322.335m, with a net controllable budget of £27.879m, and indicated that the projected deficit for 2017/18 of £0.970m was due to challenges in income delivery. The Executive Director stated that the directorate had identified transformation and efficiencies of £6.547m. Uncertainty in the areas of Building Control and Planning Income was also highlighted.

8.3 Members heard that the savings target from rationalisation of the property portfolio would be exceeded in 2017/2018 but that it would be increasingly difficult to deliver in future years. Barbara Brownlee stated that there continued to be relentless high demand for Temporary Accommodation. The Economy and Place Shaping Teams were already fairly self-sufficient through external funding. It was noted that a degree of caution had been applied in the GPH budget strategy.

8.4 In relation to members' questions concerning the Housing Revenue Account, the Executive Director explained that the plan is structured as a phased commitment. Efficiencies for the Planning team reflected the Council's intention to make the function self-financing.

8.5 In response to members' questions about property investments, the Executive Director explained that, investments had been frontloaded; they had to be viewed over the longer term.

Key Initiatives

8.6 The Executive Director took the members through three key areas of savings. The first was the Corporate Property Strategy, which would deliver £0.476m from rental income streams or by altering current rental agreements for existing properties. The second was the Property Rationalisation and Asset Management, which would deliver savings of £2.007m by reducing the Council's operational footprint. This would be achieved by subletting space within existing properties, including City Hall after its refurbishment. Members were informed that the property rationalisation plan was a challenging target, which was also linked to delivery around a ‘hubs’ model.

8.7 Members enquired whether these savings reflected any optimism bias (over-confidence about the ability to secure third party income) or double counting but the City Treasurer assured members that figures had been reduced from past proposals of the saving and overall the approach was reasonably prudent. Barbara Brownlee confirmed that a third party will be letting floors in City Hall.

8.8 Discussion followed in respect of Rough Sleeping and Supported Housing, which would deliver savings of £2m through re-procurements, efficiencies, service redesign and reduction in service levels. The Executive Director explained that the Council’s homeless day centres such as The Passage are now entirely funded through charitable gifts, though still providing services for Westminster. Barbara Brownlee further explained that there had been waking staff in the 24-hour hostels; these have now been changed to sleeping staff, with better outcomes. The Executive Director explained that the Council had received a grant from the DCLG of £800k over two years, which would complement, not replace, Westminster services for rough sleeping women. Members enquired whether changing hostel services for rough sleepers from waking to sleeping staff arrangements in hostels would increase the risk of legal challenge to the council if there was an incident and how much confidence there was that sleeping staff can provide appropriate care. Barbara Brownlee stated that, during her three year tenure, there had not been an incident and the providers used are nationally recognised.

Action: Members to be provided with figures for the re-procurement of outreach and review of daycare services. Members also to be provided details of the facility on Harrow Road which would no longer be used by the Council.

8.9 The Executive Director provided details of three key initiatives to generate income streams. The first concerned the spot purchase of housing (temporary accommodation and intermediate housing). The second concerned the government’s proposal to increase planning fees by 20%, to assist planning services to determine applications within the required timescales. The third initiative related to Planning Performance Agreements, resulting in the increase of fees from £26k to £36k.

8.10 Members commented that the EIA concerning Rough Sleeping and Supported Housing was thorough but challenged the first stage EIA for the Electronic Consultation (EIA 9.9). Members also commented upon the groups potentially affected by the move towards digitalisation, including groups without access to the internet and of a particular age, as well as those who struggle with the digital environment. Members were advised that, whilst the general move is towards digital, alternative methods are used where email addresses are not available.

Action: EIA 9.9 to be reworked and resubmitted.

8.11 The Executive Director provided an explanation of budget pressures. These related to the unwinding of an income generation scheme which had brought in development fees and the drop in income from Huguenot House during redevelopment.

8.12 Members discussed consultations, referring again also to the Electronic Consultation. The Executive Director provided details of three consultation proposals for 2018/2019: the property rationalisation and asset management, planning performance agreements and electronic consultations.

8.13 The Executive Director took the members through the breakdown of capital expenditure, including strategic acquisitions. Members queried how the capital budget is scrutinised during the year and whether an underspend would be apparent. Steven Mair responded that capital expenditure is scrutinised as much as revenue, on a quarterly basis, as well as monthly via the Capital Review Group (CRG) meetings which currently included Cllrs Mitchell and Robathan. The Council's own budget monitoring would also detect and report any projected underspends.

8.14 The Executive Director provided details of the Housing Revenue Account (HRA), which is a ring-fenced account under statute. The HRA statutorily operates a 30 year business plan. Members asked which element of the budget any fire-related expenditure (such as projected sprinkler expenditure and cladding removal) appeared. Jonathan Cowie explained that fire safety work (e.g. fire doors) and cladding had gone into the HRA budget within major works amounting to £25m. Members queried the update to the business plan, specifically whether the Executive Director was confident that housing secured by s106 agreements would be delivered. Barbara Brownlee stated that s106 quotas go up and down, and cannot be guaranteed, but that the amount of housing secured by s106 had almost doubled.

Action: Members to be provided with details of the amount of housing forecast to be delivered against the target of 1,850, split between affordable and intermediate housing.

9 MEETING CLOSE

9.1 The Meeting ended at 8.52pm

Budget and Performance Task Group Day 2 17th October 2017

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Budget and Performance Task Group** held on **Tuesday 17 October 2017**, Rooms 3.6-3.7, 3rd Floor, 5 Strand, Westminster, London, WC2N 5HR.

Members Present: Councillors Brian Connell (Chairman), Barbara Arzymanow, Adam Hug and Andrew Smith

Also Present: Steven Mair (City Treasurer), Steve Muldoon (Assistant City Treasurer), Julia Corkey (Director of Policy, Performance and Communications), Ed Watson (Executive Director of the West End Partnership), Melissa Caslake (Bi-borough Executive Director of Children's Services), Andrew Tagg (Head of Resources, Children's Finance), Rachel Wigley (Deputy Executive Director and Director of Finance and Resources), Bernie Flaherty (Bi Borough Executive Director of Adult Social Care and Health), Martin Calleja (Head of Transformation, Adult Social Care Finance and Resources), Safia Khan (Lead Business Partner Adults, Adult Social Care Finance), John Forde (Deputy Director of Public Health, WCC), Richard Simpson (Finance Manager, Public Health) and Aaron Hardy (Policy and Scrutiny Manager).

1 WELCOME

1.1 Cllr Connell noted that apologies had been received from Mike Robinson (Tri-borough Director for Public Health)

1.2 The Chairman reminded members that, in order to fulfil the Terms of Reference, the Task Group should keep in mind any potential impact on affected groups (as discussed in respect of EIAs), whether or not the budget proposals would affect the Council's ability to fulfil its legal obligations, the need to identify and address potential optimism bias (over-confidence about the ability to secure third party income), the need to examine the Capital Programme as closely as the revenue budget and the potential impact of any external factors (for example, Brexit).

2 DECLARATIONS OF INTEREST

2.1 There were no declarations of interest.

3 POLICY, PERFORMANCE AND COMMUNICATIONS

3.1 Cllr Connell invited Julia Corkey (Director of Policy, Performance and Communications) to take members through budget proposals in her portfolio. The Policy, Performance and Communications (PPC) budget had increased by £2.747m since reported in February 2017. The increase was as a result of inflation, a transfer from City Management and Communities (CMC) regarding Thames Tidal and past savings that were no longer deemed achievable.

3.2 Past savings no longer deemed achievable included those attributed to the Business Intelligence department. These savings had been achieved but within the Council departments (e.g. Revenue and Benefits) that had worked with Business Intelligence, therefore the saving was not deliverable against the PPC budget.

3.3 Another budget no longer achievable was £1m income from s106. This had been reduced by £700k to £300k. This was because, although 5% can be taken to pay the running of the scheme, the Council could actually not justify retaining more than £300k for administrative costs.

3.4 The Task Group was informed that the budget for income from outdoor media advertising was based on very successful first and second years, however the market had flattened since then and this target was no longer achievable. The doubling of business rates at certain sites (which the Council was appealing) had also affected the achievability of this budget.

3.5 The voluntary sector community budget would be reduced by £200k to remove a historic underspend. This would not affect service levels. This budget concerned corporate support for volunteering (e.g. One Westminster and time credits) and not services commissioned from the voluntary sector.

3.6 £50k of one off capital expenditure was to be spent on a new system to manage booking for events and filming, this would help to generate an additional £100k income per annum.

3.7 The Communications and Campaigns budget was shown with budgeted income matching budgeted expenditure. It was explained that the overall PPC income target regardless of where it is generated offsets the communications expenditure. The department operates as one team with all managers responsible for achieving the overall PPC income target.

Action: To provide members with a briefing on how PPC is scrutinised.

4 WEST END PARTNERSHIP

4.1 Cllr Connell invited Ed Watson (Executive Director of the West End Partnership) to take members through budget proposals in his portfolio. Ed Watson told the Committee that majority of the 2018/19 West End Partnership's (WEP) budget related to the Oxford Street District project.

4.2 The major activity for 2018/19 would be the Oxford Street West transition scheme; this would be funded by Transport for London. The WEP was waiting on a decision from Government on business cases that had been submitted for a total of £310m of funding for the Oxford Street transformation and two other WEP projects, this is expected in the autumn statement. This funding could be a Tax Increment Financing deal (where the Council retains additional business rates income) or a direct grant. The WEP's business cases were predicated on significant investment from the private sector with Government funding used as a lever to encourage investment. Business Improvement Districts had been charged with leading and generating investment from the private sector. A mixture of traders and local land owners would be approached to contribute.

4.3 The WEP capital expenditure for two projects now being delivered are shown in the CMC budget, however going forward WEP projects would be recorded separately. The Westminster Scrutiny Commission would undertake the role of public scrutiny of the WEP's finances.

Action: Ensure that in the future the WEP budget is reported separately from the rest of the Council's.

5 CHILDREN'S SERVICES

5.1 Cllr Connell invited Melissa Caslake (Bi-borough Executive Director of Children's Services) to take members through budget proposals in her portfolio. The task group was told that the budget for 2018/19 was all set in the context of a move from a tri-borough to a bi-borough service. The services structures were being consulted on.

5.2 The implementation of the national funding formula was a significant risk for schools. There were transition arrangements in place for 2018/19. No individual school in Westminster was set to lose out, however some primary schools had seen falling rolls which reduced their overall budget. The Council was supporting those schools to embed financial strategies and create resilience to funding reductions.

Action: Provide the Task Group with details of schools being supported to become financially resilient to the effects of reduced pupil numbers.

5.3 Westminster was experiencing cost pressures as a result of being over the national cap on the number of unaccompanied asylum seeks that had to be placed. A transferral scheme was in place but this was difficult to use in practice.

5.4 The government funding for the Partners in Practice/Centre for Social Work was due to taper off. Work was being undertaken to produce a business plan to make this service sustainable.

5.6 The bulk of savings in Education (£1.025m) would come from increased trading and pursuing other income sources. The Council had previously invested in the continued delivery of Education support service. The reductions in the Education Services Grants and the increased number of academies, has required these services move to a traded basis to ensure future viability. The Council had focused on developing a robust, quality service but in the future would look to expand the number of services offered, including by trading out of borough. The Council took a measured approach with regards to services that would be traded and those for which the cost would be absorbed by the Council (e.g. billing other local authorities for out of borough children with high needs). SLAs with schools were signed early in the year so there was time to plan services and deal with any demand fluctuations. Currently SLAs were signed annually; negotiations were underway with schools to move to three year SLAs to provide more financial stability.

Action: Provide Task Group members with details of services traded with schools and which of these services are most sensitive to schools not buying in.

5.7 Children's Services had made savings by increasing the local offer for children and young people with additional needs; however this had resulted in increased demand for SEND transport. Funding from the high needs funding block was being sought to offset this increase. Costs for home to school transport had also been increased as a result of Children's services duty extending to the age of 25. These costs would not have necessarily been borne by Adults Services in the past as there were different criteria.

5.8 The reshaping of the 0-19 service model had already been undertaken. The health visiting contract had been renegotiated; Melissa Caslake said she understood that the efficiencies had been achieved through back office functions; however members of the task group raised concerns that frontline services may have been affected.

Action: Provide the Task Group with details of the impact of front line services of the health visiting contract renegotiation.

5.9 The first phase of the perfect pathways commissioning with parents had finished. Providers and market partners were being consulted in how to develop a better offer, focusing mainly on better signposting.

5.10 The Task Group discussed short breaks and was told that there was currently a blanket offer on short breaks, where everyone who was eligible received the same package. The Executive Director explained that this did not always meet the child's needs and was not an efficient use of limited resources.

5.11 The Task Group discussed the use of s106 contributions to fund the school expansion programme and the risks associated with this. It was explained that this was a funding route that can be used in local authorities to part finance school expansions. It had not been used widely in Westminster before as the building schools for the future programme had provided most of the funding in the past.

Action: Provide the Task Group with details of s106 contributions being used for school expansion in Westminster.

5.12 The move to a bi-borough Children's service was discussed. The cost estimate for the bi-borough services was £550k across both boroughs, structures were being consulted upon and this estimate was subject to change. Recruitment and staffing was an unknown issue, more detail about which posts would need to be filled was expected by December once the bi-borough and Hammersmith and Fulham staff consultations had been concluded.

6 ADULT SOCIAL CARE

6.1 Cllr Connell invited Rachel Wigley (Deputy Executive Director and Director of Finance and Resources) to take members through budget proposals in Adult Services.

6.2 The Task Group enquired as to why the budget for physical support in 2017/18 had doubled since it was reported in February 2017. The explanation included inflation being applied to the service area, virements from other areas, increased allocation of better care fund money, and reallocation of funding from other Adults services as customers' needs had been assessed.

Action: Provide members of the task group with details of the increased 2017/18 physical support budget

6.3 Mental health and support with memory and cognition budgets were reported separately because of CIPFA guidelines.

6.4 It was indicated that the reduction in the budget for assistive technology was because of a one-off spend that was necessary in 2017/18

6.5 The North West London Strategic Transformation Plan would not result in additional funding for the Council, but was being designed improve the health economy overall.

6.6 In response to questions the Task Group was told that all of the proposals were achievable. The ones most at risk were those that involved cooperation with health partners as multi-agency working was always challenging and required sign-up from all parties and the relevant skills being available to deliver projects. Another risk was that the market might not respond positively to attempts to re-commission service

6.7 The review care pathways and re-commissioning key services initiative was not expected to involve major changes that would affect customers in 2018/19. However these changes would lead to delivering more difficult budget savings in future years.

6.8 The scrutiny of Adult Services finances was discussed. The responsible Committee was the Adults, Health and Public Protection Policy and Scrutiny Committee (AHPP). AHPP focused primarily on service quality. Although other bodies (such as the Health and Wellbeing Board) also examined health proposals, the gap in the Scrutiny of Adult Services finances was viewed as a risk by members of the Task Group.

6.9 It was explained that the better care fund had been increased and that the Council would also receive an additional Better Care Funding grant for three years. The increases together amounted to £3.596m which would be used to offset the loss of other one-off grants and contract and placement pressures.

Action: Provide the Task Group with a breakdown of the better care funding, showing the permanent increase and the 3 year additional grant.

6.10 The Task Group was told that each time a service was re-commissioned it had a well evolved plan and that re-commissioning was about redesigning services not cutting pay.

6.11 The Task Group discussed the costs involved in bed blocking.

Action: Provide members of the Task Group with public performance statistics on bed blocking

6.12 The change to the duty of Children's Services to provide care up to the age of 25 had not reduced the costs associated with Adult Services as those customers who did transition to Adults Services had the highest needs which required the most costly care. There was also a growing ageing population adding to the costs of Adult Services.

6.13 The outcome of consultation on the asset based commissioning of prevention services was the only one with the potential to affect the savings target. The consultation was seeking to make use of community assets (including family, personal finance, buildings, businesses and volunteering) to deliver services. Future savings might be difficult to achieve so the implementation period may be extended.

6.14 The Task Group was told that approximately £6.5m was spent on preventative services.

Action: Provide the Task Group with a briefing on the split of funding between preventative measures and care at home.

6.15 The Adult Services capital programme was largely focused on delivering more digital services.

7 PUBLIC HEALTH

7.1 Cllr Connell invited John Forde (Deputy Director for Public Health, WCC) to take members through budget proposals in Public Health.

7.2 Public Health transfers £0.832m of its funding from NHS England to Central London CCG for the delivery of dietetic service by the NHS. This anomaly arose when the Public Health budgets were first devolved to local authorities (not just Westminster) but has not been addressed by the NHS.

7.3 It was clarified that Public Health would shift its operating model with the introduction of a Bi-borough service and that the use of the Public Health grant would continue to be shared with other council departments to optimise its use. One of the main challenges for Public Health in 2018/19 would be to ensure that this approach was successful and the funding used efficiently. The City Treasurer told the Task Group that the main issues potential risks within Public Health were the large number of contracts that were being reviewed and the £1.023m call on reserves. The planned overspend would be drawn from Public Health reserves, which were forecast to last until 2021, but which allowed time to reduce the deficit. However it was essential that recurrent expenditure was brought in line with recurrent income by that date.

7.4 £800k efficiencies in Substance Misuse would be achieved by releasing funds that had been set aside for risks around re-designed services in case they didn't meet their savings targets. The services had met their targets allowing the risk fund to be released.

7.5 The £600k savings from the Genito Urinary Medicine services were as a result of London-wide work to make efficiencies in the contract, such as more digital services and an increase in home testing which offers a more flexible service costing less money.

7.6 The savings delivered by ending the Health Trainers contract were mainly achieved as a result of eliminating duplication with other contracts such as cardio-vascular disease prevention and adult obesity services.

8 MEETING CLOSE

8.1 The Meeting ended at 9.40pm.

Budget and Performance Task Group Day 3 18th October 2017

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Budget and Performance Task Group** held on **Wednesday 18 October 2017**, Room 3.4, 3rd Floor, 5 The Strand, Westminster, London, WC2N 5HR.

Members Present: Councillors Brian Connell (Chairman), Barbara Arzymanow, Tony Devenish, Adam Hug and Andrew Smith

Also Present: John Quinn (Executive Director of Corporate Services), Stuart Love (Executive Director of City Management and Communities), Catherine Murphy (Strategic Finance Manager), Steven Mair (City Treasurer), Steve Muldoon (Assistant City Treasurer) and Aaron Hardy (Policy and Scrutiny Manger).

1 WELCOME

1.1 The Chairman welcomed those present.

1.2 The Chairman reminded members that, in order to fulfil the Terms of Reference, the Task Group should keep in mind any potential impact on affected groups (as discussed in respect of EIAs), whether or not the budget proposals would affect the Council's ability to fulfil its legal obligations, the need to identify and address potential optimism bias (over-confidence about the ability to secure third party income), the need to examine the Capital Programme as closely as the revenue budget and the potential impact of any external factors (for example, Brexit).

2 DECLARATIONS OF INTEREST

2.1 There were no declarations of interest.

3 CORPORATE SERVICES

3.1 The Chairman invited John Quinn (Executive Director of Corporate Services) to take members through budget proposals in his portfolio. The Task Group was told that the directorate's budget was made up of mainly staffing costs, the second largest spend was on IT costs. Savings would mainly be achieved through more efficient use of staff.

3.2 Most of the income was from recharges to other parts of the Council. Internal recharges use the same formula as previous years to calculate the costs. Third party (external) income was approximately £500k which included income from framework contracts or selling procurement services to other authorities.

Approximately £200k of income was from cross-charging services provided to schools.

3.3 The Task Group discussed the managed services procurement. The procurement was estimated to be cost neutral in 2018/19 as the first half of the year would still be under the BT contract and the Council would receive a rebate from BT which would cover most of the additional costs in the second half of the year. In addition to the above there would be an additional one off implementation costs.

3.4 The savings from Legal Services were dependent on member approval of an alternative business structure (ABS) and joining LGSS. Joining the LGSS will reduce overheads and give the Council access to an additional 100 lawyers. Being in an ABS would allow the Council to use in-house lawyers on work it did with third party organisations, which was one way spend on external legal services could be reduced. The internal charge for legal services would also drop from the current £85 per hour due to a reduction in back-office support costs. In respect of governance, the LGSS has officer and member level boards. The performance of legal services would still be reported to the relevant Policy and Scrutiny Committee.

Action: Circulate the business case for the Legal Services proposals to members of the Task Group.

3.5 The BYOD campaign would include offering staff the opportunity to use their own phone by using Skype, reducing handset costs. The Council was no longer pursuing BYOD with in relation to desktops as the costs related to a maintaining many different types of hardware outweighed the benefit.

3.6 The Task Group discussed the digital transformation programme, part of which was the one front door proposal which intended to remove various different 'My Accounts' required for online council services and replace them with one. This would be easier to use for customers and achieve a saving by being able to retire out-dated systems. Other candidate projects were being assessed. Members of the Task Group noted that this programme was the first major capital investment of this type the Council had undertaken and that responsible Cabinet members should closely monitor whether or not the projected savings were achieved.

Action: Circulate the business case for the digital transformation programme to members of the Task Group.

3.7 The end user computing refresh programme included the introduction of Windows 10 and replacing old hardware.

Action: Provide details of the number of pieces of hardware involved in the computing refresh and average cost per laptop.

4 CITY MANAGEMENT AND COMMUNITIES

4.1 The Chairman invited Stuart Love (Executive Director of City Management and Communities) to take members through budget proposals in his portfolio. The Task Group was told that the directorate's surplus for 2017/18 was due to additional income, savings achieved from suppliers and managing existing vacancies.

4.2 Funding from MOPAC is projected to reduce by a total of £200k. The Council's previous budget had been £1m. This had been reduced by 56% by MOPAC and the Council had successfully bid for additional funding to bring the total back up to £800k. This pressure was not reflected in the budget as the news on funding had just come to light.

4.3 Additional commercial activities in Libraries was planned beyond 2018/19, however a detailed business plan had not been produced and income had not been budgeted for as a cautious approach had been taken based on a lack of success in other authorities.

4.4 The additional income from leisure facilities was mainly as a result of increased commercial opportunities being realised at the Sayers Croft Field Centre. This would mainly be generated during school holidays and would not impact on the use of the centre by schools.

4.5 The review of the Highways service would not have an effect on the frequency of repairs; there would however be a reduction in staff posts. The review had also identified reductions in duplication of contracted services through a new approach to contract management.

4.6 The Council would receive a fee from a provider of electrical vehicle charging points; the demand for spaces for these points outweighed the Council's ability to supply them. Residential parking spaces would only be used for electrical vehicle charging points when residents requested them. Flexible car sharing schemes would not use residential parking spaces.

4.7 The Task Group discussed the direct deployment of parking marshals and was told that the contractor had said that its staff were in favour of the approach, as were the Council's own employees in similar roles. This would save the Council the cost of approximately 1,400 hours. Stuart Love told the Task Group that the Council should trust its staff rather than require them report at a central location at the beginning of their shift and go back out. Members of the Task Group encouraged a bold approach when introducing new schemes, rather than a risk adverse approach which would be reversed later to achieve a saving.

4.8 An online solution for consultations on planning and licensing applications would ensure that all the information was available online for residents to access. The Council would utilise existing channels to communicate the change to residents. The changes were not expected to cause significant frustration as it was believed that most residents preferred accessing services digitally. The Task Group was told that the change was not expected to leave the Council open to more judicial reviews on planning and licensing decisions. The Task Group commented that the proposals required political buy-in.

4.9 The Better Working in our Neighbourhoods project aimed to build on the experience of city inspectors by combining more functions into the role (e.g. highways inspections and noise complaints) to increase efficiency of work. Staff consultations on the proposals would begin in January. The task Group commented on the importance of clear language in budget proposals so that the effect they had on services could be easily understood.

Action: Provide the Task Group with the number of posts that the project will affect.

4.10 The budget pressures for waste and disposal reflected an increased cost per tonne, not an increase in tonnage volume which was actually decreasing. This increase had been expected from the outset of the contract. There was only a slight risk that the additional costs would be higher than forecast.

4.11 In response to questions, the Task Group was told that the Council was very confident that the capital programme for the directorate would be delivered. The biggest risk was that projects due to be externally funded could suffer slippage as a result of delays on the part of funders, which was outside Council control. To manage the capital programme (which was the Council's largest ever), project management expertise had been brought in from contractors. This approach ensured the Council had appropriate expertise but did not incur an additional overhead if the project stalled. The Task Group praised this approach.

4.12 The Task Group emphasised that the capital programme would result in significant disruption in parts of the City and that the Cabinet should ensure this is properly communicated to residents and Councillors to avoid delays in projects.

4.13 The increased spend on bridges and structures was higher in 2018/19 than previous years as a result of a number of bridges needing maintenance at the same time.

4.14 The disabled facilities grant and safe and secure homes scheme was part of CMC (instead of Adult Services, Growth, Planning and Housing or as part of the CityWest Homes budget) mainly for historical reasons and partly because it was used for works on private properties, not the Council's own stock of housing.

Action: Review the disabled facilities grant and safe and secure homes scheme budget and budgets of a similar nature in other directorates to determine whether these should be combined and the most appropriate department to manage these considering the needs of customers and how they can be best met.

4.15 The Executive Director identified income streams for waste and recycling and parking as potential risks for 2018/19. The Council had seen a reduction in the amount of commercial waste being collected, this had been offset by price increases and income had remained static. There had also been small reductions in on-street parking income, this was being monitored but had been more than offset by income from parking suspensions.

Action: Provide members of the Task Group with a breakdown of parking income.

5 CITY TREASURER

5.1 The Chairman invited Steven Mair (City Treasurer) to take members through budget proposals in his portfolio.

5.2 The City Treasurer's department had achieved an underspend for 2017/18 to date as a result of better than expected Treasury Management performance; this had been achieved by developing a treasury management strategy which sought to alter the Council's approach to risk.

5.3 The Task Group was told that the projected increase in the Council Tax base was modest and a reasonable assumption. The cautious approach should ensure that the target is met and in the unlikely event that it is not, it can be absorbed by the Council's overall budget.

5.4 The Revenue and Benefits contract had not changed provider for nearly twenty years. Re-procuring the contract to take into account digital solutions and undertaking a robust evaluation of the contract should lead to significant savings.

5.5 The projected increase in income from business rates was because of the changes to the appeals system which discouraged speculative appeals. The income was expected up front but to be prudent and guard against the impact of appeals increasing again in the future half of it would be put into a reserve and released in future years.

5.6 The £6m saving from accounts and budget cleanse was a guaranteed on-going saving. This had been achieved by improving the Council's financial assurance processes through work such as rigorously challenging debt collection processes, historic budget lines and accruals.

5.7 The capital contingency budget was overseen by a member level Capital Review Group which had to approve all requests to draw from the budget.

5.8 The capitalisation of pension contributions and centrally held City Hall capital budgets were a mechanism to allow the Council to take advantage of temporary rules that allowed the Council to use capital receipts to fund invest to save projects normally funded through revenue budgets. Investment in City Hall would allow the Council to maximise income from renting office space and investing in reducing the pension fund deficit would reduce the future revenue costs of the pension fund.

6 MEETING CLOSE

6.1 The Chairman thanked all of the officers who had prepared papers for the task group, attended the meetings and provided follow up information.

6.2 The Meeting ended at 9.05pm.

Annex B

<u>Equalities Impact Assessments</u>

The Council has a duty to ensure that all policy decisions are considered to assess whether they have any equality impacts. All budget changes set out in this report have been screened to ensure that equality impacts have been considered where appropriate.

An Equalities Impact Assessment (EIA), has been produced for each of the savings initiatives for the 2018/19 budget, either for section 1 only if no equalities impact was determined, or a full EIA if an impact was detected. This Annex sets out all of the completed returns. A series of additional annexes covering each of the portfolio areas has been produced and is saved on the Westminster City Council external website, as follows:

- Annex B Part A – Finance, Property & Corporate Services;
- Annex B Part B – Business, Culture & Heritage; Housing; Public Protection & Licencing; Environment Sports & Community Services; Planning & Public Realm;
- Annex B Part C – Adult Social Services & Public Health; Children, Families & Young People;
- Annex B Part D – City Highways

Additionally, a lever arch file containing the EIAs for all savings proposals is held by the Member Services team at 5 The Strand and will be available for Councillors to review between 9am and 5pm, Monday to Friday, up until the date of the full Council meeting on 8th November 2017.

Members are requested to ask any one of the team for access to the file if they wish to see them. In order for all Members to have access to these, the file cannot be taken out of the building. All assessments were also made available at the Budget and Performance Task Group meetings held on 12th, 17th and 18th October 2017 and are available on the Council's website.

A summary list of all the assessments is presented below:

SCHEDULE OF BUDGET PROPOSALS AND EIA REFERENCE NUMBERS

The list of proposals set out below shows the savings being targeted for delivery in 2018/19.

Members are requested to review the list and the Equality Impact Assessment reports cross-referenced below, as part of the requirement to consider each saving proposed before the decision to recommend the budget is taken.

EIA Reference Number	EIA Description	Executive Director	Saving 2018/19 £000	Full EIA or Part 1 Only	Annex B Breakdown	Page Number
	Finance, Property & Corporate Services (Councillor Mitchell)					
1.16a	Reduced spend on Legal Services	Corporate Services (John Quinn)	100	Part 1 Only	Part A	1
1.18	Increase in Council Tax Base	City Treasurer's (Steve Mair)	475	Part 1 Only	Part A	9
1.20	Revenue & Benefits – contract re-procurement	City Treasurer's (Steve Mair)	1,320	Part 1 Only	Part A	19
1.24	Commercial operating model for procurement	Corporate Services (John Quinn)	150	Part 1 Only	Part A	28
1.25	Corporate Property Strategy	Growth, Planning & Housing (Barbara Brownlee)	476	Part 1 Only	Part A	37
1.37	Transition to new communication contract/model	Corporate Services (John Quinn)	240	Part 1 Only	Part A	46
1.40	Property rationalisation and asset management	Growth, Planning & Housing (Barbara Brownlee)	2,007	Part 1 Only	Part A	56
1.44	Recharging of Matrix contract	Corporate Services (John Quinn)	50	Part 1 Only	Part A	65
1.52	Treasury Management and review of non-pay budgets	City Treasurer's (Steve Mair)	1,412	Part 1 Only	Part A	74
1.54	Review of ICT budgets	Corporate Services (John Quinn)	200	Part 1 Only	Part A	83
1.55	Legal joint venture	Corporate Services (John Quinn)	200	Part 1 Only	Part A	93
1.57	Commercialisation of financial expertise	City Treasurer's (Steve Mair)	50	Part 1 Only	Part A	102
1.58	Wireless and small cell concessions	City Treasurer's (Steve Mair)	800	Part 1 Only	Part A	111
1.61	Review of insurance	City Treasurer's (Steve Mair)	180	Part 1 Only	Part A	120
1.62	Business rates	City Treasurer's (Steve Mair)	2,908	Part 1 Only	Part A	129
1.63	Property - sustainable green energy	Growth, Planning & Housing (Barbara Brownlee)	122	Part 1 Only	Part A	138
1.65	Other Policy, Performance and Communications savings	Policy, Performance & Communications (Julia Corkey)	50	Part 1 Only	Part A	147
1.66	Accounts and Budget Cleanse	City Treasurer's (Steve Mair)	6,000	Part 1 Only	Part A	156
	Business, Culture & Heritage (Councillor Davis)					
2.7	Economy income	Growth, Planning & Housing (Barbara Brownlee)	200	Part 1 Only	Part B	1
2.8	Place Shaping income	Growth, Planning & Housing (Barbara Brownlee)	100	Part 1 Only	Part B	11
	Adult Social Services & Public Health (Councillor Acton)					
3.3 (ii)	Commissioning Strategy Programme: Promoting well being, prevention and independence to manage care package costs	Adult Services (Sue Redmond)	450	Part 1 Only	Part C	1
3.17	Commissioning Strategy Programme: Alternative delivery vehicles including commercial trading	Adult Services (Sue Redmond)	100	Part 1 Only	Part C	1
3.18	Whole Systems Integration Programme: Joint commissioning with health to deliver shared demand and costs management	Adult Services (Sue Redmond)	320	Part 1 Only	Part C	11
3.20	Commissioning Strategy Programme: Review care pathways and re-commission key services	Adult Services (Sue Redmond)	630	Part 1 Only	Part C	1
3.21	Commissioning Strategy Programme: Improved transition and promoting independence	Adult Services (Sue Redmond)	200	Part 1 Only	Part C	1
3.22	Whole Systems Integration Programme: Joint Commissioning, capitated budgets & accountable care partnerships	Adult Services (Sue Redmond)	200	Part 1 Only	Part C	11
3.25	Front Door and Demand Management Programme: Integrated front door with Health and digital by default	Adult Services (Sue Redmond)	40	Part 1 Only	Part C	20
3.26	Front Door and Demand Management Programme: Asset Based Commissioning of prevention services	Adult Services (Sue Redmond)	100	Part 1 Only	Part C	20
3.27	Commissioning Strategy Programme: Remodel In-House service Portfolio	Adult Services (Sue Redmond)	150	Part 1 Only	Part C	1
3.28	Commissioning Strategy Programme: Direct Payments as first choice	Adult Services (Sue Redmond)	100	Part 1 Only	Part C	2
3.29	Commissioning Strategy Programme: Forensic needs and payments analysis	Adult Services (Sue Redmond)	100	Part 1 Only	Part C	2
3.30	Commissioning Strategy Programme: E-Market dynamic purchasing system	Adult Services (Sue Redmond)	50	Part 1 Only	Part C	3
3.31	Whole Systems Integration Programme: Realising the full efficiency benefits of Integrated Learning Disabilities and Mental Health Services	Adult Services (Sue Redmond)	150	Part 1 Only	Part C	11
3.32	Whole Systems Integration Programme: Integrated back office functions with Public Health and Health	Adult Services (Sue Redmond)	250	Part 1 Only	Part C	11
3.33	Commissioning Strategy Programme: Review of workforce costs	Adult Services (Sue Redmond)	150	Part 1 Only	Part C	3
3.35	Adult Social Care Levy	Adult Services (Sue Redmond)	1,003	Part 1 Only	Part C	28
3.36	Commissioning Strategy Programme: Delivery of Differential Charging Priorities	Adult Services (Sue Redmond)	250	Part 1 Only	Part C	3
3.37	Whole Systems Integration Programme: Increase in IBCF grant	Adult Services (Sue Redmond)	3,596	Part 1 Only	Part C	11
3.38	Public Health Contract Savings	Adult Services (Sue Redmond)	5,484	Part 1 Only	Part C	36
	Housing (Councillor Robathan)					
4.13	Rough Sleeping and Supported Housing	Growth, Planning & Housing (Barbara Brownlee)	2,000	Part 1 Only	Part B	20
4.16	Spot purchases of housing for intermediate affordable housing	Growth, Planning & Housing (Barbara Brownlee)	577	Part 1 Only	Part B	32
4.17	CityWest Homes property fee income	Growth, Planning & Housing (Barbara Brownlee)	90	Part 1 Only	Part B	42

SCHEDULE OF BUDGET PROPOSALS AND EIA REFERENCE NUMBERS

The list of proposals set out below shows the savings being targeted for delivery in 2018/19.

Members are requested to review the list and the Equality Impact Assessment reports cross-referenced below, as part of the requirement to consider each saving proposed before the decision to recommend the budget is taken.

EIA Reference Number	EIA Description	Executive Director	Saving 2018/19 £000	Full EIA or Part 1 Only	Annex B Breakdown	Page Number
	City Highways (Councillor Chalkley)					
5.10	Compliance and Audit Contract – contract efficiencies	City Management & Communities (Stuart Love)	50	Part 1 Only	Part D	1
5.13	Highways - Expenditure Review	City Management & Communities (Stuart Love)	100	Part 1 Only	Part D	10
5.14	Review of Highways service including Road Management	City Management & Communities (Stuart Love)	750	Part 1 Only	Part D	21
5.15	Provision of electric vehicle charging points	City Management & Communities (Stuart Love)	130	Part 1 Only	Part D	31
5.16	Flexible car sharing operators	City Management & Communities (Stuart Love)	300	Part 1 Only	Part D	40
5.17	Direct deployment of Parking Marshals	City Management & Communities (Stuart Love)	500	Part 1 Only	Part D	50
5.18	Parking: Business Processing and Technology Contract Review	City Management & Communities (Stuart Love)	550	Part 1 Only	Part D	59
5.19	Pay to Park Benchmarking	City Management & Communities (Stuart Love)	300	Part 1 Only	Part D	68
5.20	Bay suspensions relocation service	City Management & Communities (Stuart Love)	250	Part 1 Only	Part D	77
5.21	Temporary structures charging review	City Management & Communities (Stuart Love)	150	Part 1 Only	Part D	86
5.22	Abnormal loads cost recovery	City Management & Communities (Stuart Love)	100	Part 1 Only	Part D	96
	Public Protection & Licensing (Councillor Cox)					
1.3	Digital transformation - further City Management and Communities savings	City Management & Communities (Stuart Love)	152	Part 1 Only	Part B	51
6.8	Public Protection and Licensing electronic process for formal consultations (licensing applications)	City Management & Communities (Stuart Love)	65	Part 1 Only	Part B	60
6.9	Licensing pre-application advice service	City Management & Communities (Stuart Love)	50	Part 1 Only	Part B	71
6.10	Charging for revisits - food team	City Management & Communities (Stuart Love)	20	Part 1 Only	Part B	80
6.11	Better working in our neighbourhoods	City Management & Communities (Stuart Love)	900	Part 1 Only	Part B	89
6.12	Additional income from Waste Enforcement following an increase in the statutory fees payable.	City Management & Communities (Stuart Love)	200	Part 1 Only	Part B	100
	Environment, Sports & Community (Councillor Harvey)					
7.12	Sports and leisure savings Phase 2	City Management & Communities (Stuart Love)	670	Part 1 Only	Part B	109
7.15	Libraries & Archives – stock efficiencies	City Management & Communities (Stuart Love)	100	Part 1 Only	Part B	120
7.16	Libraries & Archives – additional commercial activity	City Management & Communities (Stuart Love)	50	Part 1 Only	Part B	130
7.18	Leisure additional income	City Management & Communities (Stuart Love)	100	Part 1 Only	Part B	139
7.21	City Management and Communities controllable spend review	City Management & Communities (Stuart Love)	550	Part 1 Only	Part B	147
7.23	Voluntary sector support	Policy, Performance & Communications (Julia Corkey)	200	Part 1 Only	Part B	157
	Children, Families & Young People (Councillor Holloway)					
8.1A	Specialist Intervention - Perfect Pathways	Children's Services (Melissa Caslake)	205	Part 1 Only	Part C	45
8.1B	Children's Commissioning Directorate Restructure	Children's Services (Melissa Caslake)	120	Part 1 Only	Part C	55
8.1C	Tracking and Survey Re-commissioning	Children's Services (Melissa Caslake)	142	Part 1 Only	Part C	64
8.5A	Review of Dedicated Schools Grant	Children's Services (Melissa Caslake)	575	Part 1 Only	Part C	73
8.5B	Development of Traded Offer	Children's Services (Melissa Caslake)	350	Part 1 Only	Part C	82
8.5C	Asset Strategy - Feasibility Budget	Children's Services (Melissa Caslake)	10	Part 1 Only	Part C	91
8.5D	Schools Standards Service Staffing Efficiencies	Children's Services (Melissa Caslake)	20	Part 1 Only	Part C	100
8.5E	Impact of proposed reduction in staffing budget Westminster Disabled Children Team 2018-19	Children's Services (Melissa Caslake)	50	Part 1 Only	Part C	109
8.5F	An improved offer of independent travel training	Children's Services (Melissa Caslake)	50	Part 1 Only	Part C	118
8.6A	Release Uncommitted Finance and Resources Budget	Children's Services (Melissa Caslake)	375	Part 1 Only	Part C	129
8.6B	Post Tri-Borough to Bi-Borough Staffing Reviews - Management Savings	Children's Services (Melissa Caslake)	175	Part 1 Only	Part C	138
8.9A	Placement Cost Reduction and Third Party Contributions	Children's Services (Melissa Caslake)	240	Part 1 Only	Part C	147
8.9B	Service Reviews - Restructures	Children's Services (Melissa Caslake)	175	Part 1 Only	Part C	156
8.22	Health Visiting Services Contract Savings in Westminster - 0-19 Service Savings	Children's Services (Melissa Caslake)	450	Part 1 Only	Part C	165
	Planning & Public Realm (Councillor Astaire)					
9.8	Development Planning Income	Growth, Planning & Housing (Barbara Brownlee)	450	Part 1 Only	Part B	166
9.9	Electronic Consultation	Growth, Planning & Housing (Barbara Brownlee)	100	Part 1 Only	Part B	175
9.10	Planning Performance Agreements	Growth, Planning & Housing (Barbara Brownlee)	275	Part 1 Only	Part B	186
9.11	Proceeds of Crime Act - Planning Enforcement	Growth, Planning & Housing (Barbara Brownlee)	150	Part 1 Only	Part B	195

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Schedule 1 - Illustrative Gross Income 2017/18 to 2018/19

Cabinet Member:	2017/18 Revised Budget £'000	Budget Change £'000	2018/19 Draft Budget £'000
Leader of the Council	**(1,856)**	0	**(1,856)**
Deputy Leader and Business, Culture and Heritage	**(20,989)**	(300)	**(21,289)**
Adult Social Services and Public Health	**(87,203)**	(2,617)	**(89,820)**
City Highways	**(99,689)**	(830)	**(100,519)**
Children, Families and Young People	**(107,851)**	(1,575)	**(109,426)**
Environment, Sports and Community	**(24,421)**	(820)	**(25,241)**
Finance, Property and Corporate Services	**(277,870)**	(236)	**(278,106)**
Planning and Public Realm	**(7,484)**	(875)	**(8,359)**
Public Protection and Licensing	**(7,637)**	(270)	**(7,907)**
Housing	**(44,082)**	(577)	**(44,659)**
Sub-Total Gross Income	**(679,082)**	**(8,100)**	**(687,182)**

Core Funding:			
Council Tax Income	**(52,022)**	0	**(52,022)**
Business Rates (Net of Tariff)	**(78,080)**	0	**(78,080)**
Revenue Support Grant	**(46,161)**	8,100	**(38,061)**
Sub-Total Core Funding	**(176,263)**	**8,100**	**(168,163)**
Total Gross Income	**(855,345)**	**0**	**(855,345)**

Executive Management Team:	2017/18 Revised Budget £'000	Budget Change £'000	2018/19 Draft Budget £'000
Chief of Staff	**(3,078)**	0	**(3,078)**
City Treasurer	**(33,638)**	(1,216)	**(34,854)**
Director of Policy, Performance and Communications	**(9,385)**	0	**(9,385)**
Executive Director Adult Services	**(87,203)**	(2,617)	**(89,820)**
Executive Director of Childrens Services	**(107,851)**	(1,575)	**(109,426)**
Executive Director of City Management and Communities	**(135,279)**	(1,920)	**(137,199)**
Executive Director of Corporate Services	**(8,192)**	(500)	**(8,692)**
Executive Director of Growth, Housing and Planning	**(294,457)**	(272)	**(294,729)**
Sub-Total Gross Income	**(679,082)**	**(8,100)**	**(687,182)**

Core Funding:			
Council Tax Income	**(52,022)**	0	**(52,022)**
Business Rates (Net of Tariff)	**(78,080)**	0	**(78,080)**
Revenue Support Grant	**(46,161)**	8,100	**(38,061)**
Sub-Total Core Funding	**(176,263)**	**8,100**	**(168,163)**
Total Gross Income	**(855,345)**	**0**	**(855,345)**

Schedule 2 - Illustrative Gross Expenditure 2017/18 to 2018/19

Cabinet Member:	2017/18 Revised Budget £'000	Budget Change £'000	2018/19 Draft Budget £'000
Leader of the Council	**9,385**	(50)	**9,335**
Deputy Leader and Business, Culture and Heritage	**18,016**	(71)	**17,946**
Adult Social Services and Public Health	**146,157**	(1,236)	**144,921**
City Highways	**45,504**	(1,916)	**43,588**
Children, Families and Young People	**139,267**	(1,239)	**138,028**
Environment, Sports and Community	**74,604**	(286)	**74,318**
Finance, Property and Corporate Services	**324,823**	8,302	**333,125**
Planning and Public Realm	**9,358**	(100)	**9,258**
Public Protection and Licensing	**18,200**	(1,314)	**16,886**
Housing	**70,031**	(2,090)	**67,941**
Sub-Total Gross Expenditure	**855,345**	**0**	**855,345**

Core Funding:			
Council Tax Income	0	0	0
Business Rates (Net of Tariff)	0	0	0
Revenue Support Grant	0	0	0
Sub-Total Core Funding	**0**	**0**	**0**
Total Gross Expenditure	**855,345**	**0**	**855,345**

Executive Management Team:	2017/18 Revised Budget £'000	Budget Change £'000	2018/19 Draft Budget £'000
Chief of Staff	**5,916**	0	**5,916**
City Treasurer	**66,049**	10,771	**76,820**
Director of Policy, Performance and Communications	**17,050**	(250)	**16,800**
Executive Director Adult Services	**146,157**	(1,236)	**144,921**
Executive Director of Childrens Services	**139,267**	(1,239)	**138,028**
Executive Director of City Management and Communities	**137,609**	(3,387)	**134,222**
Executive Director of Corporate Services	**20,963**	(440)	**20,523**
Executive Director of Growth, Housing and Planning	**322,334**	(4,219)	**318,115**
Sub-Total Gross Expenditure	**855,345**	**0**	**855,345**

Core Funding:			
Council Tax Income	0	0	0
Business Rates (Net of Tariff)	0	0	0
Revenue Support Grant	0	0	0
Sub-Total Core Funding	**0**	**0**	**0**
Total Gross Expenditure	**855,345**	**0**	**855,345**

Schedule 3 - Illustrative Net Budget 2017/18 to 2018/19

Cabinet Member:	2017/18 Revised Budget £'000	Budget Change £'000	2018/19 Draft Budget £'000
Leader of the Council	**7,529**	(50)	**7,479**
Deputy Leader and Business, Culture and Heritage	**(2,973)**	(371)	**(3,343)**
Adult Social Services and Public Health	**58,954**	(3,853)	**55,101**
City Highways	**(54,185)**	(2,746)	**(56,931)**
Children, Families and Young People	**31,416**	(2,814)	**28,602**
Environment, Sports and Community	**50,183**	(1,106)	**49,077**
Finance, Property and Corporate Services	**46,952**	8,066	**55,018**
Planning and Public Realm	**1,874**	(975)	**899**
Public Protection and Licensing	**10,563**	(1,584)	**8,979**
Housing	**25,949**	(2,667)	**23,282**
Sub-Total Net Expenditure	**176,263**	**(8,100)**	**168,163**

Core Funding:			
Council Tax Income	**(52,022)**	0	**(52,022)**
Business Rates (Net of Tariff)	**(78,080)**	0	**(78,080)**
Revenue Support Grant	**(46,161)**	8,100	**(38,061)**
Sub-Total Core Funding	**(176,263)**	**8,100**	**(168,163)**
Total General Fund	**0**	**0**	**0**

Executive Management Team:	2017/18 Revised Budget £'000	Budget Change £'000	2018/19 Draft Budget £'000
Chief of Staff	**2,838**	0	**2,838**
City Treasurer	**32,411**	9,555	**41,966**
Director of Policy, Performance and Communications	**7,664**	(250)	**7,414**
Executive Director Adult Services	**58,954**	(3,853)	**55,101**
Executive Director of Childrens Services	**31,416**	(2,814)	**28,602**
Executive Director of City Management and Communities	**2,330**	(5,307)	**(2,977)**
Executive Director of Corporate Services	**12,772**	(940)	**11,832**
Executive Director of Growth, Housing and Planning	**27,878**	(4,491)	**23,387**
Sub-Total Net Expenditure	**176,263**	**(8,100)**	**168,163**

Core Funding:			
Council Tax Income	**(52,022)**	0	**(52,022)**
Business Rates (Net of Tariff)	**(78,080)**	0	**(78,080)**
Revenue Support Grant	**(46,161)**	8,100	**(38,061)**
Sub-Total Core Funding	**(176,263)**	**8,100**	**(168,163)**
Total General Fund	**0**	**0**	**0**

Schedule 4 - 2018/19 Summary Service Budget Savings and Growth for Pressures by Cabinet Member and Executive Management Team

	Executive Management Team:							
Cabinet Member:	**City Treasurer £’000**	**Director of Policy, Performance and Communications £’000**	**Executive Director Adult Services £’000**	**Executive Director of Childrens Services £’000**	**Executive Director of City Management and Communities £’000**	**Executive Director of Corporate Services £’000**	**Executive Director of Growth, Housing and Planning £’000**	**Total £’000**
Leader of the Council	0	(50)	0	0	0	0	0	**(50)**
Deputy Leader and Business, Culture and Heritage	0	0	0	0	(71)	0	(300)	**(371)**
Adult Social Services and Public Health	0	0	(7,839)	0	0	0	0	**(7,839)**
City Highways	0	0	0	0	(2,746)	0	0	**(2,746)**
Children, Families and Young People	0	0	0	(2,937)	0	0	0	**(2,937)**
Environment, Sports and Community	0	(200)	0	0	(1,636)	0	0	**(1,836)**
Finance, Property and Corporate Services	(13,145)	0	0	0	0	(940)	(2,605)	**(16,690)**
Planning and Public Realm	0	0	0	0	0	0	(975)	**(975)**
Public Protection and Licensing	0	0	0	0	(1,584)	0	0	**(1,584)**
Housing	0	0	0	0	0	0	(2,667)	**(2,667)**
Total Savings	**(13,145)**	**(250)**	**(7,839)**	**(2,937)**	**(6,037)**	**(940)**	**(6,547)**	**(37,695)**
Leader of the Council	0	0	0	0	0	0	0	**0**
Deputy Leader and Business, Culture and Heritage	0	0	0	0	0	0	0	**0**
Adult Social Services and Public Health	0	0	3,986	0	0	0	0	**3,986**
City Highways	0	0	0	0	0	0	0	**0**
Children, Families and Young People	0	0	0	123	0	0	0	**123**
Environment, Sports and Community	0	0	0	0	730	0	0	**730**
Finance, Property and Corporate Services	0	0	0	0	0	0	2,056	**2,056**
Planning and Public Realm	0	0	0	0	0	0	0	**0**
Public Protection and Licensing	0	0	0	0	0	0	0	**0**
Housing	0	0	0	0	0	0	0	**0**
Total Growth for Pressures	**0**	**0**	**3,986**	**123**	**730**	**0**	**2,056**	**6,895**
Net Budget Change	**(13,145)**	**(250)**	**(3,853)**	**(2,814)**	**(5,307)**	**(940)**	**(4,491)**	**(30,800)**

	Budget Change Type £'000		
Schedule 4 - Detail of 2018/19 Budget Changes	**Expenditure**	**Income**	**Net Change**
Other Policy, Performance and Communications savings	(50)	0	**(50)**
Sub-Total Savings	**(50)**	**0**	**(50)**
Total Leader of the Council	**(50)**	**0**	**(50)**

City Management and Communities Controllable Spend Review	(71)	0	**(71)**
External Income - Economy	0	(200)	**(200)**
Place Shaping income	0	(100)	**(100)**
Sub-Total Savings	**(71)**	**(300)**	**(371)**
Total Deputy Leader and Business, Culture and Heritage	**(71)**	**(300)**	**(371)**

Pension Auto Enrolment (as modelled for STP)	390	0	**390**
Homecare rate rises, Sanctuary contract increase, Asylum pressures, Spot placements	232	0	**232**
Reversal of Adult Social Care support grant from 2017/18	0	1,329	**1,329**
Health Integration Fund (iBCF new monies)	2,035	0	**2,035**
Sub-Total Growth for Pressures	**2,657**	**1,329**	**3,986**
Adult Social Care Precept	(1,003)	0	**(1,003)**
Alternative delivery vehicle including Commercial Trading**	0	(100)	**(100)**
Asset Based Commissioning of prevention services**	(100)	0	**(100)**
Delivery of Differential Charging Priorities	0	(250)	**(250)**
Direct Payments as first choice	(100)	0	**(100)**
E Market dynamic purchasing systems	(50)	0	**(50)**
Forensic Needs & payments analysis	(100)	0	**(100)**
Improved transition and promoting independence	(200)	0	**(200)**
Increase in iBCF grant	0	(3,596)	**(3,596)**
Integrated back office functions with Public Health and Health	(250)	0	**(250)**
Integrated front door with Health and digital by default	(40)	0	**(40)**
Joint commissioning with health to deliver shared demand and costs management	(320)	0	**(320)**
Joint Commissioning, capitated budgets & accountable care partnerships	(200)	0	**(200)**
Promoting well being, prevention and independence to manage care package costs	(450)	0	**(450)**
Realising the full efficiency benefits of integrated Learning Disabilities and Mental Health Services	(150)	0	**(150)**
Remodel In-House service Portfolio**	(150)	0	**(150)**
Review care pathways and re-commission key services**	(630)	0	**(630)**
Review of workforce costs	(150)	0	**(150)**
Sub-Total Savings	**(3,893)**	**(3,946)**	**(7,839)**
Total Adult Social Services and Public Health	**(1,236)**	**(2,617)**	**(3,853)**

Schedule 4 - Detail of 2018/19 Budget Changes Continued	Budget Change Type £'000		
	Expenditure	**Income**	**Net Change**
Abnormal Loads cost recovery	(100)	0	**(100)**
Bay suspensions relocation service	0	(250)	**(250)**
City Management and Communities Controllable Spend Review	(116)	0	**(116)**
Compliance and Audit Contract – contract efficiencies	(50)	0	**(50)**
Direct Deployment of Parking Marshals	(500)	0	**(500)**
Flexible car sharing operators	0	(300)	**(300)**
Highways - Expenditure Review	(100)	0	**(100)**
Pay to Park Benchmarking	(300)	0	**(300)**
Provision of electric vehicle charging points	0	(130)	**(130)**
Review of Highways services including Road Management	(750)	0	**(750)**
Temporary structures charging review	0	(150)	**(150)**
Sub-Total Savings	**(1,916)**	**(830)**	**(2,746)**
Total City Highways	**(1,916)**	**(830)**	**(2,746)**

Home to School Transport	123	0	**123**
Sub-Total Growth for Pressures	**123**	**0**	**123**
Commissioning contracts*	(467)	0	**(467)**
Children's Transformation Reshape 0-19 service model	0	(450)	**(450)**
Income Generation, Traded Services and Education	(130)	(925)	**(1,055)**
Other family services savings	(215)	(200)	**(415)**
Resources and Management	(550)	0	**(550)**
Sub-Total Savings	**(1,362)**	**(1,575)**	**(2,937)**
Total Children, Families and Young People	**(1,239)**	**(1,575)**	**(2,814)**

Waste Disposal and Increased Tonnage Costs	730	0	**730**
Sub-Total Growth for Pressures	**730**	**0**	**730**
Additional commercial activity in libraries	0	(50)	**(50)**
City Management and Communities Controllable Spend Review	(166)	0	**(166)**
Leisure - additional income	0	(100)	**(100)**
Libraries stock efficiencies	(100)	0	**(100)**
Parking: Business Processing & Technology Contract Review	(550)	0	**(550)**
Sports & Leisure - Phase II	0	(670)	**(670)**
Voluntary sector support	(200)	0	**(200)**
Sub-Total Savings	**(1,016)**	**(820)**	**(1,836)**
Total Environment, Sports and Community	**(286)**	**(820)**	**(1,106)**

	Budget Change Type £'000		
Schedule 4 - Detail of 2018/19 Budget Changes Continued	**Expenditure**	**Income**	**Net Change**
Major Projects	0	1,477	**1,477**
Corporate Property Strategy	0	579	**579**
Income and Expenditure Alignment*	379	0	**379**
Sub-Total Growth for Pressures	**379**	**2,056**	**2,435**
Income and Expenditure Alignment*	0	(379)	**(379)**
Accounts and Budget cleanse	(6,000)	0	**(6,000)**
Business rates	(2,900)	0	**(2,900)**
City Treasurers - Treasury Management and review of non-pay budgets	0	(1,420)	**(1,420)**
Commercial operating model for procurement	0	(150)	**(150)**
Commercialisation of Financial Expertise	0	(50)	**(50)**
Corporate Property Strategy ***	0	(476)	**(476)**
Increase in Council Tax Base	0	(475)	**(475)**
Legal joint venture	0	(200)	**(200)**
Property - Sustainable Green Energy	(122)	0	**(122)**
Property Rationalisation and Asset Management**	(1,907)	(100)	**(2,007)**
Recharging of Matrix contract	0	(50)	**(50)**
Reduced spend on Legal Services	0	(100)	**(100)**
Revenue & Benefits – contract reprocurement	(1,320)	0	**(1,320)**
Review of ICT budgets	(200)	0	**(200)**
Review of Insurance - City Treasurers	(180)	0	**(180)**
Transition to new comms contract/model	(240)	0	**(240)**
Wireless and small Cell concessions	0	(800)	**(800)**
Sub-Total Savings	**(12,869)**	**(4,200)**	**(17,069)**
Total Finance, Property and Corporate Services	**(12,490)**	**(2,144)**	**(14,634)**

Income and Expenditure Alignment* - this is adjustment to gross income and expenditure that nets to nil overall

Development Planning Income	0	(450)	**(450)**
Electronic Consultation**	(100)	0	**(100)**
Planning Performance Agreements**	0	(275)	**(275)**
Proceeds of Crime Act - Planning Enforcement	0	(150)	**(150)**
Sub-Total Savings	**(100)**	**(875)**	**(975)**
Total Planning and Public Realm	**(100)**	**(875)**	**(975)**

Better working in our neighbourhoods	(900)	0	**(900)**
Charging for revisits - food team	0	(20)	**(20)**
City Management and Communities Controllable Spend Review	(197)	0	**(197)**
Digital transformation further City Management and Communities savings	(152)	0	**(152)**
Licensing pre-application advice service	0	(50)	**(50)**
Public Protection And Licensing Additional Income	0	(200)	**(200)**
Public Protection and Licensing electronic process for formal consultations (licensing applications)	(65)	0	**(65)**
Sub-Total Savings	**(1,314)**	**(270)**	**(1,584)**
Total Public Protection and Licensing	**(1,314)**	**(270)**	**(1,584)**

	Budget Change Type £'000		
Schedule 4 - Detail of 2018/19 Budget Changes Continued	**Expenditure**	**Income**	**Net Change**
CityWest Homes Property Fee Income	(90)	0	**(90)**
Rough Sleeping and Supported Housing	(2,000)	0	**(2,000)**
Spot purchases of housing for intermediate affordable housing	0	(577)	**(577)**
Sub-Total Savings	**(2,090)**	**(577)**	**(2,667)**
Total Housing	**(2,090)**	**(577)**	**(2,667)**

Overall Service Summary:			
Sub-Total Growth for Pressures	3,510	3,385	**6,895**
Sub-Total Savings	(24,689)	(13,006)	**(37,695)**
Net Total Savings	**(21,179)**	**(9,621)**	**(30,800)**

* Consultations due to be completed before 4th October 2017

** Consultations due to be completed after the 4th October 2017

*** Consultation due to be completed after the 4th October 2017, but only £76k requires external consultation

Schedule 4 - Detail of 2018/19 Budget Changes	2018/19 £'000
Total Service Budget Changes	**(30,800)**

Financed by Budget Changes:	
Core Funding:	
Council Tax Changes	0
Net Business Rates Change	0
Revenue Support Grant	8,100
Sub-Total Core Funding Changes	**8,100**

Non-Core Funding Changes:	
New Homes Bonus Loss	1,900
Inflation	6,200
Risks	3,000
Pension Fund Deficit Recovery	4,000
Pressures	4,300
Capital Programme	3,300
Sub-Total Non-Core Funding Changes	**22,700**
Total Financed by Budget Changes	**30,800**

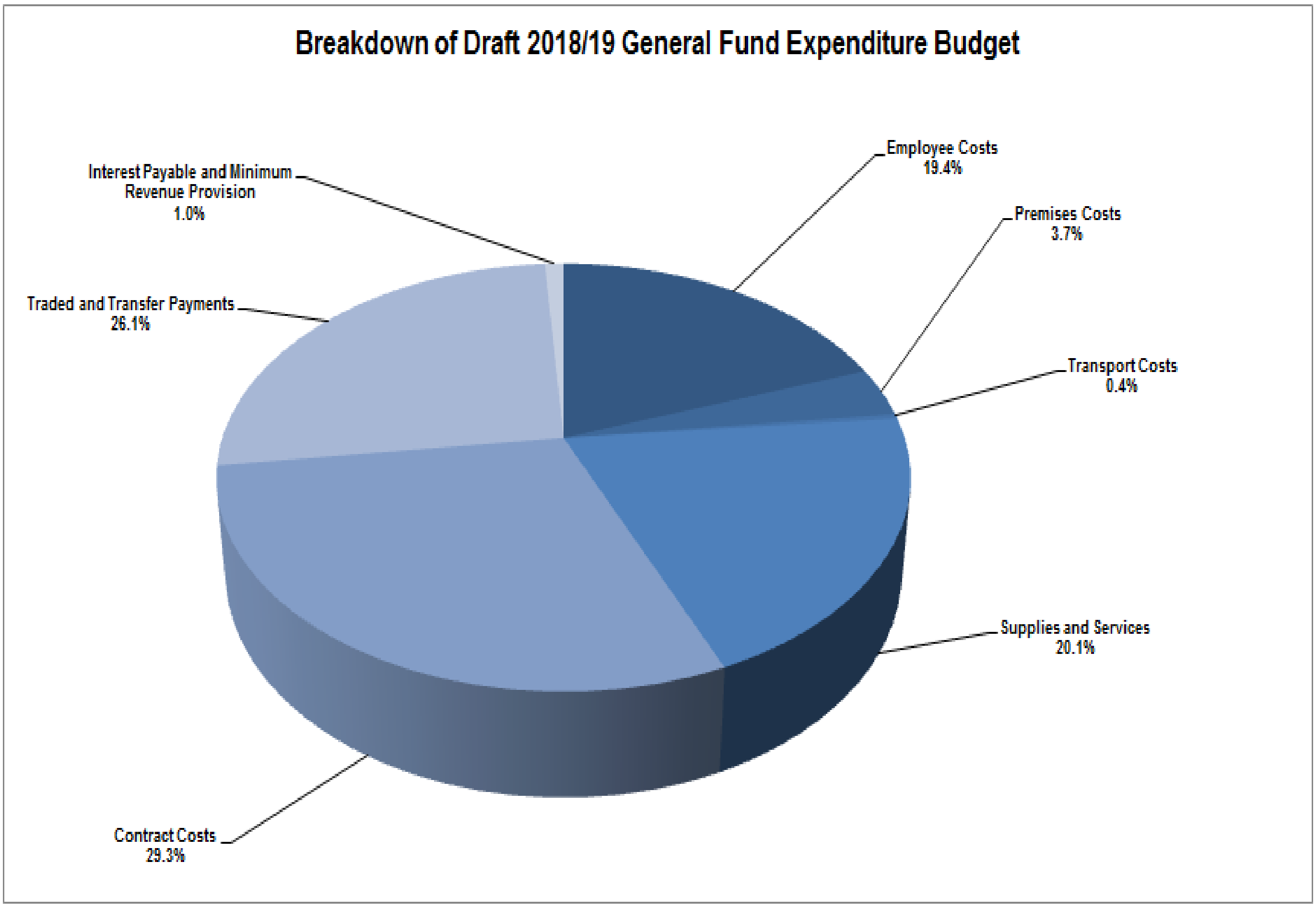
Schedule 5 – Subjective Analysis	

Subjective Analysis Grouping	Description
Employee Costs	e.g. Basic pay, National Insurance, Pension costs, employee training, recruitment costs
Premises Costs	e.g. Utilities bills, rents, rates and repairs and maintenance costs
Transport Costs	e.g. Vehicle lease hire and fuel costs
Supplies and Services	e.g. Equipment, stationary, professional fees, telephony, IT and other hired services
Contract Costs	The cost to the Council for services provided on its behalf by external entities
Traded and Transfer Payments	a) Traded services are service those offered between different functions within the Council b) Transfer Payments e.g. Housing Benefits - payments to individuals for which the Council receives no good or services in return
Interest Payable and Minimum Revenue Provision	a) Interest which is payable on the Council's loans/borrowing b) The Minimum Revenue Provision is an amount required by Statute that is charged to revenue each year and set aside for repaying external loans and meeting other credit liabilities.
Government Grants	Grants which are received by the Council from Central Government departments or their agencies for specific purposes e.g. the Public Health Grant or for more general purposes such as the New Homes Bonus grant
Non-Government Grants	Grants from non-Government sources e.g. TfL, Heritage Lottery Fund etc
Non-Grant Funding and Other Contributions	This includes income from other sources of funding through contributions e.g. NHS/residential care/other local authority contributions, costs e.g. project costs externally recharged to outside entities.
Fees and Charges	This is defined as income raised from the provision of a service or use of a council asset e.g. rent, service charges, planning application fees, penalty charges etc
Interest Receivable and Investment Income	Interest which is due to the Council from investments or from its balances

Continued overleaf…

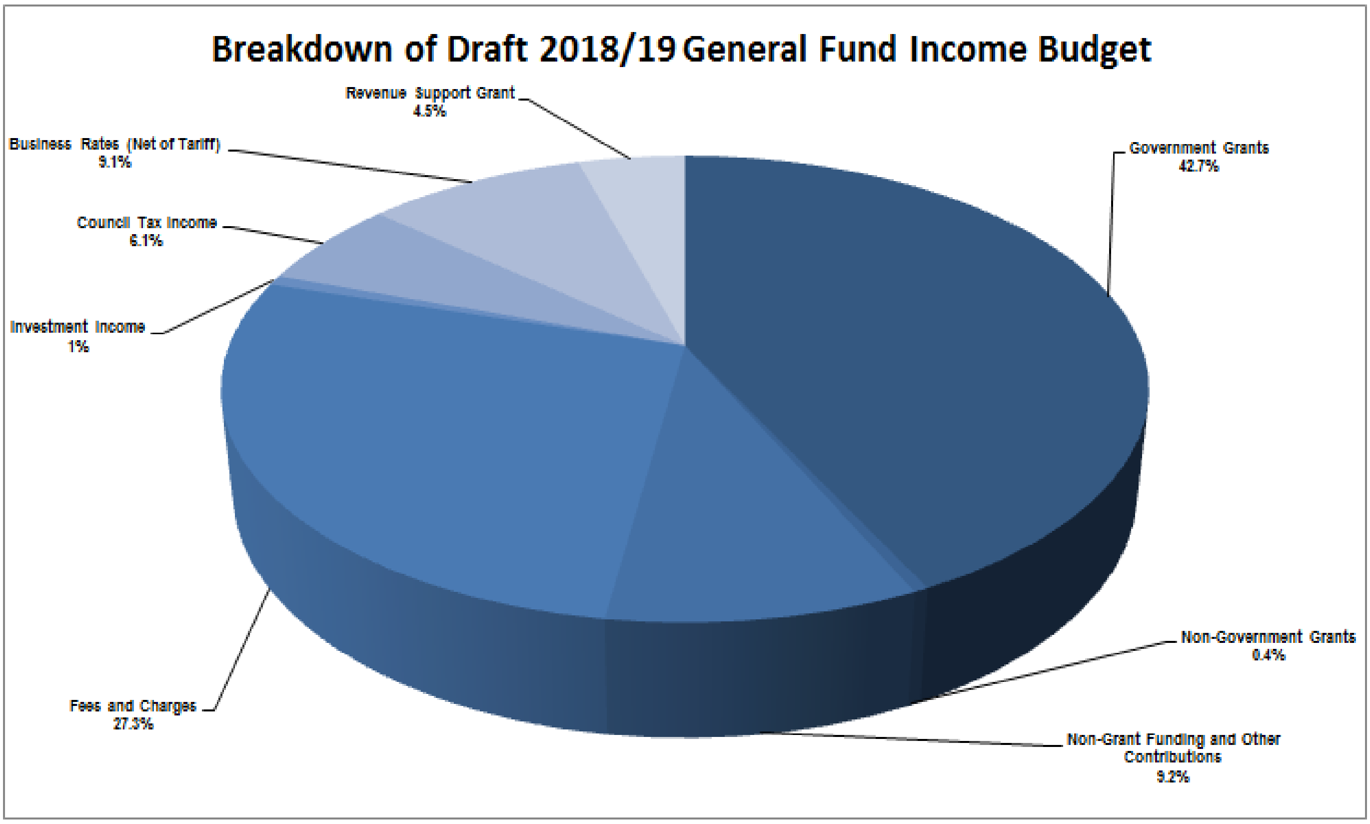
Schedule 5 – Subjective Analysis Continued

Subjective Analysis	2017/18 Revised Budget £'000	Budget Change £'000	2018/19 Draft Budget £'000
Employee Costs	**168,465**	(2,540)	**165,925**
Premises Costs	**33,656**	(2,089)	**31,567**
Transport Costs	**3,095**	(29)	**3,067**
Supplies and Services	**169,182**	4,006	**173,188**
Contract Costs	**252,743**	(2,458)	**250,285**
Traded and Transfer Payments	**222,703**	(190)	**222,513**
Interest Payable and Minimum Revenue Provision	**5,500**	3,300	**8,800**
Sub-Total Expenditure	**855,345**	**0**	**855,345**



Schedule 5 – Subjective Analysis Continued

Subjective Analysis	2017/18 Revised Budget £'000	Budget Change £'000	2018/19 Draft Budget £'000
Government Grants	**(363,510)**	(1,117)	**(364,627)**
Non-Government Grants	**(3,464)**	(200)	**(3,664)**
Non-Grant Funding and Other Contributions	**(77,613)**	(1,175)	**(78,788)**
Fees and Charges	**(230,120)**	(4,196)	**(234,316)**
Interest Receivable and Investment Income	**(4,375)**	(1,412)	**(5,787)**
Sub-Total Income	**(679,082)**	**(8,100)**	**(687,182)**
Core Funding:			
Council Tax Income	**(52,022)**	0	**(52,022)**
Business Rates (Net of Tariff)	**(78,080)**	0	**(78,080)**
Revenue Support Grant	**(46,161)**	8,100	**(38,061)**
Sub-Total Core Funding	**(176,263)**	**8,100**	**(168,163)**
Total Income	**(855,345)**	**0**	**(855,345)**



Schedule 6 - Housing Revenue Account

Budget Breakdown	Current Budget 2017/18 £'000	Changes £'000	Draft Budget 2018/19 £'000
Income			
Business Income			
Rent income - dwellings	(74,474)	1,311	(73,163)
Rent income - sheds & garages	(1,058)	0	(1,058)
Service Charge - Tenants	(2,996)	0	(2,996)
Service Charge - Lessee	(11,188)	0	(11,188)
Heating & Hot Water	(4,501)	0	(4,501)
Total Business Income	**(94,217)**	**1,311**	**(92,905)**
Other Income			
Corporate Property Income	(7,625)	(275)	(7,900)
Major works lessees income	(9,792)	(352)	(10,144)
Miscellaneous Income	(1,392)	(485)	(1,877)
Interest on balances	(652)	197	(455)
Total Other Income	**(19,461)**	**(916)**	**(20,377)**
Total Income	**(113,678)**	**396**	**(113,282)**

Expenditure			
Management costs:			
Housing Management Fee	22,726	1,875	24,601
Business Transformation	4,200	(3,700)	500
TMO Fees	1,442	0	1,442
Legal costs	1,326	0	1,326
Other management costs	1,954	0	1,954
IT Services	1,130	0	1,130
Total Management Costs	**32,779**	**(1,825)**	**30,954**
Total Special Services	**8,278**	0	**8,278**

Repairs:			
Planned maintenance	5,107	0	5,107
Void Repairs	1,000	0	1,000
Responsive repairs	9,219	2,800	12,019
Corporate Property Repairs	460	0	460
Total Repairs & Maintenance	**15,786**	**2,800**	**18,586**
Total Directly Managed Costs	**56,843**	**975**	**57,818**

Central Support Service Overheads & Recharges	11,586	1,070	12,656
Miscellaneous expenditure/income	36,832	(2,926)	33,906
Total expenditure	**105,261**	**(882)**	**104,379**

Net in year deficit/(surplus)	**(8,417)**	**(487)**	**(8,904)**

HRA Reserves:			
Opening HRA Balance Brought-Forward	(40,751)	28,895	(11,856)
Budgeted net in year deficit/(surplus)	(8,417)	(487)	(8,904)
Budgeted Capital expenditure funded from balances	37,312	(37,312)	0
Projected HRA Balance Carried Forward	**(11,856)**	**(8,904)**	**(20,760)**

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City of Westminster **Cabinet Report**

Decision Maker:	**Cabinet**
Date:	**30th October 2017**
Classification:	**For General Release**
Title:	**2016/17 Annual Accounts and Outturn**
Wards Affected:	**All**
Policy Context:	**To manage the Council's finances prudently and efficiently**
Financial Summary:	**This report presents the Statement of Accounts for the Council and its Pension Fund and provides a narrative as to the outturn position for the financial year ended 31st March 2017.**
The Report of:	**Steven Mair, City Treasurer Tel: 0207 641 2904 Email: smair@westminster.gov.uk**

1. EXECUTIVE SUMMARY

1.1. The General Fund revenue position saw a net outturn of £17.201m underspend against approved budget. This compared to a Period 10 (January 2017) forecast underspend of £15.273m. The most significant change between Period 10 and outturn being the impact of the reduction in debtors – arising as a result of work undertaken throughout the year to promote the proactive monitoring and recovery of outstanding debts.

1.2. As set out in the 2017/18 Budget Setting and Council Tax Report (approved by Full Council in March 2017), £10.000m of the overall General Fund net underspend was earmarked as a contribution towards the Pension Fund deficit recovery. Approval for such a lump sum contribution was contingent on the finalisation of the outturn position being broadly as forecast – this being the case.

1.3. Net of the lump sum contribution to the pension fund, the remaining revenue underspend for the General Fund was thus £7.201m and represented 0.8% of the approved gross 2016/17 budget. This amount was added to the Council's general reserves – rising from £41.575m to £48.777m, again as broadly anticipated and approved in the 2017/18 Budget Setting and Council Tax Report.

1.4. The Housing Revenue Account (HRA) outturn position showed a net surplus of £9.980m and compared to a budgeted surplus of £7.340m – a variance of £2.640m (2.6% of the approved gross expenditure). This surplus increased HRA general reserves from £31.606m to £41.586m.

1.5. The net general fund capital outturn variance was £23.513m. It should be noted that the gross capital programme at the start of the year was £351.288m which was re-profiled to £151.193m.

1.6. The HRA capital programme gross expenditure was £57.559m compared to an approved budget of £64.907m – a gross underspend of £7.348m (11.3%). On a net basis after income budgets of £28.652m and income outturn of £29.043m are taken into account the net variance was £7.739m before borrowing and capital receipts were applied.

1.7. The table below summarises the above headline outturn positions:

Table 1: Summary of 2016/17 outturn

	Expenditure Budget *(£m's)*	Income Budget *(£m's)*	Net Budget *(£m's)*	Outturn *(£m's)*	Variance *(£m's)*	Variance (%age)
Revenue						
General Fund	851.304	(851.304)	0.000	(17.201)	(17.201)	(2.0%)
Housing Revenue Account	101.656	(108.996)	(7.340)	(9.980)	(2.640)	(2.6%)
Capital						
General Fund	151.193	(74.794)	76.399	52.886	(23.513)	(15.6%)
Housing Revenue Account	64.907	(28.652)	36.255	28.516	(7.739)	(11.9%)

1.8. The accounts were closed and sent for audit in four working days – three days earlier than in the previous year. The Council's external auditors provided a draft opinion on these accounts on 9th May 2017, also three days ahead of the prior year performance and a final audit opinion on 17th July 2017. The setting of such a challenging timeframe not only sets the Council apart from all other public bodies (and 95% of the FTSE-100), but allowed financial management resources to be quickly focussed on supporting services in concentrating on the future rather than the past. A significant service transformational benefit also accrues through the setting of aspirational closure timeframes in so far as it enforces fundamental review of process and procedures and drives best practice.

1.9. The public inspection period is now a nationally set timeframe which means that the final audit opinion was made on 17th July 2017. This timeframe has been brought forward for 2017/18 and the final audit opinion will currently be sought at Audit and Performance Committee in June 2018.

2. RECOMMENDATIONS

2.1. That Cabinet note the 2016/17 Annual Accounts which were formally signed-off at 17th July 2017 Audit and Performance Committee.

3. REASON FOR DECISION

3.1. This report is for Cabinet to note the formal sign-off of the 2016/17 accounts and outturn by Audit and Performance Committee in July 2017. No formal decisions are required by Cabinet.

4. BACKGROUND

Financial Context of the Council

4.1. The Council manages significant levels of cashflows and assets exceeding £7bn. The council is the UK's largest collector of Business Rates at £1.8bn, most of which it passes to central government and GLA.

4.2. The Council holds £2.6bn in operational and investment property which is actively managed to generate approximately £24m annually to support delivery of services.

4.3. Approximately £0.4bn of fees and charges are generated annually to support delivery of services and which also helps keep council tax as the lowest rate in the UK.

4.4. Further context around the Council's finances can be found within the City Treasurer's Narrative Statement contained within the Accounts. Westminster as an overall entity is responsible for the sound governance of over £4bn in assets and transacts over £3bn on an annual basis.

- £2.1bn Property Plant & Eqpt
- £0.5bn Investment Property
- £0.1bn Other Long Term Assets
- £1.0bn Current Assets
- £1.3bn Pension Fund Assets
- £1.9bn Business Rates

- £0.6bn Grants & Contributions
- £0.4bn Fees & Charges
- £0.1bn Council Tax (Incl GLA)
- £0.1bn Capital Financing

4.5. The public inspection period for the accounts is now set nationally. Formal Audit and Performance Committee sign-off of the accounts took place on 17th July 2017

5. GENERAL FUND REVENUE OUTTURN

5.1. The General Fund revenue position saw a £17.201m gross underspend against approved budget, broadly in line with the £15.273m forecast at the end of January 2017. Against a gross controllable expenditure budget of £851.304m, this underspend represented a 2.0% variance.

5.2. The overall change in the outturn position between January and March was largely accounted for by impact of the reduction in debtors arising as a result of work undertaken throughout the year to promote the proactive monitoring and recovery of outstanding debts. A review of the balance sheet reveals that overall short term debt levels fell from £137m to £73m, and the lower quantum and greater assurance that can be placed on those remaining balances have improved the revenue position.

5.3. As referenced in the 2017/18 Budget and Council Tax Setting Report, dependent upon outturn being as then forecast, £10.000m of the projected surplus would be used to assist in alleviating the Pension Fund deficit. This has now taken place. The remaining £7.201m has been credited to the Council's General Reserves – which accordingly rose from £41.575m to £48.777m.

5.4. An analysis of the surplus on the General Fund Revenue Account by Cabinet portfolio is set out in the table below:

Table 2: Cabinet Portfolio Variances

	Outturn v Budget (£m's)
Leader of the Council	(0.611)
Deputy Leader and Business, Culture & Heritage	0.666
Public Protection & Licensing	(1.418)
Planning and Public Realm	0.328
Housing	(2.012)
Environment, Sport and Community	(0.963)
Finance, Property & Corporate Service	(2.976)
City Highways	(9.481)
Children, Families and Young People	(0.341)
Adult Social Services and Public Health	(0.389)
	(17.201)

5.5. The following sets out an overview of the principal reasons behind the above variances for each Cabinet Portfolio:

Leader of the Council – Underspend (£0.611m)

Major Variances:

- PPC Directorate Development- (£0.244m) - The directorate realised an underspend of £0.244m from vacancy management.
- Change Programme Management Unit- (£0.955m) - An underspend on salaries in CPMU of £0.764m was due to vacancies held in year and a £0.191m underspend due to secondments.
- Chief of Staff - (£0.092m) - Underspend is from £0.029m funding received for prior year's European Parliamentary Elections, salaries and allowances £0.071m and legal fee charges £0.042m. This is partly offset by a forecast shortfall in Land Charges income of £0.050m.
- Campaigns and Customer Engagement - (£0.111m) - An underspend of £0.111m on salaries due to secondments which will be reimbursed by external bodies.
- Policy and Strategy - £0.791m - Community Infrastructure Levy income was lower than expected which was offset by additional income received from TfL and a further underspend from secondments.

Deputy Leader and Business, Culture and Heritage – Overspend £0.666m

Major Variances:

- Economy and Shape Placing - (£0.215m) - Economy and Infrastructure underspent by £0.215m. This was largely due to the level of vacancies held during the re-organisation of the department.
- WAES - £0.002m - There was a small variation on the account at year end.
- City Promotions, Events and Filming - £0.879m - The adverse variance was largely caused by a shortfall in outdoor media income of £0.912m. This is partly offset by a salary underspend from part-year vacancies £0.033m.

Public Protection and Licensing – Underspend (£1.418m)

Major Variances:

- Public Protection and Licensing - (£1.418m) - This is largely related to salary underspends including an early delivery of next year's digital MTP saving. Legal charges were also lower than budgeted and there was higher than budgeted income from licensing and fixed penalty notices for waste enforcement following a recent legislation change.

Planning and Public Realm – Overspend £0.328m

Major Variances:

- Development Planning - £0.328m - The overspend is made up of unrealised S106 agreement income of £0.230m, Building Control income being adversely affected by market conditions and an overspend on legal and postage costs. These were marginally offset by staff vacancies in year and additional income from planning application fees.

Housing – Underspend (£2.012m)

Major Variances:

- Housing Operations - (£2.012m) - Housing Operations underspent by of £2.012m. This underspend is made up of a number of variances including:
    - Supporting People (early delivery of MTP savings and contract efficiencies)
    - Housing Benefits (one off benefit relating to prior year income)
    - Temporary Accommodation (reduced unit costs as a result of more effective management)
    - Affordable Housing (bad debt improvement).

Environment, Sport and Community – Underspend (£0.963m)

Major Variances:

- Community Services - (£0.057m) - This is due to increased income following an in-year rent review of Westbourne Green and an increase in residential bookings taken by Sayers Croft Outdoor Centre.
- Waste and Parks - (£1.081m) - This is largely the consequence of additional commercial waste income generated in year - (£0.678m) - and additional recycled waste income/rebates (£0.357m).
- Tri-Borough Libraries and Archives - £0.175m - This is due to under achievement of income within the Registrars Service. This can be attributed to a combination of repairs required at key wedding venues and delays in implementing the online booking system.

Finance, Property and Corporate Services and Chief Whip – Underspend (£2.976m)

Major Variances:

- Property Investments and estates - £1.846m - Property Investments and Estates overspent by £1.846m.This was due an underachievement of commercial income, re-profiled Major Projects income and an overspend within the Link contract and rising rents in Victoria on Council occupied premises.
- City Treasurers - (£4.051m) - Reported underspend of £1.901m is due to increased interest earnings, salary savings, additional income and running cost reductions.
  As a result of the work undertaken to seek settlement of debtor balances it has been possible to release as a further underspend £2.150m of bad debt provision.

- Procurement Services - (£0.216m) - There is a reported underspend of £0.216m on salaries due to part-year vacancies in Procurement Development and Category Management.
- Managed Service Programme - (£0.046m) - There is a reported underspend of £0.046m which is mainly due to salary costs being lower than expected.
- Information Services and Strategy - (£0.468m) - An underspend of £0.468m mainly due to underspends on early realisation of CCTV contract savings, software maintenance, contracts, employee costs and income from other local authorities.
- Corporate Services Trading - (£0.311m) - An underspend of £0.311m. This is achieved from margin charged on agency staff through the Comensura managed platform contract.
- Growth, Planning and Housing - £0.426m - Overspend included a centrally held MTP saving of £0.117m that could not be delivered (Aerials), the cost of an unbudgeted contract £0.088m and other minor variances.
- Legal Services - (£0.136m) - A reported underspend of £0.136m due to part-year vacancies which were not filled in year.
- People Services - (£0.040m) - The outturn position is an underspend of £0.040m. The key reason is better than projected performance on school income by £0.026m and less expenditure than expected incurred on legal fees and postage by £0.014m.
- Director of Corporate Services - £0.020m - There is a reported overspend due to pay costs and recruitment costs which were partly offset by unbudgeted income.

City Highways – Underspend (£9.481m)

Major Variances:

- Highways Infrastructure and Public Realm - (£1.269m) - The outturn position shows a favourable variance of £1.269m. This is largely due to contract efficiencies and underspends in salaries, energy costs and supplies and services.
- Parking - (£8.212m) - The outturn position is a favourable variance of £8.212m, largely as a result of increased income from parking bay suspensions and Moving Traffic Contraventions.

Children, Families and Young People – Underspend (£0.341m)

Major Variances:

- Children's Services Commissioning - (£0.743m) - A net underspend of £0.743m as a result of MTP savings being delivered earlier in 2016/17 than planned.
- Family Services - £0.762m - Overall £0.762m adverse variance largely as a result of pressures in placement costs, Duty and Assessment staffing and client support and Emergency Duty team cost share.

- Safeguarding Review and Quality Assurance - (£0.068m) - There is a £0.068m underspend within Safeguarding, Review and Quality Assurance. This is made up of a number of minor variances.
- Education and Disability - £0.327m - There is a £0.327m overspend within Education and Children with Disabilities. This is made up from a £0.238m adverse variance for SEN casework review, £0.309m in year pressure on Home to School transport, £0.084m budget pressure in short breaks and direct payments for Children with Disability. Offsetting these pressures is an underspend variance of £0.157m due to strong traded income generation in Educational Psychology and NQT and other minor underspend variances totalling £0.147m
- Finance and resources - (£0.619m) - Within Finance and Resources there is a £0.619m underspend variance made up of in year savings with respect to the Building Schools for the Future programme and a number of other minor variances.

Adult Social Services – Underspend (£0.389m)

Major Variances:

- Adult Social Care Integrated Care - £0.068m - Overspend attributed to pressures in non-residential care services - homecare, direct payments and day-care as they are being transitioned to a community based setting.
- Adult Social Care Strategic Commissioning and Enterprise - (£0.451m) - Underspends in the Short Breaks contract, 291 Harrow Road and the Occupational Therapy assessment contract. Other management actions include Direct Payment claw-backs, maximisation of NHS income, reviewing high cost placements and transfers to Continuing Healthcare
- ASC Procurement and Business Intelligence - £0.139m - Overspend of £0.122m relates to business rates at a Mental Health day service with the balance made up of minor variances
- Whole Systems Integrated Health and Care - (£0.145m) - Underspend is as a result of current expenditure being less than budget on various contracts (including Healthwatch).

Public Heath - £0.0m

Major Variances:

- Families and Children's - (£1.273m) - Underspends relating to The Tackling Childhood Obesity Team programme not being launched to plan, Health Visiting contract costs were lower than expected upon transfer from the NHS and other minor contracts savings.
- Sexual Health - (£0.203m) - Savings in Genito-Urinary Medicine (GUM) due to demand management strategies and tariff price reductions being negotiated.

- Substance Misuse - (£2.685m) - Budgets allocated to mitigate against the risk of higher demand for newly procured core services were not required in this year.
- Salaries and Overheads - £0.520m - An increase in the number of temporary staff has led to a overspend in the salaries forecast.
- Public Health Investment fund - (£0.360m) - Small underspends in projects due to lesser levels of demand in learning disabilities and supported employment initiatives.
- Income - (£0.554m) - Income for 2016-17 reported as higher than budget following the allocation of additional Department of Health funding.
- Movement in Reserves balance - £4.555m - Movement on the reserve as a consequence of variances described above.

6. GENERAL FUND CAPITAL OUTTURN

6.1. The General Fund Capital Programme showed a net underspend against 2016/17 approved budget of £23.513m. It is not expected that this in-year underspend is likely to have any significant impact on the Council's long term cost of funding the capital programme.

6.2. The table below sets out a summary of the variances between approved capital budgets and outturn by relevant Cabinet portfolio (overleaf):

Table 3: Capital Outturn by Portfolio

	Net Budget *(£m's)*	**Outturn** *(£m's)*	**Variance** *(£m's)*
Deputy Leader & Business, Culture and Heritage	6.742	5.361	(1.381)
Public Protection and Licensing	0.276	0.229	(0.047)
Planning and Public Realm	1.403	0.156	(1.247)
Housing	4.820	5.552	0.732
Environment, Sport and Community	5.100	4.452	(0.648)
Finance, Property and Corporate Services	41.938	29.790	(14.040)
City Highways	9.634	5.871	(3.763)
Children, Families and Young People	0.357	0.138	(0.219)
Adult Social Care and Public Health	0.635	0.575	(0.060)
	72.797	52.124	(20.673)

Deputy Leader and Business, Culture and Heritage – Net Underspend (£1.381m)

Major Variances:

- Piccadilly Underpass Digital Media and The Flame advertising – Net Overspend £0.610m
- Various Schemes (Air Quality, Enterprise, The Strand/Aldwych, others) – Net Underspend (£1.991m)

Piccadilly Underpass and The Flame schemes reported overspends because final infrastructure costs from the contractor were returned above budget. The scheme has been successfully launched with a 10-year commercial deal to generate income from advertising.

A number of other schemes reported underspends with a net total variance to budget of £1.991m.

Public Protection and Licensing – Net Underspend (£0.047m)

- Disabled Facilities Grants – Net Underspend (£0.014m)
- MTP ICT Capital Spend – Net Underspend (£0.033m)

There is a net underspend of £0.047m as a result of a small amount of additional income and delays to some minor ICT capital projects.

Planning and Public Realm – Net Underspend (£1.247m)

- Tree Base Improvements (£0.55m)
- Public Realm Improvement schemes (£1.192m)

The Public Realm Improvement schemes reported a net underspend which was entirely due to additional external income being received.   Tree base improvements reported a net underspend due to minor operational delays.

Housing – Net Overspend £0.732m

- Temporary Accommodation Purchases £0.638m
- Tresham House £0.094m

The main reason for the net variance to budget of £0.732m was delays to a number Temporary Accommodation schemes primarily related to the availability of suitable properties. Trehsham house reported a small variance due to a minor variance to plan.

Environment, Sport and Community - Net Underspend (£0.648m)

- Moberley Sports Centre – Net Underspend (£0.153m)
- Westbourne Green Skate Park – Net Underspend (£0.092m)
- Libraries Decoration Programme – Net Underspend (£0.040m)
- Various Schemes (open spaces, Sayers Croft works) – Net Underspend (£0.363m)

The majority of this budget relates to the Moberly Sports Centre Redevelopment and there is a net variance of £0.153m against budget for this project. This represents a small proportion of spend to date. The remaining variance of £0.495m is made up of a number of smaller underspends and relating to projects covering asset improvements in leisure facilities, parks, cemeteries and libraries.

Finance, Property and Corporate Services - Net Underspend (£14.040m)

- Capital Contingency and Capitalisation – Net Underspend (£8.159m)
- Huguenot House Redevelopment– Net Underspend (£1.542m)
- Lisson Grove Improvements – Net Underspend (£1.281m)
- Luxborough Development – Net Underspend (£0.649m)
- Forward Management Plan – Net Underspend (£0.567m)
- End User Computing Refresh – Net Underspend (£0.516m)
- Landlord Responsibility Works – Net Underspend (£0.413m)
- Various Schemes (Mandela May upgrade, WAES Ark Atwood, Corporate licenses) – Net Underspend (£0.913m)

The main reasons for the net outturn variance of £14.040m were as follows:

The Capital contingency and Pension capitalisation was not required in 2016/17 and is reported as an underspend.

The Huguenot House redevelopment underspent by £1.542m due to acquisitions expected during the financial year not taking place due to availability.

The Lisson Grove Improvement Programme underspent on a net basis by £1.280m due to a delay in commencing the project as the process of compiling a specification for the works taking longer than envisaged.

The Luxborough development underspend of £0.649m was because of a change to the original delivery plan for the scheme. The library is now due to be re-provided at an alternative location to that which was originally earmarked for the scheme.

The Forward Management Plan underspent by £0.567m. This programme of works is managed by Amey and is now behind schedule. Management action is being taken to address this.

The End User Computer Refresh project has reported a £0.516m net variance due to a strategic decision to amend the profile of the replacement of obsolete laptop and desktop computers.

Landlord Responsibility Works – underspent by £0.413m because of interdependencies in the project plan delaying the progression of the works.

City Highways – Net Underspend (£3.763m)

- Waterloo and Golden Jubilee Footbridge – Net Underspend (£0.305m)
- Local safety and traffic schemes – Net Underspend (£0.492m)
- Cycle Schemes – Net Underspend (£0.096m)
- Variances relating to prior year – Net Underspend (£2.720m)
- Various Schemes (Strand underpass, Victoria embankment sturgeons, highways maintenance) – Net Underspend (£0.150m)

The bulk of the net variance in year relates to adjustments relating to the prior year. This arose because expenditure which was accrued in the prior year was not required following negotiations with contractors. Other variances arose because of a range of issues with road management and access.

Children, Families and Young People – Net Underspend (£0.219m)

- Investment and Improvement Programme – Net Underspend (£0.219m)

The vast majority of the expenditure was on projects delivering additional school places and refurbishment of schools which experienced some operational delays.

Adult Social Care and Public Health – Net Underspend (£0.060m)

- Westmead / Carlton Dene – Net Underspend (£0.060m)

The portfolio reported a net underspend of £0.060m due to slippage of the Westmead / Carlton Dene project due to delays in its commencement.

7. HOUSING REVENUE ACCOUNT OUTTURN

7.1. The Housing Revenue account generated a £9.980m surplus to increase its general balances from £31.606m to £41.586m – this was £2.640m above the budgeted target for the year and thus represents the net surplus against budget.

7.2. The overall net surplus consisted of a £13.415m over achievement of income in the year (£10.251m of which arose from the review of accounting practice that has seen income from lessees for major works recognised earlier than previous practice), offset by additional expenditure on repairs and maintenance (£4.783m), housing management costs (£1.692m) and other costs of £0.686m. Together these represent a £6.254m net surplus against the budgeted contribution to reserves of £7.340m.

7.3. Capital financing costs and transfers from earmarked reserves of £3.614m taken together with the £6.254m surplus outlined in the previous paragraph produced the net £2.640m additional contribution to reserves over that contained in the approved budget.

7.4. The approved gross capital budget of £64.907m was underspent by £7.348m with an outturn of £57.559m. The most significant in-year variances to budget on specific schemes included

- (£3.428m) Delay in acquisition of family sized homes to meet housing need
- (£3.081m) Lift works to HRA stock – contractual delay due to logistics / eqpt.
- (£1.385m) External Works & Decorations delay due to Leaseholder consultation
- £1.970m Kitchen & Bathroom programme brought forward from 2017/18
- (£0.942m) Electrical Works delayed for further leaseholder consultation
- (£0.552m) Lisson Arches scheme delayed for further design work / ground survey
- £0.512m Lisson Arches Bridges – additional costs found following feasibility

8. CORE ACCOUNTING STATEMENTS

Balance Sheet

8.1. The accounts use standardised international reporting standards (IFRS) to produce the Core Statements. This in turn is adjusted by statutory regulations relating specifically to local government accounts.

8.2. The Balance Sheet in Table 4 shows that the Council's net asset position reduced by £15.345m from £1.898bn in 2015/16 to £1.883bn in 2016/17.

Table 4: Balance Sheet

31 March 2016		31 March 2017	Movement
£'000		£'000	£'000
	ASSETS		
	Non-current		
1,952,377	Property, plant and equipment	2,070,430	118,054
42,746	Heritage assets	42,746	-
405,270	Investment property	454,840	49,570
1,831	Intangible assets	1,077	(753)
45,916	Long-term investments	41,284	(4,633)
12,394	Long-term debtors	15,229	2,835
2,460,533	**Total long term assets**	**2,625,606**	**165,073**
	Current		
514,833	Short-term investments	742,980	228,146
235	Inventories	179	(56)
137,666	Short-term debtors	73,369	(64,297)
117,580	Cash and other cash equivalents	170,302	52,722
2,250	Assets held for sale	2,250	-
772,565	**Current assets**	**989,080**	**216,515**
	LIABILITIES		
2,109	Short-term borrowing	2,069	(40)
259,931	Short-term creditors	471,584	211,652
6,151	Revenue receipts in advance	8,341	2,190
268,191	**Current Liabilities**	**481,993**	**213,802**
202	Long-term creditors	204	2
153,935	Provisions	121,504	(32,431)
251,465	Long-term borrowing	251,270	(195)
605,540	Other long-term liabilities	786,898	181,358
55,391	Capital receipts in advance	89,789	34,401
1,066,533	**Long-term liabilities**	**1,249,664**	**183,131**
1,898,374	**Net assets**	**1,883,029**	**(15,345)**
652,657	**Total Usable Reserves**	575,719	(76,938)
1,245,717	**Total Unusable Reserves**	1,307,310	61,593
1,898,374	**Total Reserves**	**1,883,029**	**(15,345)**

8.3. The £15.345m reduction in net assets was mainly due to the following factors:

- Reduction of £64m of short term debtors which was partly related to business rates safety net movements.
- Increase of £211m in short-term creditors, mainly to the GLA and DCLG for increased business rates income for 2016/17. The additional income from business rates was recognised as a creditor to the GLA and DCLG as per Collection Fund regulations.

- The reduction in provisions was mainly as a result of the reduction in business rates appeals.
- The £181m increase in long-term liabilities arose following the actuarial revaluation of the pension fund. Demographic changes, such as increasing life expectancy, contributed to the increase.
- The increase in capital receipts in advance of £34m. There was a £25m increase in s106/s278 payments for Highways and Planning. These must be held as creditors until the related works are complete and the income can be recognised.

Comprehensive Income and Expenditure Statement (CIES) and Movement in Reserves Statement (MiRS)

8.4. In addition to the normal budget monitoring report that is reported monthly local government accounting requires the production of a comprehensive income and expenditure statement and a movement in reserves statement. The former is derived using international accounting standards and the movement in reserves statement is designed to adjust for technical transactions such as depreciation. These can be seen on pages 27 and 30 of the accounts

8.5. A reconciliation of the CIES with the budget monitoring is shown below:

Table 5: Summary reconciliation from CIES to Outturn

	General Fund (£m)	**Housing Revenue Account** (£m)	**Total** (£m)
Surplus of Provision of Services (as per CIES)	31.908	12.540	44.448
Technical accounting adjustments (as per MiRS)	(128.578)	(3.392)	(131.970)
Use of earmarked reserves	103.872	0.831	104.703
Net surplus against budget	7.201	9.980	17.181

8.6. The £128.578m general fund technical accounting adjustments in the above table consisted primarily of the following areas:

- £131m adjustment on Business Rates to account for timing differences
- (£58m) neutralisation of depreciation and revaluation movements on the Council's operational and investment properties
- £82m of capital grants transferred to the Capital Grants Reserves prior to their future use when conditions or restrictions are met. This movement was to ensure capital and revenue income streams are kept separate as per statute

- (£24m) adjustment to the Pension Reserve which neutralised the current service costs and ensures that actuarial estimates are not charged to Council Tax

8.7. £103.872m use of earmarked reserves were used in finalising a General Fund outturn of £7.201m surplus. This largely comprised:

- £117m drawdown of business rates safety net equalisation reserve as the Council moved to a levy position. The majority of this reserve is then redistributed to DCLG and GLA in line with Business Rates regulations.
- (£10m) creation of a pension deficit reduction reserve to reduce the Council's long-term pension liability.
- (£5.5m) creation of a Revenue Support Grant damping reserve to mitigate any future reductions in central government funding.

Cash Flow Statement

8.8. There was a £52.722m increase in the Council's cash and cash equivalents (that is, investments that mature in no more than three days), rising from £117.580m in 2015/16 to £170.302m to 2016/17. A summary cash flow can be found at Table 3.

8.9. There was a net outflow of £224m as the Council used its cash reserves to make short-term investments. This was offset by £17m capital receipts and £82m capital grants for use by the Council for supporting its City for All capital programme.

Table 6: Summary Cash Flow Statement

2015/16 £'000		2016/17 £'000
56,761	Net surplus/(deficit) on the provision of services	44,448
132,657	Adjustment to net surplus/(deficit) on the provision of services for non-cash movements	415,165
(167,026)	Adjustments for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities	(99,259)
22,392	**Net Cash Flows from Operating Activities**	**360,354**
(133,213)	**Net Cash Flows from Investing Activities**	**(301,547)**
(24,542)	**Net Cash Flows from Financing Activities**	**(6,085)**
(135,363)	**Net increase/(decrease) in cash and cash equivalents**	**52,722**
252,942	Cash and cash equivalents at the beginning of the reporting period	117,580
117,579	**Cash and cash equivalents at the end of the reporting period**	**170,302**

9. PENSIONS

9.1. The net assets of the Council's Pension Fund increased by £191.382m over the course of the year – rising from £1.066bn to £1.258bn. The table below summarises the major elements that comprised this net change:

Table 7: Change in net assets of pension fund

	Change in Net Assets *(£m's)*
Member Contributions	38.715
Benefits Paid & Transfers Out	(51.633)
Management Expenses	(5.052)
Investment Returns	8.799
Change in Investment Values	200.553
	191.382

9.2. An analysis of the £1.258bn net assets shows they are comprised as follows:

Table 8: Analysis of pension fund net assets

	Net Assets *(£m's)*
Fixed Interest Securities	171.389
Pooled Investment Vehicles	1,077.837
Futures & Forward Foreign Exchange	0.339
Income Due	3.144
Cash Deposits	1.35
Investment Liabilities	-0.256
Amounts Due for Purchased Investments	(1.884)
Other Current Assets	7.010
Other Current Liabilities	(1.204)
	1,257.725

10. OBJECTIONS

10.1. All objections relating to prior years have now been cleared. There were no objections to the 2015/16 accounts.

10.2. The public inspection period for the accounts is now set nationally. The accounts were signed off at the 17th July 2017 Audit and Performance Committee.

10.3. During the 2016/17 public inspection period, two objections were made in respect of LOBO (Lender Option, Borrower Option) loans that the Council has. This has been addressed with the external auditors and they issued draft opinions on the 22nd and 23rd September rejecting the objections. The final decision to ratify the external auditor's rejection of the objections is currently with the PSAA (Public Sector Audit

Appointments). The expectation is that the PSAA will approve the external auditor's position by the end of October.

11. WHOLE OF GOVERNMENT ACCOUNTS

11.1. The Whole of Government Accounts (WGA) is a consolidated set of financial statements for the whole of the UK public sector.

11.2. The external audit for the WGA took place and was signed off on 29th September with no significant issues.

11.3. The clearance of the objections by the end of October and sign-off of the WGA means that the external auditors will be able to formally certify the accounts.

12. CLOSURE OF ACCOUNTS PROCESS AND FINANCE TRANSFORMATION

12.1. The earlier closure of the accounts in 2016/17 continues to derive from the Council's commitment to continual improvement in its financial management. Accelerated closure has given the Council an opportunity to play a primary role in the development of accounting practices that aim to simplify the accounts process and make them more transparent for the public.

12.2. The statutory deadline for publishing the accounts in 2017/18 has reduced from 30th June to 31st May meaning that the Council has anticipated and resolved many of the issues that may arise at other authorities in the reduction in timeframe.

12.3. Further improvements that took place in 2016/17 are:

- Lessons learned from the 2015/16 closure were identified and the frequency of "hard closure" during the year was reduced from monthly to quarterly. This allowed more time in the intervening period to resolve any identified issues during the year.

- Further developments in Agresso processes has simplified and reduced the timeframe for producing the Core Statements from the Trial Balance. The technical adjustments involved are quite complex for Local Government and automating this process has allowed more time to be spent reviewing and understanding the underlying data that underpin the statements.

- Further improvements in the Quality Assurance process included the establishment of an Accruals Panel in the final month before year-end to provide additional level of scrutiny, not just for the accounts, but primarily to strengthen budgetary control.

- External audit planning throughout the year gave opportunity to submit some notes to the accounts for early sign-off. Additionally, improved audit planning allowed schools testing to take place late February/early March and reduced the resources required for the year-end audit.

- De-cluttering reduced the size of the accounts by a further 37 pages or 16%, by removal of duplication across the accounts. This work will continue into and beyond 2017/18 to make the accounts as accessible as possible to the public.

12.4. Early closing has given the Council the opportunity to produce the Medium Term Plan and produce budget proposals for scrutiny at the beginning of October. This was achieved nearly five months ahead of 2016/17 budget timeline.

12.5. Early closing has also allowed the Council to embark on an ambitious programme of taking a lead role in the national development of Local Government accounting regulations. The main aim of this is to collaborate with the Local Government accounting body (CIPFA), the DCLG and external auditors to simplify technical accounting standards to and make the accounts more meaningful to the public. Discussions with CIPFA and DCLG have taken place and the Council's proposals are being considered with a view to being implemented for 2017/18 and 2018/19 accounts. The Council has also consulted with the Society of District Council Treasurers and has garnered support from them to move ahead with its ambitious and pragmatic agenda.

13. EXTERNAL AUDIT

13.1. The Accounts and Audit Regulations 2015 require all local authorities to standardise at least a part of the thirty day period during which their accounts are open for public inspection. For the financial year ended 31st March 2017 that period is between the 3rd and 14th July 2017. Therefore the earliest possible date for sign-off was 17th July 2017.

13.2. The inspection period for 2017/18 has been brought forward and the earliest date that final sign-off of the accounts will be 15th June 2018.

14. LEGAL IMPLICATIONS

14.1. There are no legal implications arising from this report.

Legal implications drafted by Rhian Davies, Chief Solicitor (Litigation and Social Care)

BACKGROUND PAPERS

Westminster City Council - Statement of Accounts 2016/17 (Including Pension Fund) (See Appendix 1), the following link:

https://www.westminster.gov.uk/s/redirect?collection=wcc-web-website&url=https%3A%2F%2Fwww.westminster.gov.uk%2F2016-2017-annual-accounts&index_url=https%3A%2F%2Fwww.westminster.gov.uk%2F2016-2017-annual-accounts&auth=jwvl9t85MqnJ3mQFgllRew&profile=_default&rank=5&query=annual+accounts

City of Westminster **Cabinet Report**

Decision Maker:	**Cabinet**
Date	**30 October 2017**
Classification:	**For General Release**
Title:	**Capital Strategy Report 2018/19**
Wards Affected:	**All**
Policy Context	**To manage the Council's finances prudently and efficiently**
Financial Summary:	**This report outlines the City Council's Capital Strategy and proposed expenditure and income budgets from 2018/19 to 2022/23, forecast position for 2017/18 and future years' forecasts summarised up to 2031/32. It outlines the proposed £2.596bn expenditure budget, funded by £804.3m external funding, £426.3m capital receipts with a £1.366bn net funding requirement from 2017/18 to 2031/32. Funding of the proposed programme, revenue implications, and risks and mitigations are detailed.**
The Report of:	**Steven Mair, City Treasurer**
	Tel: 020 7641 2904
	Email: smair@westminster.gov.uk

1. Executive Summary

1.1. This report outlines the City Council's capital strategy and proposed expenditure and income budgets from 2018/19 to 2022/23, forecast position for 2017/18 and future years' forecasts summarised up to 2031/32. The Council has developed a significant, long-term capital strategy. This report includes the detail of this up to 2022/23 and also summarised information for the General Fund up to 2031/32 to clearly show the full quantum of expenditure commitments during this period. This is to ensure that the benefits the Council intends to deliver through the programme are financially viable in the long-term. The total gross capital spend of the General Fund and HRA between 2017/18 and 2021/22 is £2.434bn.

1.2. This Capital Strategy has been brought forward for review and approval earlier in the year than in previous years to provide an early sight of the Council's capital budgets and how they have moved since the previously approved version. This will facilitate early planning and thus delivery of the programme before final Council approval on 7th March 2018. The forecast numbers within this report for 2017/18 are subject to change during the year and are based on Period 4 forecasts. Any changes and re-profiling will be subject to further reporting and approval during the year.

1.3. The strategic sections of the report provide details on the policy context within which the programme is constructed, and the aims and objectives it is designed to deliver. The report further sets out the governance processes which establish the principles to be followed in agreeing how to invest capital resources and achieve value for money for the Council. Governance processes have continued to evolve over the year to date particularly with the development of the programme management functions and initiatives which are detailed further in Section 5 and 6.

1.4. The Council has a significant capital programme across both the General Fund and the Housing Revenue Account (HRA). This supports the strategic aims of the Council, as defined in its *City for All* programme, with its vision for a city of choice, aspiration and heritage. Capital proposals are considered within the Council's overall medium to long term priorities, and the preparation of the capital programme is an integral part of the financial planning process. This includes taking full account of the revenue implications of the projects in the revenue budget setting process.

1.5. The General Fund capital programme covers three areas of expenditure. These are:

- Development – these schemes will help the Council achieve strategic aims and generate income (£1.021bn)

- Investment – schemes within this category will help to generate income and increase the diversification of the Council's property portfolio and will be self-funded by creating additional income and efficiency savings (£87.613m)

- Operational – these schemes are related to day to day activities that will ensure the Council meets its statutory requirements (£1,488bn).

These categories are explained in more detail in Section 7 of this report.

1.6. These programme areas will deliver a wide range of benefits to the City, including:

- new improved leisure, adult social care and education facilities, as well as enterprise space and improved public realm.

- 1,210 new and replacement Affordable homes are planned to complete by 2022/2023, of these 412 have started on site.

- improved public spaces, transport and other infrastructure to ensure the continued success of the West End as a business, leisure and heritage destination

- improved public realm and pedestrian environment to accommodate safe and efficient travel in the City

- well-maintained, efficiently managed infrastructure, allowing residents, businesses and visitors to enjoy clean, high quality streets

1.7. The report includes a summary overview of proposed budgets which is followed by a more detailed breakdown of the programme by service. This includes an analysis of the changes in the programme from that approved for 2017/18, risks and how these will be mitigated, and the financial implications of the programme.

1.8. The Housing Revenue Account (HRA) capital programme has a value of £794m over the next five years (2018/19 to 2022/23). It is important to note that HRA resources can only be applied for HRA purposes, and that HRA capital receipts are restricted to fund affordable housing, regeneration or debt redemption only.

1.9. The changes from the currently approved 2017/18 to 2021/22 General Fund programme can be summarised as occurring for the following reasons:

- New capital schemes which have been added – gross expenditure £75.5m and gross income £54.9m

- Re-profiling of projects already included in the programme - gross expenditure £13.4m and gross income £8.8m

- Removal of projected costs for two projects which have been removed at the planning stage – gross expenditure £21.0m and capital receipt of £24.3m

- Further investment on projects already included in the programme – gross expenditure £275.7m and gross income £274.5m

- Underspends released from the programme of gross expenditure £18.7m and gross income £0.4m

1.10. The projects that have been re-profiled were committed or commenced in 2017/18 and thus had an approved budget. They have been re-profiled for a variety of reasons including delays in the tender process, completion of acquisition/land assembly stages, obtaining planning permission and starting on-site construction.

1.11. The proposed budget is fully funded after Council borrowing, but this does depend on the schemes being delivered on time and within budget. The impact of potential changes in cost and timescale are fully explored in the financial implications of the report, outlined in Section 12. Any increases in expenditure or reductions in income will need to be managed by the service areas and either contained within the project or funded from elsewhere within the relevant service.

2. Recommendations

That the Council be recommended:

2.1. To approve the capital strategy as set out in this report

2.2. To approve the capital expenditure for the General Fund as set out in Appendix A for 2018/19 to 2022/23 and future years to 2031/32.

2.3. To approve the capital expenditure forecasts for the General Fund as set out in Appendix A for 2017/18.

2.4. To note the expenditure forecast for 2017/18 for the HRA as set out in Appendix B.

2.5. To note the capital expenditure for the HRA for 2018/19 to 2022/23 as in accordance with the 30 year HRA Business Plan and as included in Appendix B.

2.6. To note the financial implications of the HRA capital programme including the references to the debt cap and the level of reserves as detailed in paragraph 12.33

2.7. To approve that in the event that any additional expenditure is required by a capital scheme over and above this approved programme the revenue consequences of this will be financed by revenue savings or income generation from relevant service areas.

2.8. To approve that all development and investment projects follow the previously approved business case governance process as set out in paragraphs 6.7 to 6.15 of this report.

2.9. To approve that no financing sources unless stipulated in regulations or necessary agreements are ring fenced.

2.10. To approve that contingency in respect of major projects is held corporately with bids for access to those contingencies to be reviewed by the Capital Review Group (CRG), and thereafter approved by the relevant Cabinet Member and City Treasurer, in the event they are required to fund capital project costs, as detailed in paragraphs 10.43 to 10.44. These total £651.505m from 2017/18 to 2031/32 but include a sum of £450m which is an allowance for general capital expenditure (e.g. highways improvements) in future years beyond 2021/22.

2.11. As approved last year, the Council plans to use capital receipts in 2017/18 to fund the revenue costs of three eligible proposals – the refurbishment of Westminster City Hall (£9m), the Digital Transformation programme (£2.8m) and a contribution to the pension fund deficit (£10m) under the DCLG Guidance on the Flexible Use of Capital Receipts if considered beneficial to the Council's finances by the City Treasurer at year end. Further use of flexible capital receipts to fund the above are also included in the capital programme for these schemes in 2018/19 (the last year to which the Flexible Capital Receipts scheme is available).

2.12. To approve that the financing of the capital programme as set out in paragraphs 12.1 to 12.21 of this report

2.13. To approve that financing of the capital programme be delegated to the City Treasurer at the year end to provide sufficient flexibility to allow for the most effective use of Council resources.

3. Reasons for Decision

3.1. The Council is required to set a balanced budget and the capital strategy and subsequent capital programme form part of this process, along with the governance process to monitor and manage the programme

4. Policy Context

4.1. The capital strategy is based on the strategic aims of City for All. The City for All programme was refreshed for 2017/18 to include three new priorities. These were:

- Civic leadership and responsibility at the heart of all we do
- Opportunity and fairness across the city
- Setting the standards for a world class city

4.2. In addition, five new programmes have been established to deliver against these priorities which are summarised as follows:

- Civic leadership
- Building homes and celebrating neighbourhoods
- Creating a greener city
- Maintaining a world class Westminster
- A smart council

4.3. The Council has embarked on an ambitious capital programme, with plans to invest £2.596bn in a number of developments throughout the City by the General Fund together with a further £0.794bn by the HRA. Many of these schemes will help to modernise areas of the City, helping to maintain and develop Westminster's reputation as a global centre of tourism, retail, entertainment and business. The examples below show some of the ways this capital investment will contribute to the key strategic aims of City for All in the following ways:

- Westminster City Council in partnership with other public and private sector partners has established the West End Partnership (WEP) to transform the long term performance and success of the West End of London. The West End is the cultural and economic capital of the UK which belongs to and benefits everyone in the UK. It generates greater economic output than anywhere else in the UK with more than £51bn in Gross Value Added per year, 15% of London's economic output. Employing more than 650,000 people, the area generates the largest proportion of taxes with more than £17bn of tax receipts per year.

- The West End is primarily responsible for London's status as the world's most popular visitor destination with more than 31m international visitors spending over £11bn in the West End. The West End is an important gateway to other UK tourist destinations and drives growth across the UK. Oxford Street is also the UK's high street with more than 50m UK based visitors. The West End's success and long term growth cannot be taken for granted and investment is needed to ensure that the West End can continue to compete with its global competitors.

- The WEP has developed an investment programme that will transform the international competitiveness and productivity of the West End and the UK. The WEP programme will unlock growth, attract investment, improve competitiveness, improve air quality, create jobs and generate substantial tax revenues to the Exchequer. Public and private sector funding has already been secured for WEP's priority projects and business cases have been submitted to government to secure the additional funding required to mobilise the programme. Business cases have been submitted for the WEP's priority projects including the £425m transformation of Oxford Street District, the £30m redevelopment of The Strand / Aldwych and the West End Jobs programme. The WEP strongly supports a Tax Incremental Finance mechanism to underpin the long term development and reinvestment across the West End. The three identified priority projects have a funding gap of £320m and we have asked Central Government to consider the business case and funding proposals already with HM Treasury and CLG and provide for the funding requested to progress these as part of the Autumn Budget. The development projects within the portfolio will result in significant investment which will provide residents of Westminster with new improved leisure, adult social care and education facilities, as well as enterprise space and improved public realm. This will improve the wellbeing and prosperity of residents as well as delivering broader economic benefits. To offset some of these costs there is provision of broader commercial aspects within the developments which will provide on-going revenue income streams or capital receipts

- A number of large development schemes within the capital programme are planned to deliver 1214 new and replacement affordable homes, with 563 being completed by 2021/22. This will ease the pressure on temporary accommodation. The building of new residential properties is at the heart of giving residents the opportunity to aspire

- Continued investment in the public realm within Westminster creates and preserves spaces where people enjoy living, working and visiting. The investment reflects the pride we take in our role as custodian of the City, protecting our heritage by managing places and spaces that can be enjoyed both now and in the future. Additionally, investment in improving the public realm and pedestrian environment helps to accommodate the safe and efficient movement of growing numbers of people entering and moving around Westminster, managing vehicular traffic and making walking safer and more enjoyable. This creates opportunities for everyone in the city to be physically active.

- The City Council's investment in our core infrastructure of carriageways, footways, lighting and bridges recognises the commitment the Council has to managing the performance, risk and expenditure on its infrastructure assets in an optimal and sustainable manner throughout their lifecycle, covering planning, design, development, operation, maintenance and disposal. This programme ensures our infrastructure is in a safe and reliable condition, is efficiently managed and means our residents and visitors can enjoy clean, high quality streets.

4.4. The above is taking place against a background of austerity and significant reductions in central funding for local government. It is therefore a key aim of the Council's capital strategy that it delivers a return on investment which is financial, such as capital receipts or new revenue streams, or delivering key strategic priorities.

4.5. The Council is a key partner in the development of the Sustainability & Transformation Plan (STP) for the North West London region, which comprises eight London boroughs and Clinical Commissioning Groups (CCGs). These plans will be produced across England, showing how local health and social care services will evolve and become sustainable over the coming years.

4.6. As part of the wider plan, an Estates Strategy is required, which aims to reduce the burden on acute care by devolving care delivered from hospitals to modern, multi-purpose primary care facilities. There will be long term capital implications as a result of the strategy, which is tasked with reducing the capital demand on the NHS.

4.7. This may involve the sale of surplus real estate to fund new primary care facilities, or joint venture development with house builders to ensure delivery of new facilities as well as new housing stock. It will be necessary to investigate new funding models to identify the most appropriate method for raising capital to deliver the strategy. Over the past year in which the Council has been involved in the project, it has become apparent that there are currently no capital projects in planning by Health which are likely to have a direct impact on the capital programme of the Council. Consequently no provision has been made in the capital programme for any such related expenditure. However, this could change as Health's plans develop and pilot schemes elsewhere may demonstrate a new way of working which delivers benefits which are then sought to be replicated more widely. Officers remain engaged with Health on the STP project and will monitor for any changes in the status of the Estates Strategy.

5. Governance

CRG

5.1. The main forum for reviewing all financial aspects of the capital programme is the Capital Review Group (CRG). This group reviews the strategic direction of the programme, ensures outcomes are aligned with City for All, significant projects have a viable Business Case and that Value for Money (VfM) is delivered for the Council. It also monitors the expenditure and funding requirements of the capital programme and subsequent revenue impacts.

Programme Management Office

5.2. The Council is currently in the process of setting up a programme management office (PMO). A steering group has been setup to review the Council's project processes and this involves stakeholders across the Council, including Finance, Procurement and Communications.

5.3. The purpose of the PMO is to provide a stable framework that supports all project teams and stakeholders to improve the probability of successful delivery of projects.

5.4. The key objectives of the PMO include:

- Demonstrate added value through key performance measures.
- Establish a standardised project management process and serve as a centre of excellence and support for the system ensuring continual improvement
- Supplement resources and provide advice for specific project activities such as initial project planning, project monitoring and performance measurement
- Maximise the efficiency of the Capital Programme (oversight, co-ordination of time and risk, resources)
- Administration of certain parts of the process e.g. Project Prioritisation
- Provide quality assurance – regular reviews of key projects will be carried out against standard health checks ensuring verification and transparency of status
- Administrative support for the programme and instil knowledge share and best practice / learning between departments

- Support development of in-house project management skills – by mentoring support, training, apprentices, Project Management Community

5.5. The PMO is on track to be setup for 2018/19, following approval by senior officers and members.

6. Project Prioritisation

6.1. To manage the business case and budget setting process, CRG has implemented a process which requires all schemes to complete Capital Programme Submission Request (CPSR) forms. These are reviewed prior to inclusion in the capital programme.

6.2. The CPSR forms have been updated this year in line with the proposed prioritisation framework that is part of the development of the Project Management Office.

6.3. The final governance arrangements for the framework are yet to be agreed but will be fully established in readiness for the next financial year.

6.4. The framework identifies five key themes to assess projects and is in line with the Council's overarching objectives and other key factors that are needed to assess the priority ranking of projects. These themes are explained below:

- Strategic Fit - how the project aligns with the Council's objectives and priorities and what it is trying to achieve.
- Financial –concerning the financial circumstances for the project, e.g. whether funding is readily available and is affordable
- Legislative and Compliance – whereby the project is needed to meet statutory/legislative requirements.
- Indirect Need – whereby the project is needed because of another scheme or development.
- Risk – whereby the success of the project is dependent on mitigating high associated risks.

6.5. Budget/project managers were asked to score their projects against each theme and the outcome of this scoring was presented to senior officers and members.

The prioritisation process should support the Council in making decisions about which projects to progress, especially in an environment of limited financial and officer resources.

6.6. The process will continue to develop and a group will be setup as part of the PMO to review projects and moderate scoring to ensure they are in line with Council priorities and are deliverable.

Business Cases

6.7. The governance of project business cases will vary depending on the type of work that is being carried out. The process was approved by Full Council in the Capital Strategy report of 2nd March 2016. This allows CRG to have a full overview of the priorities, risk, deliverables, cost, and revenue implications of all areas of the capital programme.

Capital Programme Governance

6.8. The annual capital programme, which is updated for new proposed schemes, revised profiling, slippage and changes in expenditure projections, is presented to Full Council every year. Council approval of the programme gives an allocation to budget managers in the capital programme. Separate approval is required in line with financial rules to spend in line with their budget envelopes.

6.9. In previous years this has covered a five year period. However, the Council has now developed an ambitious programme which has longer-term commitments for large development schemes. For this reason, this report covers the period up to 2031/32.

6.10. A key issue in managing the capital programme is in year movements of budgets from one financial year to another. Capital budgets can be re-profiled across years to reflect delays or spend brought forward with appropriate approval. However, re-profiling needs to be managed appropriately to ensure that annual capital forecasts are as accurate as possible as inaccuracies can lead to long term revenue costs – for example if the Council has to borrow more than originally forecast.

6.11. The Council will continually look to ensure that periodic projections during the year are as accurate as possible and where projects do slip, a rigorous process is applied to ensure budget managers are made accountable and gain the relevant approval from CRG to move those budgets into future years with appropriate explanations as to why the project needs re-phasing. For 2017/18 re-profiling reports have been completed for periods 2 and 4.

6.12. The first call on capital resources will be any operational schemes that are required to be in the programme for statutory or legal reasons. In addition, all schemes already contractually committed will be supported and sufficient resources will be provided to enable them to proceed.

Schemes which already have approval will be supported providing they continue to have a viable business case which is delivering to Council priorities.

6.13. There are a number of circumstances where concerns could be raised about a project in the capital programme including where:

- The business case is reviewed and considered to be no longer viable
- The headline cost figure goes beyond the approved figure
- Issues are raised by other stakeholders e.g. in respect of planning
- There is a change in Council priorities

6.14. While these would be discussed by CRG for the purposes of recommending mitigating action, any formal decision making would be through a Cabinet Member report or the Capital Strategy which is approved by Full Council.

6.15. VfM is a key component of all capital projects. All projects must evidence a level of economy, efficiency and effectiveness in order to be approved. Therefore, projects will have to show that all potential options have been considered, and the option that is chosen is cost efficient and effective in achieving the City for All ethos. In order to achieve this, the Council has put in place the following cornerstones:

- **Business case development** – the Council has adopted the Five Case Business Model, which was developed by HM Treasury and the Welsh government specifically for public sector business case development. The business cases for major projects include full option appraisal and links to core strategy to ensure that they are delivering on key Council objectives.
- **Effective financing** – funding options are constantly reviewed to ensure the most cost effective use of the Council's resources. In order to reduce financing costs, many of the major development schemes will deliver significant capital receipts for reinvestment in future projects, thus reducing reliance on external borrowing. Capital receipts are applied to expenditure where it will provide the most financial benefit.
- **Procurement** – robust options and appraisal of procurement routes for projects
- **Risk management** – this function is co-ordinated by CRG, which takes an overview of identifying and mitigating risk across the programme and further developments are planned in this area during 2017/18. More detail on the mechanisms the Council has in

place to effectively manage and identify risk can be found in Section 11.

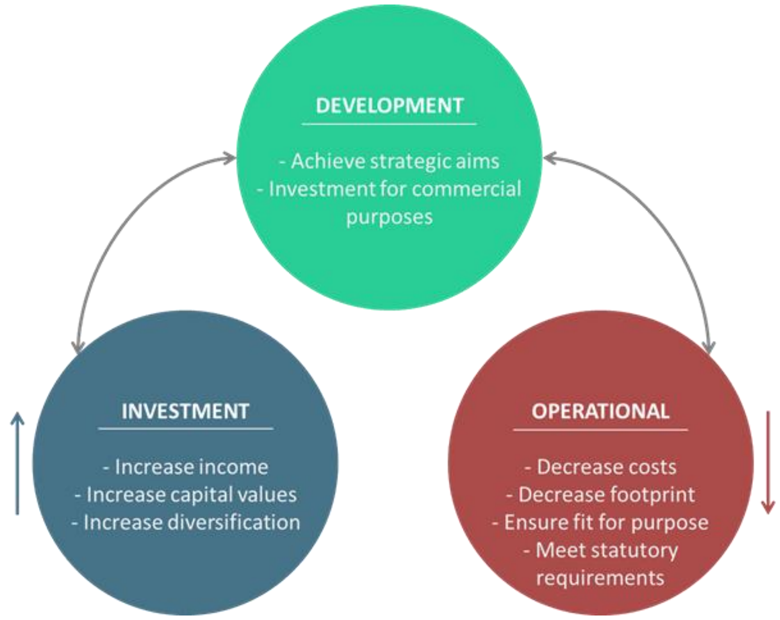
- **Project management** – the development of the Programme Management Office as noted above will continue to strengthen project management in the Council. The PMO will ensure that projects are in line with Council priorities and sufficiently resourced in order to be developed within timescales.

7. <u>Overview of Capital Programme and Delivery Strategies</u>

7.1. The Council's capital programme is prioritised into three key areas:

- Development
- Investment
- Operational

7.2. The diagram below provides an overview of these areas



7.3. Development

7.3.1. Development projects are key schemes that directly support the Council's strategic aims, in line with City for All. This includes the long term sustainability of Council services through income generation and meeting service objectives in areas such as affordable housing and regeneration. This will help Westminster's residents and businesses in creating a strong local economy to live and work in, helping to embed the City for All ethos. These factors combined will help to sustain Council services and ensure that Westminster City Council remains at the forefront of public service delivery.

7.3.2. Many of the major development schemes will deliver housing for sale on the open market. This will generate capital receipts for the Council, which will be reinvested in future capital expenditure projects. These are projected to contribute 16% of the funding of the Council's capital programme. The risks associated with reliance on this delivery and funding route are fully explored in Section 11.

7.3.3. The Council will review the best delivery routes for development projects. Different delivery routes for projects largely fall into the following categories: self-develop; joint-venture; or developer led. The self-develop option involves the Council undertaking the project independently and therefore provides the greatest level of potential return but also the greatest cost and exposure to risk. The developer option is the opposite; it usually involves selling the opportunity to a developer resulting in the least return but also the least cost and risk. A joint-venture is a compromise between the two, this can be a good option to limit risk, broaden expertise and capacity on the project whilst still sharing in the returns. In both the latter two options it is likely the Council will have to undertake site assembly and the initial stages of planning before a partner is prepared to enter into an agreement on the opportunity.

7.3.4. Development schemes make up the majority of the gross capital budget at £1.021bn and the majority of capital receipts in the programme, £426.3m, are related to these schemes. The scope of the major development projects is outlined below, organised by Directorate, and full details can be found in paragraph 10.9.1.

7.4. Investment

7.5. One of the key objectives is for the Council to maximise its return on investments and grow income through active management of the investment portfolio. Income through these means will support the on-going financing costs of the capital programme.

7.6. An initial £50m drawdown facility for investment schemes to generate additional income towards future MTP savings and frontline services was approved as part of the previous year's Capital Strategy. Of this a total of £12.397m was invested leaving a balance of £37.613m. For this new Capital Strategy an additional £50m has been added to this budget to produce a total budget including 2017/18 of £87.613m.

7.7. Each investment will be subject to a detailed assessment report setting out a business case, full investment appraisal and value for money assessment., and will be subject to relevant Cabinet Member approval in line with financial regulations.

7.8. Operational

7.9. The Council's operational capital strategy is centred on capital improvement works to the Council's operational property portfolio.

7.10. The main objectives of the operational element of the capital strategy are to ensure assets meet health and safety standards, are fit for purpose in terms of statutory guidance and legislation, as well as helping the Council to reduce costs and reduce its environmental footprint.

7.11. Another key objective of the operational element is to ensure that the Council continues to invest in its current buildings and long term assets and avoids incurring significant future costs, essentially spending now to save money in the future

7.12. Operational schemes in the five year capital programme have a total expenditure of £1.488bn. Details of this expenditure and how it is funded can be found in Appendix A.

8. Housing Revenue Account

8.1. The expenditure to support this as set out in the five year investment plan is analysed slightly differently to the General Fund as follows:

- HRA major works on the Council's housing stock
- Regeneration and Renewal spend; and
- Other Investment Plans

8.2. Further detail on the HRA capital investment plans is set out in paragraphs 10.16 -10.22

9. Summary Capital Programme

9.1. The previous five year capital programme, from 2017/18 – 2021/22, agreed by Full Council on 2 March 2017, can be seen in the table below:

Table 1: Original five year capital programme 2017/18 – 2021/22

	Five Year Plan					Future Years to 2030/31	Total
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	£000	£000
Expenditure							
Adult Services	632	450	400	200	-	-	**1,682**
Children's Services	9,566	9,663	250	250	250	-	**19,978**
City Management & Communities	83,793	61,624	29,423	19,771	17,299	-	**211,910**
City Treasurer	39,176	38,401	22,249	25,898	33,648	43,797	**203,169**
Corporate Services	2,722	4,026	2,086	1,125	525	-	**10,484**
Growth, Planning & Housing	228,742	213,464	162,189	110,858	114,506	250,716	**1,080,474**
Policy, Performance & Communications	1,331	-	-	-	-	-	**1,331**
Estimated future years operational expenditure	-	-	-	-	-	450,000	**450,000**
Total Expenditure	**365,961**	**327,628**	**216,597**	**158,102**	**166,228**	**744,513**	**1,979,028**
Funding							-
External Funding	(126,979)	(117,563)	(30,798)	(43,502)	(4,742)	-	**(323,584)**
Capital Receipts	(93,000)	(22,350)	(29,306)	(110,397)	(51,971)	(184,157)	**(491,181)**
Total Funding	(219,979)	(139,913)	(60,104)	(153,899)	(56,713)	(184,157)	**(814,765)**
Net Funding Requirement	**145,982**	**187,714**	**156,494**	**4,203**	**109,515**	**560,356**	**1,164,263**

The current programme has been revised for the following changes:

- Re-profiling from the end of 2016/17 of gross expenditure £24.60m, gross income £7.58m to 2017/18 and gross expenditure of £2.07m and £0.027m income into 2018/19.
- Re-profiling into future years of gross expenditure £22.94m and gross income £15.64m.
- New projects with a value of gross expenditure £20.2m and gross income £15.7m.
- Underspends released from the programme of gross expenditure £8.60m and gross income £0.38m.

The changes are subject to approval by Cabinet Member reports and review at CRG. The effect of these changes by way of a revised total programme can be seen in the table below:

Table 2: Current approved capital programme 17/18 – 22/23 at Period 4

	Five Year Plan					Future Years	Total
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	to 2030/31 £000	£000
Expenditure							
Adult Services	770	450	400	200	-	-	**1,820**
Children's Services	11,356	9,154	250	250	250	-	**21,259**
City Management & Communities	68,038	80,146	29,423	19,771	17,299	-	**214,677**
City Treasurer	42,500	38,401	22,249	25,898	33,648	43,797	**206,493**
Corporate Services	2,326	5,099	2,086	1,125	525	-	**11,161**
Growth, Planning & Housing	254,207	216,660	164,865	110,858	114,506	250,716	**1,111,811**
Policy, Performance & Communications	38	50	-	-	-	-	**88**
Estimated future years operational expenditure	-	-	-	-	-	450,000	**450,000**
Total Expenditure	**379,234**	**349,960**	**219,273**	**158,102**	**166,228**	**744,513**	**2,017,309**
Funding							**-**
External Funding	(134,195)	(133,477)	(30,798)	(43,502)	(4,742)	-	**(346,714)**
Capital Receipts	(79,750)	(22,350)	(29,306)	(110,397)	(51,971)	(184,157)	**(477,931)**
Total Funding	(213,945)	(155,827)	(60,104)	(153,899)	(56,713)	(184,157)	**(824,645)**
Net Funding Requirement	**165,289**	**194,132**	**159,170**	**4,203**	**109,515**	**560,356**	**1,192,664**

9.2. These budgets have now been re-profiled to reflect up-to-date project planning as part of the budget setting exercise, which when taken alongside the CPSR submissions and updated expenditure and income forecasts, have produced the revised budget below.

Table 3: Proposed capital programme 2017-18 – 2031/32 at Period 4

	Forecast	Five Year Plan					Future Years to	Total
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2031/32 £000	£000
Expenditure								
Adult Services	770	777	400	200	-	-	-	**2,147**
Children's Services	10,847	13,279	250	250	250	250	-	**25,126**
City Management & Communities	68,031	94,370	46,029	26,706	22,398	21,201	990	**279,726**
City Treasurer	42,500	38,849	26,040	18,681	17,898	21,486	486,051	**651,505**
Corporate Services	2,326	6,210	975	1,125	525	-	-	**11,161**
Growth, Planning & Housing	245,509	247,438	304,893	234,993	167,211	77,199	349,134	**1,626,377**
Policy, Performance & Communications	38	50	-	-	-	-	-	**88**
Total Expenditure	**370,020**	**400,973**	**378,588**	**281,955**	**208,282**	**120,136**	**836,175**	**2,596,130**
Funding								**-**
External Funding	(125,352)	(177,687)	(187,905)	(135,037)	(83,255)	(51,143)	(43,754)	**(804,133)**
Capital Receipts	(79,750)	-	(21,964)	(20,535)	(57,425)	(72,476)	(174,153)	**(426,303)**
Total Funding	(205,102)	(177,687)	(209,869)	(155,572)	(140,680)	(123,619)	(217,907)	**(1,230,436)**
Net Funding Requirement	**164,918**	**223,286**	**168,720**	**126,383**	**67,602**	**(3,483)**	**618,268**	**1,365,695**

9.3. The high-level changes to the in-year 2017/18 programme are:

- The forecast gross expenditure is £370.0m, which is £9.2m lower than the revised budget. The forecast for external funding is £125.3m, £8.8m lower that the approved budget of £134.2m.

9.4. It should be noted that given the long-term nature of some of the larger development schemes, this has profiled some of the budgets into future years beyond the five year programme. These have been reported in the “Future Years to 2031/32” column for completeness and to ensure the budget is approved within the context of the whole capital programme.

9.5. In addition, an assumption of £450m annual expenditure on operational schemes has been included within the contingencies line. This ensures that development and investment schemes are affordable in addition to the annual operational capital expenditure programme.

9.6. The above fully funded position clearly depends on the schemes being delivered on time and within the estimates set out in this report. Any increases in expenditure or reductions in income will need to be compensated for by the relevant project or the consequential revenue impacts funded in full by the individual service.

10. Service Analysis

10.1. The following section reviews what is included in the individual capital programmes for each Council directorate from 2017/18 onwards, excluding the assumed £450m operational budget for future years. This section aims to detail what is included and also explain changes to the schemes included within each Directorate portfolio.

Growth Planning and Housing (GPH)

10.2. Growth, Planning and Housing (GPH) contains the Council's Housing, Investment and Operational Property, Development Planning and Economy & Infrastructure services. For the purposes of this document the HRA is included separately.

10.3. GPH has the largest Capital Programme within the Council, with a proposed net budget of £330m over the five years to 2022/23 and £460m (including future years. This reflects £966m of budgeted expenditure offset by income of £506m, mainly from capital receipts. The changes from the current budget are that:

- Gross expenditure budget for GPH is due to increase from £1.080bn to £1.205bn.
- Income for this period has increased from £536m to £577m.
- Of the forecast external income, £231m is anticipated to be from external funding and £347m from capital receipts.

10.4. On a net basis this is a proposed increase of £90.9m for GPH and this is shown in the table below:

	Forecast	Five Year Plan						
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Future Years to 2031/32 £000	Total £000
Expenditure	239,065	195,035	190,865	117,206	95,296	35,528	331,880	**1,204,875**
External Funding	(71,284)	(52,433)	(56,173)	(10,775)	(6,275)	(6,275)	(27,525)	**(230,740)**
Capital Receipts			(21,964)	(20,535)	(57,425)	(72,476)	(174,153)	**(346,553)**
Net Funding Requirement	**167,781**	**142,602**	**112,729**	**85,896**	**31,596**	**(43,223)**	**130,202**	**627,582**

10.5. The main increases in the net budget are noted below:

- Property Investment Schemes – the budget for this has increased by £50m from £37.6m to £87.6m. This is subject to approval of the Council's investment strategy.
- Carlton Dene – The net budget for this project has increased by £14.8m. The previous budget for this project was based on an

older scheme and this budget has been revised to reflect current options for the site.

- Housing Investment in Discharge of Duty – This is the second phase of this scheme and is a net increase of £13.5m, this is in addition to the £2.7m for phase 1. This is a property investment fund that provides long term sustainable properties for households in housing need.

- The remaining variance is due to smaller increases in various other projects within GPH.

- The increase in contingency budgets is primarily due to the process on the Luxborough Development and Lisson Grove Programme. Therefore a 15% contingency is being held centrally in line with the Council's policy.

Major Projects (General Fund)

10.6. The capital programme presented within this report forecasts a gross capital budget of approximately £787m for General Fund projects (both live and potential future projects). With projected income of approximately £411m, giving a net budget of £376m. As well as producing capital receipts, many of these projects will also generate on-going revenue streams.

10.7. The Major Projects team have continued to progress a number of schemes since the last capital programme was approved. Some of the milestones achieved in the last year include approval to appoint a contractor for the Beachcroft site, the approval to progress with the refurbishment of Seymour Leisure Centre (to include a library), approval to progress the Luxborough Development to detailed design and Cabinet approval to progress Huguenot House designs and consult further on the options.

10.8. The Council also has a number of sites under construction with the Moberly, Jubilee phase 1, Sir Simon Milton UTC and the Dudley House Academy and intermediate rental all on site.

10.9. Furthermore, refinement of design work, massing studies and financials has meant a number of projects are now ready to go through the business case process this financial year and next on Huguenot House, Lisson Grove Programme, Carlton Dene and Westmead.

10.9.1. Below is a summary of all the general fund capital projects being managed by Major Projects (unless otherwise stated):

- Dudley House
  The project is now on site and as per the programme. Target completion for the Marylebone Boys School is September 2018 with the intermediate rent accommodation completing in April 2019.
  The project board are currently assessing options for the management of the residential units with the preferred option being the use of an operator model.

- Huguenot House
  Following a Cabinet decision in July a formal consultation will now be carried out with residents on the residential led option with affordable housing. The outcome of this will be reported back to members in February 2018. In addition to this the draft OBC will be progressed and presented to members over the coming months. Expenditure to date has primarily related the spot purchasing of residential properties in the block as they become available.

- Sir Simon Milton UTC
  The works are progressing well and the project remains on track and the school opened in September 2017. The residential units are due to complete in March 2018 and the project is fully funded.

- Seymour Leisure Centre
  A cabinet member report for this project was approved in September 2017 for the refurbishment option which will include the existing sports centre and a library. Procurement of the design team has commenced and an appointment is due next month.

- Leisure Review
  While this potential project remains on hold, officers continue to purchase opportunities where these represent a viable investment and contribute to the site assembly for this project. Properties are purchased as and when they become available. The options for the wider development of the site will continue to be discussed with members in the next financial year.

- Luxborough Development
  Following the approval of a cabinet member report the project will be progressed to a detailed design and an OBC for a revised mixed use development scheme will being developed and is expected to be presented to members in 2017/18.

- Moberly & Jubilee
  The projects at both Moberly and Jubilee are on site and progressing, with anticipated phase 1 practical completion in 2018 with Jubilee Phase 2 to follow.

- Beachcroft (managed by City West Homes)
  Cabinet Member approval has been given for the enabling works to begin with a Full Business Case expected by December 2017. The project is on course to be completed by December 2019 and on budget and is linked to the projects at Westmead and Carlton Dene.

- Westmead/Carlton Dene
  Both these projects are linked to the development at Beachcroft as residents in both these homes have to be decanted to Beachcroft in order for the sites to be redeveloped. Officers have identified the option which maximises the care provision whilst ensuring the final costs to run the project are cost neutral at worst. Architectural massing studies are planning to be undertaken this year, which will further develop the options for the schemes. A paper to CRG is expected at some point in 2017/18.

- Lisson Grove Programme
  The programme aims to provide a more modern office space, however options are being assessed to identify any other opportunities to develop housing or commercial space linked to the programme. An indicative figure has been included in the analysis above, resulting in additional expenditure of £80m (excluding contingencies) on the capital programme which will be subject to further review regarding financing as the business case progresses.

- City Hall
  Whilst this project sits within Corporate Property/Major Projects, it has a specific governance procedure in place to monitor and project manage the process with a programme board and steering group.

  The refurbishment of City Hall on Victoria Street has now commenced. The programme from 2017/18 has a capital budget of £80m (excluding contingency) with the completed scheme delivering increased income streams for the Council from rental income as well as reduced running costs. This decant process has an allocated revenue budget of £22.4m to fund the related costs, which will be funded by flexible capital receipts.

Corporate Property

10.10. The Corporate Property Capital Programme has an approved budget of £64.7m from 2018/19. This contains schemes of £14.7m in addition to the investment schemes budget of £50m.

10.11. To date during 2017/18, there have been no properties identified which were able to deliver the required returns or the investment schemes budget. As a result no further purchases have been made with this budget since Orange Street in 2016/17.

10.12. The Property team is actively reviewing the market for appropriate opportunities that will provide a good return whilst diversifying the property portfolio.

10.13. The other property projects include both on-going building improvement schemes such as landlord's responsibilities (£6.8m) and the forward management plan (£4.2m), as well as individual projects such as £0.3m for ensuring properties within the investment portfolio are up to the Minimum Energy Efficiency standards (MEEs).

Housing General Fund

10.14. The Housing General Fund capital programme contains schemes to provide additional affordable housing both in and out of borough. In total there is an expenditure budget of £130.7m offset by external income of £128.4m.

10.15. The Affordable Housing Fund represents Section106 agreements ring fenced monies paid to the Council in lieu of the direct provision of new social housing and is used for the delivery of in borough housing projects by Registered Social Landlords. The fund is also applied to fund HRA and General Fund new affordable housing schemes such as Dudley House. It is used to fund various projects in borough to provide additional housing. Properties are also bought out of borough through a Temporary Accommodation purchases programme which will also be funded through the Affordable Housing Fund.

Housing Revenue Account

10.16. The HRA capital investment requirement over the next 30 years is £1.864bn, and over the first five years from 2018/19 is £794m. The HRA is subject to a different business planning process that is linked to modelling of the HRA business plan over 30 years.

10.17. The programme has been developed to deliver the maximum number of new affordable units within the context of the HRA's current financial constraints. There is a significant increase in the development capacity of both WCC and CWH that accompanies this proposed plan to support these initiatives

The programme is funded over the next five financial years as follows:

Funding	Total £000
Capital Receipts	335,961
Right To Buy	45,308
Grants	23,563
Affordable Housing Fund(AHF)	176,661
Revenue Contribution To Capital Outl	48,338
Major Repairs Reserve(MRA)	104,655
Borrowing	59,960
Total Funding	**794,446**

10.18. Key changes between the 2017/18 approved and 2018/19 proposed HRA five-year capital programme budgets are as follows:

- Gross expenditure – overall increase of £94m consisting of:
  - Church Street Phase 2 – increasing £60m, the second stage of the Church Street proposals have been subject to a masterplanning exercise in recent months and local residents and stakeholders are being consulted on the proposals
  - An additional £48m on infill schemes, identifying development opportunities within the existing estate including conversion of disused space such as basements, drying rooms and storage sheds and new build opportunities on underutilised garage sites, car parks and vacant land
  - West End Gate expenditure of £25m
  - Works included in light of Grenfell £20m
  - A reduction in self-financing schemes of £45m
  - Refinements on other schemes
- This increase in expenditure will be funded by:
  - Additional affordable housing fund contributions towards new HRA social and affordable housing schemes of £118m over the five year period

- Capital receipts - an increase of £79m coming from capital receipts brought forward as well as new self-financing disposals offsetting a reduction in anticipated receipts of £78m from Council dwellings disposed of under Right to Buy.
- Capital grant – an additional £23m from the GLA towards the costs of Church street
- Borrowing – an increase of £8m
- Offset by a reduction in revenue and reserves funding of £57m

10.19. HRA reserves – a reduction of £57m contribution from the HRA I&E over the period. The HRA reserves will contribute £153m (19%) of the £794m required to fund the 2018/19 five year capital programme. This will leave accumulated reserves close to the minimum level of £11m during the full five years and beyond of the programme. The reserves level will not generally increase until 2044/45 as any surpluses are assumed to be applied to reduce debt levels in the HRA.

10.20. The proposed HRA investment plans commit and utilise all of the headroom (borrowing limit) and financial capacity within the HRA in the period up to 2025/26. This will result in the HRA reaching the current statutory limit on indebtedness of £334m for HRA borrowing before annual surpluses are used to reduce the debt levels.

10.21. The HRA business plan currently projects that HRA debt will fall steadily over the latter part of the programme and by year 30 the level of debt will be £34m with revenue balances of £36m.

10.22. As the HRA is legally not allowed to run a deficit this means that if there is an overspend on the capital programme or elsewhere, or if capital receipts are reduced or delayed, then the need to contain these pressures will necessitate either reducing, re-profiling or stopping spend on the capital programme, realising funds through the disposal of HRA assets, or applying more funding from the Affordable Housing Fund. The range of management options available within the HRA to mitigate any additional risks are set out in section 11.22.

West End Partnership (WEP)

10.23. The new capital programme includes a substantial budget for the West End Partnership programme of works of £440m (gross). The majority of this relates to the Oxford Street East at £339m. The OBC for Oxford Street West was submitted in May 2017 followed by the OBC for Oxford Street East in July. DCLG have indicated their support for the funding proposition and have asked for a Full Business Case for the whole of Oxford Street by the end of 2017. The Oxford Street project is fully funded within the programme, primarily from Central Government funding. This is subject to HM Treasury agreement which is expected in the November 2017 budget.

10.24. A summary of the WEP budgets is included below:

	Forecast	Five Year Plan					Future Years to 2031/32	Total
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	£000	£000
Expenditure	6,444	52,403	114,028	117,787	71,915	41,671	17,254	**421,502**
External Funding	(891)	(48,271)	(109,258)	(113,117)	(67,345)	(35,046)	(16,004)	**(389,932)**
Net Funding Requirement	**5,553**	**4,132**	**4,770**	**4,670**	**4,570**	**6,625**	**1,250**	**31,570**
Expenditure (included in CMC)	6,422	10,735	4,586	101	-	-	-	**21,845**
External Funding (Included in CMC)	(4,787)	(7,664)	(560)	(510)	-	-	-	**(13,521)**
Net Funding Requirement	**7,188**	**7,203**	**8,796**	**4,261**	**4,570**	**6,625**	**1,250**	**39,894**

10.25. Further projects include Strand/Aldwych and the cross cutting themes such as Broadband and Freight. The Strand/Aldwych OBC was submitted in July and will progress to an FBC by the end of October.

10.26. The overall net budget for WEP is £39.893m (including 2017/18 forecasts) and this is mainly due to the WEP General budget and the Council funding for the cross cutting themes.

City Management & Communities

10.27. City Management and Communities (CM&C) contains Highways Infrastructure and Public Realm, Sports and Leisure, Libraries and Culture, Public Protection & Licensing, Parking, and Waste, Parks & Cemeteries services.

10.28. As a directorate, this has a significant capital programme. Including 2017/18, gross expenditure within the capital programme totals £279.7m, with external income of £158.2m from a range of third parties.

	Forecast	Five Year Plan					Future Years	Total
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	to 2031/32 £000	£000
Expenditure	68,031	94,370	46,029	26,706	22,398	21,201	990	**279,725**
External Funding	(42,366)	(63,177)	(22,074)	(10,945)	(9,635)	(9,822)	(225)	**(158,244)**
Net Funding Requirement	**25,665**	**31,193**	**23,955**	**15,761**	**12,763**	**11,379**	**765**	**121,481**

10.29. The majority of this expenditure comes within Highways Infrastructure and Public Realm, which can be split across the following categories (gross expenditure budget in brackets):

- Planned preventative maintenance and other projects within Highways (£87.1) – all but £3.0m is funded by the Council

- Public Realm Externally Funded (£137.3m) – £123.0m is funded by contributions from third parties
- Transport schemes - (£27.4m) - £23.6m externally funded, largely Transport for London

10.30. Of the remainder of the programme, the main areas of expenditure are:

- Cemeteries and Parks (£1.6m)
- Libraries (£3.3m)
- Sports and Leisure (£8.0m) - £0.9m is funded by external parties
- Public Protection and Licensing (£11.0m) - £7.8m is funded by grant contributions
- Waste (£3.1m)

10.31. The gross expenditure and income contained within the new capital programme is consistent with the capital programme approved in February, which contained £212.0m gross expenditure and £115.6m income from 2017/18 onwards. The gross increase of £67.7m and net increase of £25.3m is all accounted for by the addition of an extra year to the capital programme.

10.32. If the capital programme is compared on a rolling basis then the expenditure requirement has decreased by £0.2m and income has increased by £0.2m. On a net basis the rolling capital programme has decreased by £0.4m.

10.33. There are a number of projects in the capital programme which are either new or where the capital requirement has increased; the most significant of these are detailed below:

Project Name	Gross budget change in new profile £m	Net budget change in new profile £m	Comment
Public Realm Schemes			
Cross Rail, Bond Street Western Ticket Hall	3.4	0.0	New submission
Villiers Street	2.6	0.5	New submission
Hanover Square	2.2	3.1	Increase in capital requirement
Covent Garden Streetscape Scheme	2.0	0.0	New submission
Strutton Ground	1.0	0.0	New submission
	11.2	**3.6**	

Planned Preventative Maintenance & Other Highways Projects			
Piccadilly Underpass Refurbishment	1.9	1.9	Increase in capital requirement
Lighting - Gas Valve Safety Connection System	1.5	1.5	New submission
	3.4	**3.4**	
Other			
Ultra Low Emission Zone (ULEZ) Compliance – Waste Fleet	2.1	2.1	New submission
Porchester Spa - Main Pool Capital Works	1.0	0.7	New submission
Pedestrian Crossing facilities	0.9	0.5	New submission
Business Processing and Technology Contract - Parking	0.8	0.8	New submission
	4.8	**4.1**	
Total	19.4	11.1	

10.34. All increases in the capital programme requirement for individual projects have been offset by reductions elsewhere within the capital programme. These reductions relate to projects with significant spend/substantial completion in 2017/18 (e.g. Bond Street, CCTV Crime and Disorder Estate), or where capital requirements have reduced in future years (e.g. Queensway Streetscape, Disabled Facilities Grant programme).

Adult Social Care

10.35. The Executive Directorate of Adult Social Care and Public Health has a capital programme which plans to deliver gross works expenditure of £2.1m. Project relating to this are mainly Information and Communications Technology (ICT) and agile working projects with one building refurbishment project at 66 Lupus Street. All of the advised projects for Adult Social Care and Public Health have identified capital grant funding to 100% of the expected expenditure values, which is held on Westminster City Council’s balance sheet.

	Forecast	Five Year Plan					
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Expenditure	770	777	400	200			2,147
External Funding	(770)	(777)	(400)	(200)			(2,147)
Net Funding Requirement	-	-	-	-	-	-	-

10.36. This continues the major change to the five year budget from 2016/17 which contained the major projects delivering residential care home replacements at Beachcroft, Carlton Dene and Westmead. These had a value of £55m when transferred to Growth, Planning and Housing along with any earmarked funding. As part of the current five year budget plan, the project at Barnard and Florey Lodges (Carlton Gate) is due to complete in 2017/18. The project at 66 Lupus Street and three of the four ICT projects are forecast to complete in 2018/19 with the final project to complete in 2020/21.

Children's Services

10.37. From 2017/18 to 2022/23, the Children's Services capital programme plans to deliver £25.1m of works.

	Forecast	Five Year Plan					
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Expenditure	10,847	13,279	250	250	250	250	25,126
External Funding	(10,041)	(13,029)					(23,070)
Net Funding Requirement	806	250	250	250	250	250	2,056

10.38. These can be broadly categorised as follows (gross expenditure budget in brackets):

- non-schools estate rolling programme: planned and reactive building works to non-schools sites (£1.3m)
- schools estate rolling programme: planned and reactive building works to schools sites (£0.7m)
- primary and secondary school expansion projects: expansion projects to increase pupil places (£12.3m)

10.39. The Basic Needs and condition allocation grants are awarded for the purposes for which they are being applied and the programme benefits to the value of £13.4m.

10.40. In comparison to the five year budget set in advance of the 2017/18 financial year, there have been only minor changes to the programme. This has resulted in a £496k reduction in the gross expenditure budget due to the completion of non-school maintenance programmes. The external income budget has not changed, because the related expenditure is funded from council borrowing.

Corporate Services and Policy, Performance and Communications

	Forecast	Five Year Plan					Total
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	£000
Expenditure	2,364	6,260	975	1,125	525	-	11,249
External Funding							-
Net Funding Requirement	**2,364**	**6,260**	**975**	**1,125**	**525**	**-**	**11,249**

10.41. The proposed gross expenditure budget is £11.249m.

10.42. The capital programme has decreased by £0.567m since the original approved capital. The key movement is due to an increase in End User Computing Refresh £0.516m and Digital Transformation £0.161m. However, this is offset by a reduction of £1.243m relating to the Outdoor Media phase 2 project. This project has not started and the expectation is that it will not continue in its current form. If an alternative scheme is established then a request for new capital funding will be requested.

City Treasurer

	Forecast	Five Year Plan					Future Years	Total
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	to 2031/32 £000	£000
Expenditure	42,500	38,849	26,040	18,681	17,898	21,486	486,051	651,505
Capital Receipts	(79,750)							(79,750)
Net Funding Requirement	**(37,250)**	**38,849**	**26,040**	**18,681**	**17,898**	**21,486**	**486,051**	**571,755**

10.43. There has been no change to the City Treasurer's net capital budget, although there have been amendments to the contingencies and capital receipts in this budget. This is the net impact of additional budgets, and changes to contingency and capital receipts in this budget.

10.44. In line with current financial regulations, no spend on projects will be incurred without appropriate Cabinet Member or Delegated Authority approval. Every scheme ould need to be fully approved.

11. Risk Management

11.1. Major capital projects require careful management to mitigate the potential risks which can arise. The effective monitoring, management and mitigation of these risks is a key part of managing the capital strategy.

General Risks – Identification and Mitigation

11.2. General risks are those which are faced as a consequence of the nature of the major projects being undertaken. Most of these risks are outside of the Council's control but mitigations have been developed as part of the business planning and governance process. These risks are set out below along with key mitigations:

11.3. **Interest Rate Risk** – the Council is planning to externally borrow £428.3m as set out in this Capital Strategy over the next five years. Interest rates are variable and a rate rise could increase the cost of servicing debt to a level which is not affordable. To mitigate this, the Council has used interest rate forecasts which include a prudent provision against interest rate rises. These are shown in the table below.

	2017/18 (%age)	2018/19 (%age)	2019/20 (%age)	2020/21 (%age)	2021/22 (%age)
Assumed Interest Rate	2.52%	3.00%	3.50%	3.50%	4.00%

11.4. In the event that interest rates rose beyond this forecast plus contingency the revenue cost to the Council would increase. A rise of an extra 1% by 2021/22 would cost an extra £4.3m on the full £428.3m borrowed by the end of 2021/22 – rising to £9.2m if rates were 1% higher by 2031/32.

11.5. **Inflation Risk** – construction inflation over and above that budgeted by the Council's professionals and advisors and built into project budgets could impact on the affordability of the capital programme. A 1% rise in the cost of the programme would increase the cost of the programme by around £26.0m (£17.9m if external contributions were also inflated). This is mitigated through the provision of contingencies, updating estimates regularly as they change and monitoring the impact through governance processes. This is also mitigated post the signature of contracts with construction companies and developers through fixed price contracts.

11.6. **Change in Law Risk** – Capital schemes need to comply with the latest law and regulations which can change leading to an impact on construction costs. This is mitigated by awareness of pipeline legislative changes and through contingencies.

11.7. **Market Health / Commercial Values** – the Council's capital programme relies on commercial activity as a key supporting strategy. This involves generation of income from property letting, generation of capital receipts from property sales in some cases post development, attracting developers to projects based on a potential share of profits and other revenue/capital financial flows. In some cases it is likely that the Council will commit to large projects, property acquisitions or other forms of expenditure on the basis of further business case assumptions about the market value of future asset or economic values. Should market movements mean that these assumptions are inaccurate then the Council may suffer financially. This risk can be mitigated through contingencies in projects.

Management of Project Risks

11.8. Project risks are those which relate to the delivery of capital projects which in many cases can be controlled, influenced or directly mitigated in ways other than making contingencies available. These risks would mostly be related to unforeseen project delays and cost increases which could arise from a range of circumstances. The effective management of these risks is mostly linked to the following strategies:

11.9. **Supplier Financial Stability** – construction companies and developers contracting with the Council would, if they experience financial instability, pose a significant risk. They may not be able to raise finance to cash flow operations, any potential insolvency process could lead to a costly process of changing suppliers without any guarantee of remaining within overall budget, the Council could suffer direct financial loss and any defects or other issues may not be resolvable as anticipated. To mitigate the Council carefully considers the financial robustness of any contractor and requests appropriate financial standing assurance and support wherever possible.

11.10. **Effective Business Case Development -** the documentation which is required will depend on the project's size. However, for 2017/18 the following types of business cases are required for larger projects:

- Strategic Case – this is where it is confirmed that the project outcomes as scoped align with the strategic objectives of the organisation

- Outline Business Case –sets out the preliminary thoughts regarding a proposed project. It should contain the information needed to help the council make decisions regarding the adoption of the project. It should state envisaged outcomes, benefits and potential risks associated with the project

- Full Business Case - the preparation of the FBC is a mandatory part of the business case development process, which is completed following procurement of the scheme – but prior to contract signature

11.11. **Risk Management** - Projects are required to maintain a risk register. Risk registers are aligned with general guidance on risk review

11.12. **Highlight reporting** - property major projects as an example create monthly highlight reports for all projects to help project board and wider interested parties aware of progress and risks of projects on an on-going basis.

11.13. **Appointment of professional team** - to ensure timely delivery of projects and robust planning and review, the major projects team has enlisted the help of many different internal and external experts. Projects have required assistance considering impacts of national and council policy and planning on project financial feasibility and general deliverability. Also qualified roles have been put in place for key surveying and financial planning roles to give assurance on quality of work and assumptions.

11.14. **Risk of Revenue Write Off** – the Council commits to feasibility studies on many of its significant capital schemes at the point where spend is revenue in nature or when capital spend may be written off should the scheme in question not progress. This risk is managed through the ongoing review process and development of sound business cases In advance of significant spend being committed.

Contingencies in the Capital Programme

11.15. In the initial stages of development, major capital projects will have significant uncertainties. For example, these may relate to the planning process, the views / interest of stakeholders who must be consulted, ground conditions or the costs of rectifying or demolishing existing buildings (e.g. the cost of asbestos removal).

11.16. For this reason, the Council has adopted a structured process of identifying and managing contingencies which is in line with guidance issued by HM Treasury. In the initial stages of a project these contingencies are necessarily broad estimates due to the number of unknown factors. As projects progress the unknown factors become clearer and project managers focus on managing these in the most effective way possible, utilising contingencies to do so as needed.

11.17. For 2018/19 it is recommended that a decision be taken to hold contingencies corporately with any release of these funds to be subject to approval from CRG. The value of these contingencies is £104.0m.

11.18. Currently a risk allocation of 20% is being used on new large scale development projects. 15% of this is held corporately and 5% is held against the project.

11.19. This is considered appropriate based on HM Treasury guidance and experience from previous projects. However, once the projects are sufficiently progressed, it is expected that each project will have a fully costed risk register compiled and agreed by the project team. The value of the costed risk register will be used instead of the flat rate of 20%. All projects are working towards this.

Housing Revenue Account – Risk Mitigation Strategy

11.20. As the HRA is legally not allowed to run a deficit this means that if there is an overspend on the capital programme or elsewhere, or if capital receipts are reduced or delayed, that the options available to contain these pressures will necessitate either reducing, re-profiling or stopping spend on the capital programme, realising funds through the disposal of HRA assets, or applying more funding from the Affordable Housing Fund.

11.21. The funding of the increase in the expected capital programme over the next five years is largely dependent upon the timing and value of asset disposals that underpin the regeneration programme. The reduction in the capacity of the HRA and the potential impact of risk factors requires a strong risk mitigation strategy that can be quickly adopted if any of adverse risks materialise.

11.22. The range of management options available within the HRA to mitigate additional risks are as follows (in no particular order): -

a. Project spend monitoring and management information. It is key that there are early warning indicators for management to be able to identify whether any projects are going to overspend in order to be able assess the impact on the HRA plan.

b. Regular updates to the HRA business plan. Quarterly reviews and updates to the business plan are undertaken, at which point any changes identified in operating or capital project performance can be remodelled to identify the impact and any further mitigation required. The fact that the business plan is updated on an annual basis means that steps can be taken to reprofile or reprioritise elements of the plan well in advance of any peak year. In reality, we would seek to avoid getting too close to the cap in the near term.

c. Utilisation of contingency. The main regeneration schemes each have a certain level of contingency built into the cost of the projects as a buffer against overspend within the project budget. This will be the first port of call for any overspend within a project. Monitoring the use and need for contingency on a project will be important as an indicator of whether a project is going to go over budget. Secondly, the capital programme has a separate contingency budget which has not been specifically allocated any given scheme. This amounts to £17.4m over the next 5 years.

d. Reduce or delay the reinvestment of self-financing capital expenditure. Currently it is assumed that the cash generated through disposal of HRA assets for reinvestment is fully reinvested back into acquiring new stock. There is £50m assumed for reinvestment over the next 5 years. The rate of reinvestment could be slowed so as to avoid the plan going into deficit or exceeding the borrowing limit of £333.8m. The consequence of this strategy would be that a reducing housing stock within the HRA would have a direct impact on the cost of Temporary Accommodation in the General Fund, creating pressures on the rest of the Council to stay within budget.

e. Dispose of HRA assets. Similar to the above, but without reinvesting the cash generated. Achieved through identifying surplus assets or selling additional HRA properties.

f. Increase or accelerate funding drawn from the Affordable Housing Fund (AHF). The risk of increases in cost for the acquisition of affordable housing can be met from the AHF fund through reprioritisation of funding. However, the AHF currently held by the council is assumed to be fully used over the coming years, and the plan as a whole assumes that further AHF money will be received and used in order to make the whole plan affordable. This would need careful modelling to understand the impact on other schemes assumed to draw from the fund in later years.

g. Transfer schemes from HRA into an alternative vehicle, such as a wholly owned company. This could help the profile of the business plan by moving expenditure from peak years when the borrowing cap is under pressure to another delivery vehicle so that the scheme can still proceed without drawing upon HRA borrowing. This could enable more to be achieved than is currently shown within the plan. It could also generate a capital receipt sooner for the HRA through the transfer of land out of the HRA. The downside would be that this could be removing schemes which would generate longer term benefits in terms of rental income on the affordable housing which was otherwise planned to be retained within the HRA.

h. Re-profile, extend or delay regeneration capital expenditure:

   i. Reprofile the regeneration spend so that schemes run sequentially rather in parallel, or delay some projects until the peak borrowing period has passed.

   ii. Reprofile and extend regeneration scheme programmes to be delivered over a longer period, slowing down the rate of spend. This however is likely to be an inefficient way of working and not favourable with development partners.

   iii. Some elements of the plan or certain schemes could be decided to begin or progress only when certain other conditions have been met which assure the financial safeguarding of the plan, such as the level of capital receipts received needing to be met.

   These would need to be modelled so as to demonstrate the impact of not only the deferred expenditure but also the deferred capital receipts arising at the end of the schemes when the income from private sale units comes through.

i. Reduce major works expenditure. This amounts to £199.8m over the next 5 years, £925m over 30 years. However, this could be a risky strategy as the Council has recently signed up to term contracts which gave an indication of a certain minimum level of spend with the suppliers. If these minimum levels were not achieved, the Council could be subject to penalties or compensation which negate or reduce the potential mitigation and impact on the Council's reputation.

j. Increase affordable rents assumed in the new units to be delivered through the regeneration schemes to 80% of market rents. Average rents for new units have been modelled at £150 a week but could be increased up to £187 per week to increase the annual return and total dwellings rent received.

k. Increase HRA rents following the period of 1% reductions to the maximum allowable. At this stage however it is not clear what limitations will be placed on local authorities following this period (i.e. from 1 April 2020). Currently the business plan assumes increases of CPI+1% for the 4 years following before reverting to annual CPI increases. When the 1% reductions legislation came in, this had a significant impact on the HRA plan, as the reductions have a compounding and lasting effect on future years. Reversing this position would have a similar but favourable effect on the plan. Rent policy is only guidance and the only control at present is the limit on Housing Benefit.

l. Lobby for legislative changes such as an increase in the debt cap, reversal of the 1% rent reduction etc. This is not something that the Council can directly change (only try and influence) as it is subject to central government decision making, and could take some time to be implemented if at all. This has already been referenced to in correspondence with government in the aftermath of Grenfell. The cost impact of remedial works in the light of Grenfell is modelled at £25.5m; it is conceivable that the cap could be increased to account for the pressure caused by this previously unforeseen expenditure. At time of writing we have not had a formal response to our communication.

m. The model maintains a minimum reserves balance of £11m, but this in itself is a buffer against overspends and hence acts as a source of mitigation.

Brexit

11.23. In the aftermath of result of the UK's decision to leave the European Union on 23 June 2016 there was an immediate period of volatility caused by uncertainty in the property market. This has since stabilised but the impact on the capital strategy particularly in respect of construction costs and property values will continue to be monitored on an on-going basis.

12. **Financial Implications**

12.1. The Council has proposed a gross General Fund capital programme of £2.596bn. This has to be financed from three key funding sources:

- External Funding (e.g. grants and contributions)
- Internal Funding (e.g. capital receipts)
- Borrowing

Funding

12.2. The main sources of external funding, shown in the table below, are via government grants and contributions (from government and external agencies) and Section 106 receipts. These are difficult to forecast on a medium to long term basis, and can be restrictive in terms of the capital schemes they can fund. Many grants, Section 106 receipts and contributions have specific terms and conditions which have to be met for their use. Therefore, any forecasting of external funding for the capital programme has to be done prudently. However, there are no on-going revenue implications of this method of financing. The borrowing in the table below represents total borrowing rather than "external" borrowing, as the use of Council's cash balances will be used to optimise the need to borrow externally.

Financed By:	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 to 2031/32	Total
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
DfE Basic Needs Grant	8874	7,865	-	-	-	-	-	**16,739**
DfE Schools Condition Allocation	1167	2,209	-	-	-	-	-	**3,376**
DCLG Disabled Facilities Grant	1297	1,297	1,297	1,297	1,297	1,297	-	**7,782**
DCLG Other Grant (WEP)	-	44,970	97,415	101,524	56,598	25,951	4,535	**330,993**
Transport for London (TfL) Grant	16464	18,329	7,866	2,798	294	-	-	**45,751**
Education Funding Agency (EFA) Grant	14703	28,180	-	-	-	-	-	**42,883**
DoH Community Capacity Grant	777	777	463	200	-	-	-	**2,217**
Other Minor Capital Grants	150	9,762	340	320	300	300	100	**11,272**
Sport England Grant	1400	-	75	-	100	250	150	**1,975**
Section 106 Contributions	26124	27,651	21,004	18,148	18,416	17,095	11,469	**139,907**
Section 278 Contributions	-	15,639	3,460	-	-	-	-	**19,099**
Affordable Housing Fund Contributions	54395	20,938	55,183	10,750	6,250	-	27,500	**175,016**
Revenue Reserve	-	70	802	-	-	6,250	-	**7,122**
Sub Total	**125351**	**177,687**	**187,905**	**135,037**	**83,255**	**51,143**	**43,754**	**804,132**
Capital Receipts	79750	-	21,964	20,535	57,425	72,476	174,153	**426,303**
Borrowing	164919	223,286	168,719	126,383	67,602	-3,483	618,268	**1,365,695**
Total	**370020**	**400,974**	**378,588**	**281,955**	**208,282**	**120,136**	**836,175**	**2,596,130**

12.3. Capital grants and contributions include grants from the Department for Education (DfE) which are provided to ensure that the Council is meeting their statutory requirements of providing school places and ensuring that school buildings are in a good condition. Other grants the Council receives includes TfL grant funding for infrastructure improvements across the City, EFA Grant, Disabled Facilities Grant (DFG) and Community Capacity Grants in Adult Social Care.

12.4. Community Infrastructure Levy (CIL) will predominantly replace the current Section 106 receipts system. Instead of the planning obligations that developers have to make currently, they will now have to pay a charge (levy). The income from this levy will be held corporately and the Council will decide (via an internal governance process) how to allocate these funds to relevant infrastructure projects.

12.5. CIL differs from Section 106 which essentially is a contract between a developer and the Council. However CIL is a levy which the developer is liable to pay if a planning permission is approved and the development is underway post CIL coming into effect. The Council has greater flexibility compared to Section 106 as the developer cannot stipulate any terms.

12.6. The Council will continue to look for innovative ways to fund the capital programme; this could include Tax Increment Financing (TIF) and private sector capital contributions.

12.7. The main sources of internal funding are from capital receipts or revenue in the form of reserves or in-year underspends. The table below shows the internal funding that will be used to fund the proposed capital programme.

	Forecast	Five Year Plan					Future	
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Years to £000	Total £000
Capital Receipts	79,750	-	21,964	20,535	57,425	72,476	174,153	426,303

12.8. Capital receipts are generated from the sale of non-current assets, and apart from special circumstances, can only be used to fund the capital programme. The Council holds all capital receipts corporately which ensures they can be used to fund the overall programme; therefore, individual services are not reliant on their ability to generate capital receipts. However, in special cases, some capital receipts maybe ring-fenced for the particular services, but this will need approval by CRG.

12.9. It is estimated that the proposed capital programme will be funded via £346.6m worth of capital receipts, primarily through the sale of properties as part of development projects. The use of capital receipts will peak in 2020/21 and in 2022/23 and will be used to reduce the funding gap.

12.10. Although the Council has a disposals programme which aids projections for the funding of the capital programme, the timing and value of asset sales can be volatile. Therefore, asset disposals have to be closely monitored as any in year shortfalls need to be met by increasing borrowing.

12.11. Revenue budgets can be transferred to capital. As this will necessarily impact on revenue budgets this is only used as a source of funding when the capital project will deliver future revenue savings. This allows the Council to generate savings which will mitigate funding reductions in future years. A business case would be required to support revenue funding of a project.

12.12. In March 2016, the DCLG issued statutory guidance on the flexible use of capital receipts, which allows local authorities to use capital receipts to fund the revenue costs for projects which are forecast to generate ongoing savings. This guidance covers the period 1 April 2016 to 31 March 2019, and applies only to capital receipts generated during this period. The authority has identified two capital projects, Westminster City Hall refurbishment and Digital Transformation, which have significant revenue spend and is seeking approval to part-fund these from capital receipts.

12.13. It is planned to use a further £18m of capital receipts for the revenue costs associated with the refurbishment of Westminster City Hall, £30m to reduce the pension fund deficit, and £3m for the Digital Transformation programme costs. The ability to fund these revenue costs from flexible capital receipts is predicated on the delivery of the planned 2017/18 additional capital receipts.

Borrowing

12.14. Borrowing is a source of funding available to the Council in funding its capital programme. Borrowing can take the form of internal or external borrowing.

	Forecast	Five Year Plan					Future	
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Years to £000	Total £000
Borrowing Requirement	164,918	223,286	168,720	126,383	67,602	(3,483)		1,365,695

12.15. Internal borrowing is the term used to describe the use of Council resources, such as reserves and cash balances, to finance capital expenditure. In effect, this is capital expenditure not supported by direct funding, external borrowing or any other form of external financing. While this has to be repaid it does not represent a formal debt in the same way as external borrowing.

12.16. This strategy is a prudent use of Council resources. Currently, investment returns are low and counterparty risk is relatively high. Should these balances not be available for internal borrowing, the Council could potentially have to take on long-term external borrowing paying a higher interest rate than could be achieved for a long-term investment.

12.17. External borrowing is the process of going to an external financial institution to obtain money. The Council would generally borrow from the Public Works Loans Board (PWLB) due to their favourable rates for public sector bodies. However, the market is regularly monitored to ensure that rates continue to be competitive.

12.18. A recently introduced debt instrument that could be utilised going forward is the LGA Municipal Bonds Agency. The agency is an independent body with its own governance structure, accountable to its council shareholders and the LGA. It seeks to raise money on the capital markets at regular intervals to on-lend to participating local authorities. This agency may offer access to cheaper borrowing and provides a viable alternative to the PWLB.

12.19. Another borrowing option for the Council is through the European Investment Bank (EIB). The EIB offer competitive rates; however there are strict governance processes around any loans that are taken out with the EIB. Therefore the Council would have to clearly set out the reasons for the loan, what it would be used for, and the EIB would then have to decide if this is an appropriate use of their funds. This is becoming a more high profile form of funding with local authorities, for example the London Borough of Croydon recently borrowed from the EIB.

12.20. Development and investment schemes will be required to cover the costs of borrowing through identifying increased income streams or revenue savings in order to fund repayments. To address this, on completion of the scheme the services budget will be reduced by the level of borrowing costs. However for operational schemes, due to the nature of the spend this is unlikely to result in increased income or revenue savings, these will be assessed on a scheme by scheme basis and if appropriate budgeted for corporately.

12.21. The table below gives a summary of the financing of the General Fund capital programme. The largest proportion of funding in the programme comes from borrowing, at 57%. Internal funding from capital receipts make up a further 24%. This is largely from the sale of residential units that will be built as part of a number of development schemes. The remainder will come from various grants and other income sources.

	Forecast	Five Year Plan					Future	
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Years to £000	Total £000
External Funding	125,352	177,687	187,905	135,037	83,255	51,143	43,754	**804,133**
Capital Receipts	79,750	-	21,964	20,535	57,425	72,476	174,153	**426,303**
Borrowing	164,918	223,286	168,720	126,383	67,602	(3,483)	618,268	**1,365,695**
Total	**370,020**	**400,973**	**378,588**	**281,955**	**208,282**	**120,137**	**836,175**	**2,596,130**

Revenue Implications

	Forecast	Five Year Plan					Future	
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Years to £000	Total £000
Expenditure	370,022	400,973	378,587	281,955	208,282	120,136	836,175	**2,596,130**
External Funding	(125,352)	(177,687)	(187,905)	(135,037)	(83,255)	(51,143)	(43,754)	**(804,133)**
Capital Receipts	(79,750)	-	(21,964)	(20,535)	(57,425)	(72,476)	(174,153)	**(426,303)**
Borrowing Requirement	**164,920**	**223,286**	**168,718**	**126,383**	**67,602**	**(3,483)**	**618,268**	**1,365,694**
Revenue Impacts:								-
Capital Financing Costs	8,022	9,618	13,027	20,191	29,382	33,800	570,185	**684,226**
Financed by:								
Commercial Income	(512)	(2,022)	(3,381)	(2,812)	(4,040)	(5,488)	(197,541)	**(215,795)**
Net Cost	7,511	7,596	9,646	17,380	25,342	28,312	372,644	**468,431**
Contributions To/From Sinking Fund	1,557	4,772	2,722	(1,809)	(6,124)	(5,541)	4,423	**0**
Total Revenue Impact	**9,068**	**12,368**	**12,368**	**15,571**	**19,218**	**22,771**	**377,067**	**468,431**
MTP Budget Assumptions	**9,068**	**12,368**	**12,368**	**15,571**	**19,218**	**22,771**	**377,067**	**468,431**

12.22. The financing costs include interest payable and an allocation for repayment of debt (MRP) as a result of the borrowing. The total net revenue costs of the proposed capital programme are expected to be £468.4m by the end of 2031/32.

12.23. The Council aims to maximise its balance sheet assets and as such is able to utilise cash balances derived from working capital (such items as the appeals provision, reserves, affordable housing fund etc.) rather than borrow externally to finance the net cost of the capital programme. This is referred to as “internal borrowing”. Of the £2.596bn gross General Fund capital expenditure, it is anticipated that £0.917.8bn will ultimately need to be borrowed externally.

12.24. The external borrowing is assumed to be PWLB, although other sources of funding will be explored as outlined in this paper. The PWLB interest rate is assumed to increase steadily to 4.5% by 2022/23 and remain at this rate. Every 1% increase in the interest rate will result in an additional £9.2m of revenue cost annually by 2031/32.

12.25. As noted in Section 5, CRG will have a pivotal role in monitoring the cost of funding the programme and ensuring project business cases continue to be viable, and the programme as a whole affordable. Where they assess this not to be the case, action will be taken to bring the programme back to an affordable position.

12.26. MRP is applied where the Council has to set aside a revenue allocation for provision of debt repayments (borrowing in the capital programme). MRP replaces other capital charges (e.g. depreciation) in the statement of accounts and has an impact on the Council’s bottom line. MRP will increase and decrease throughout the programme and is sensitive to both expenditure and funding changes. The Council will continue to balance the use of capital receipts, internal borrowing and external borrowing to ensure the most efficient use of resources, including the need to fund MRP.

12.27. The Council has an on-going capital programme and will continue to invest in capital projects beyond 2021/22 and will therefore need to ensure that funds are set aside for the future costs of borrowing.

12.28. As part of the closure of the Council's annual accounts the City Treasurer will make the most cost effective and appropriate financing arrangements for the capital programme as a whole. Thus funds will not be ring fenced unless legally required.

12.29. The above revenue implications of the capital programme will be covered through a mixture of efficiency savings, income generation, use of existing budgets and use of reserves.

12.30. The large development schemes, as well as the investment budget, are planned and required to generate an ongoing income stream. The key schemes include Dudley House, Huguenot House and income generated through the investment in the property portfolio.

12.31. The current MTP assumed an average £3.3m annual increase in the cost of financing the capital programme over the next fourteen years. Continuing that policy over the duration of the proposed capital programme, and indexing for inflation, will result in a total revenue budget spend of £473.6m to fund the capital programme

12.32. There is a peak revenue impact over the development period, before the key schemes start generating income and efficiency savings. The peak year revenue impact is 2023/24 and 2024/25 therefore it should be noted that reserves will be required to bridge this gap, before being repaid.

HRA Financial Implications

12.33. HRA is subject to a different business planning process that models the HRA capital programme over 30 years. The HRA capital investment requirement over the next 30 years is £1.864bn, and over the first five years £794m. An important distinction compared to other Council capital investment decisions is that HRA resources can only be applied for HRA purposes, and that HRA capital receipts are restricted to fund affordable housing, regeneration or debt redemption.

12.34. The Council's latest HRA 30 year business plan focuses upon delivering three key programmes:

- Investment to maintain and improve existing Council-owned homes;
- Delivery of new affordable homes; and
- Implementation of the housing regeneration programme.

12.35. The business plan outlines the proposed HRA investment programme and the context within which the business planning has been undertaken. This includes key assumptions as well as a risk register and proposed management strategies available to mitigate any risk.

12.36. The indicative proposed five year investment plan is broken down between the three main categories of spend: - HRA major works on our own stock, regeneration spend and other investment plans.

12.37. Gross HRA capital expenditure of £794m over the next five years is required to deliver the plans within this investment strategy, including: £200m on works to existing stock; £422m on housing estate regeneration; and £173m on other investment opportunities. This will be funded from £153m of HRA revenue resources, £381m from capital receipts and right to buy sales, £177m from the Councils Affordable Housing Fund together with £60m of new borrowing and a capital grant of £24m.

12.38. A summary of the next five years of the HRA capital investment programme, together with the total planned spend for the 30 year plan is set out in Appendix B to this report.

	HRA Thirty Year Programme							
	2017/18 Forecast £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	5 Year Total £000	30 Year Plan £000
Major Works								
Occupational Theraphy Adaptation	1,164	1,200	1,200	1,200	1,200	1,200	6,000	31,200
Electrical Works & Laterals	11,959	6,783	5,729	6,012	6,499	5,383	30,406	291,247
External Repairs & Decorations	15,063	25,661	24,301	19,095	15,363	21,305	105,725	382,218
Fire Precautions	1,331	4,461	1,535	1,961	120	2,200	10,277	34,976
General	1,266	100	50	-	-	500	650	6,113
Kitchen & Bathroom	819	700	750	700	700	700	3,550	26,651
Lifts	4,248	2,700	2,000	2,000	2,000	2,000	10,700	51,061
Major Voids	3,403	2,500	2,500	2,500	2,500	2,500	12,500	76,000
Grenfell	5,500	10,000	10,000	-	-	-	20,000	25,500
Total Major Works	**44,754**	**54,105**	**48,065**	**33,468**	**28,382**	**35,788**	**199,808**	**924,967**
Regeneration								
Cosway Street	432	8,400	21,200	2,856	-	-	32,456	32,888
Lisson Arches	4,141	10,560	14,042	331	-	-	24,933	29,150
Luton Street	230	2,041	6,372	5,771	-	-	14,184	14,361
Parsons North	1,197	14,848	11,449	437	-	-	26,734	27,931
Ashbridge	724	6,308	6,524	190	-	-	13,021	13,736
Church Street Phase Two	758	8,439	13,023	96,391	26,814	56,088	200,756	309,659
Tollgate Gardens	7,320	9,899	-	-	-	-	9,899	17,219
Other Estates Regeneration	17,875	33,022	28,521	9,663	13,357	15,359	99,921	157,823
Total Regeneration	**32,677**	**93,518**	**101,130**	**115,638**	**40,171**	**71,446**	**421,903**	**602,768**
Other Schemes								
District Heating Network Scheme	1,860	1,920	5,898	413	-	-	8,231	16,993
Edgware Rd	2,003	37	6,864	-	-	-	6,901	8,904
Infill Schemes	3,043	9,269	9,818	14,950	15,250	15,250	64,537	143,391
Self Financing	14,400	10,000	10,000	10,000	10,000	10,000	50,000	115,000
West End	-	-	12,428	10	10	12,428	24,876	24,876
Kemp House/Berwick Street	-	759	-	-	-	-	759	759
Central Contingency	-	5,429	6,305	2,317	1,983	1,397	17,430	26,000
Total Other Schemes	**21,305**	**27,414**	**51,313**	**27,690**	**27,243**	**39,075**	**172,734**	**335,923**
Total HRA Investment	**98,736**	**175,037**	**200,508**	**176,796**	**95,796**	**146,310**	**794,446**	**1,863,657**
Funding								
Capital Receipts	15420.4	53,052	81,773	98,714	41,445	60,977	335,961	522,412
Right To Buy	8945.2	23,169	5,775	1,643	1,638	13,083	45,308	94,605
Grants	3785	23,563	-	-	-	-	23,563	25,498
Affordable Housing Fund(AHF)	10433.7	17,364	38,067	51,280	21,875	48,075	176,661	325,181
Revenue Contribution To Capital Outl	39219.7	23,958	7,002	4,227	9,907	3,243	48,338	172,066
Major Repairs Reserve(MRA)	20932	20,931	20,931	20,931	20,931	20,931	104,655	627,000
Borrowing		13,000	46,960	-	-	-	59,960	96,895
Total Funding	**98,736**	**175,037**	**200,508**	**176,796**	**95,796**	**146,310**	**794,446**	**1,863,657**

** Forecast is based upon P5 forecast, adjusted to include works arising as a consequence of the impact of Grenfell on Council properties, Self-financing is the spend on new affordable housing assets funded by disposals of assets identified as no longer required. This is part of the strategic asset management strategy
MRR is the HRA proxy for depreciation and is available to fund new capital spend

13. **Legal Implications**

13.1. The legal implications for each individual scheme within the capital programme will be considered when approval is sought for that particular scheme. Each scheme within the capital programme will be approved in accordance with the Council's constitution.

Implications drafted by Rhian Davies, Chief Solicitor (Litigation and Social Care)

14. **Staffing Implications**

14.1. None specifically in relation to this report

15. **Consultation**

15.1. Consultation and engagement will be carried out on individual schemes with the capital programme.

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

Steven Mair, City Treasurer
smair@westminster.gov.uk
020 76412904

BACKGROUND PAPERS:

- Capital programme working papers
- Capital Programme Submission Requests for individual projects

APPENDICES

Appendix A1 – Capital Programme 2018/19 to 2022/23, forecast position for 2017/18 and future years' forecasts summarised up to 2031/32 by Cabinet Member

Appendix A2 – Capital Programme 2018/19 to 2022/23, forecast position for 2017/18 and future years' forecasts summarised up to 2031/32 by Chief Officer

Appendix B – HRA Capital Programme 2018/19 to 2022/23

Appendix B - HRA Capital Programme 2018/19 to 2022/23

	Forecast 2017/18 £'000	Budget 2018/19 £000	Budget 2019/20 £000	Budget 2020/21 £000	Budget 2021/22 £000	Budget 2022/23 £000	5 Year Total £000	30 Year Total £000
Major Works								
Occupational Therapy Adaptation	1,164	1,200	1,200	1,200	1,200	1,200	**6,000**	**31,200**
Electrical Works & Laterals	11,959	6,783	5,729	6,012	6,499	5,383	**30,406**	**291,247**
External Repairs & Decorations	15,063	25,661	24,301	19,095	15,363	21,305	**105,725**	**382,218**
Fire Precautions	1,331	4,461	1,535	1,961	120	2,200	**10,277**	**34,976**
General	1,266	100	50	-	-	500	**650**	**6,113**
Kitchen & Bathroom	819	700	750	700	700	700	**3,550**	**26,651**
Lifts	4,248	2,700	2,000	2,000	2,000	2,000	**10,700**	**51,061**
Major Voids	3,403	2,500	2,500	2,500	2,500	2,500	**12,500**	**76,000**
Grenfell	5,500	10,000	10,000				**20,000**	**25,500**
Total Major Works	**44,754**	**54,105**	**48,065**	**33,468**	**28,382**	**35,788**	**199,808**	**924,967**
Regeneration								
Cosway Street	432	8,400	21,200	2,856	-	-	**32,456**	**32,888**
Lisson Arches	4,141	10,560	14,042	331	-	-	**24,933**	**29,150**
Luton Street	230	2,041	6,372	5,771	-	-	**14,184**	**14,361**
Parsons North	1,197	14,848	11,449	437	-	-	**26,734**	**27,931**
Ashbridge	724	6,308	6,524	190	-	-	**13,021**	**13,736**
Church Street Phase Two	758	8,439	13,023	96,391	26,814	56,088	**200,756**	**309,659**
Tollgate Gardens	7,320	9,899	-	-	-	-	**9,899**	**17,219**
Other Estates Regeneration	17,875	33,022	28,521	9,663	13,357	15,359	**99,921**	**157,823**
Total Regeneration	**32,677**	**93,518**	**101,130**	**115,638**	**40,171**	**71,446**	**421,903**	**602,768**
Other Schemes								
District Heating Network Scheme	1,860	1,920	5,898	413	-	-	**8,231**	**16,993**
Edgware Rd	2,003	37	6,864	-	-	-	**6,901**	**8,904**
Infill Schemes	3,043	9,269	9,818	14,950	15,250	15,250	**64,537**	**143,391**
Self Financing	14,400	10,000	10,000	10,000	10,000	10,000	**50,000**	**115,000**
Section 106 Acquisitions	-	-	12,428	10	10	12,428	**24,876**	**24,876**
Kemp House/Berwick Street	-	759	-	-	-	-	**759**	**759**
Central Contingency	-	5,429	6,305	2,317	1,983	1,397	**17,430**	**26,000**
Total Other Schemes	**21,305**	**27,414**	**51,313**	**27,690**	**27,243**	**39,075**	**172,734**	**335,923**
Total HRA Investment	**98,736**	**175,037**	**200,508**	**176,796**	**95,796**	**146,310**	**794,446**	**1,863,657**
Funding								
Capital Receipts	15,420	53,052	81,773	98,714	41,445	60,977	**335,961**	**522,412**
Right To Buy	8,945	23,169	5,775	1,643	1,638	13,083	**45,308**	**94,605**
Grants	3,785	23,563	-	-	-	-	**23,563**	**25,498**
Affordable Housing Fund (AHF)	10,434	17,364	38,067	51,280	21,875	48,075	**176,661**	**325,181**
Revenue Contribution to Capital Outlay	39,220	23,958	7,002	4,227	9,907	3,243	**48,338**	**172,066**
Major Repairs Reserve (MRA)	20,932	20,931	20,931	20,931	20,931	20,931	**104,655**	**627,000**
Borrowing	-	13,000	46,960	-	-	-	**59,960**	**96,895**
Total Funding	**98,736**	**175,037**	**200,508**	**176,796**	**95,796**	**146,310**	**794,446**	**1,863,657**

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Appendix A2 – Capital Programme 2018/19 to 2022/23, forecast position for 2017/18 and future years' forecasts summarised up to 2031/32 by Chief Officer

Project Name	2017/18			2018/19			2019/20			2020/21			2021/22			2022/23			Future Years			Grand Total
	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	
	(£,000's)	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*
Barney & Florey	182	(182)																				
Customer Self Service Digital Enhancement				100	(100)																	
Frameworki Upgrade To Mosaic	288	(288)		150	(150)		400	(400)		200	(200)											
Health Integration	100	(100)		100	(100)																	
Lupus Street				327	(327)																	
Mobile Working	100	(100)		100	(100)																	
People First Website	100	(100)																				
Adult Services Total	**770**	**(770)**		**777**	**(777)**		**400**	**(400)**		**200**	**(200)**											
Beachcroft Expansion	129	(129)																				
Hallfield Heating & Distrib	642	(642)																				
King Solomon School Expansion				4,280	(4,280)																	
Pimlico Academy				5,110	(5,110)																	
Portman - Boiler And Distrib	104	(104)		509	(509)																	
Queen's Park Boiler Replacement	120	(120)		(120)	120																	
Queen's Park Safeguarding Works	17	(17)		(17)	17																	
Remodelling Of Early Help/ Children's Sevices Inve	806		**806**	250		**250**	250		**250**	250		**250**	250		**250**	250		**250**				**2,056**
Schools Minor Works Projects	264	(264)		337	(337)																	
St George'S School Expansion	4,159	(4,159)		3,688	(3,688)																	
Universal Infant Free School Meals	20	(20)																				
Westminster City School	4,586	(4,586)		(758)	758																	
Children's Services Total	**10,847**	**(10,041)**	**806**	**13,279**	**(13,029)**	**250**	**250**		**250**	**250**		**250**	**250**		**250**	**250**		**250**				**2,056**
Adelphi	24	(24)																				
Arundel Court	20	(20)																				
Banqueting House	3	(3)																				
Carey Street Highway Improvements	2	(2)																				
Cathedral Piazza	200	(200)																				
Colonnades	1	(1)																				
Cork Street Mews	55	(55)		850	(850)		320	(350)	**(30)**	30		**30**										
Glasshouse Street Highway Softening	14	(14)		800	(800)																	
Goldney Road	21	(21)																				
Greencoat And Gordon Place	30	(30)																				
Hamilton Terrace	3	(3)																				
Johnson House	3	(3)																				
Kemp House	12	(12)																				
Kingsgate House	55	(55)																				
Ldn Cycle Grid Circle Line West	45	(45)																				
Ldn Cycle Grid Grand Union	15	(15)																				
Ldn Cycle Grid Q16 Hybrid	2	(2)																				
Ldn Cycle Grid Q68	195	(195)																				
Ldn Cycle Grid Q7	22	(22)																				
Ldn Cycle Grid Q88	6	(6)																				
Marble Arch House	2	(2)																				
Mercers Block C	2	(2)																				
Middlesex Hospital	2	(2)																				
Monck Street Footway Modifications	60	(60)																				
Motcomb Street Public Realm Improvements	922	(922)																				
North Wharf Gardens	4	(4)																				
Nova Victoria	4	(4)																				
Pollen Street Improvements	110	(110)		400	(400)																	
Reed House Development	10	(10)																				
Regent Street Block W5	5	(5)																				
Russell Court	80	(80)																				
Seymour Street	5	(5)																				
St James Market	1	(1)																				
St Lawrence House	6	(6)																				
St Marys Ch'Yd Boundary Wall	85		**85**																			**85**
Ticket Office - Leicester Sq	480	(200)	**280**																			**280**
Warwick Row	2	(2)																				
190 Strand	39	(39)																				
21-23 Farm Street	28	(28)																				
221-235 Lanark Road	4	(4)																				
25 Chapter Street	6	(6)																				

Appendix A2 – Capital Programme 2018/19 to 2022/23, forecast position for 2017/18 and future years' forecasts summarised up to 2031/32 by Chief Officer

Project Name	2017/18			2018/19			2019/20			2020/21			2021/22			2022/23			Future Years			Grand Total
	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	
	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)
325 Harrow Road	50	(50)																				
38 King Street	15	(15)																				
466 Edgware Road	11	(11)																				
51-91 Knightsbridge	9	(9)																				
57 Broadwick Stret	11	(11)																				
66 Chiltern Street	4	(4)																				
6-9 Buckingham Gate	4	(4)																				
77 South Audley Street	150	(150)																				
9 Marylebone Lane	3	(3)																				
Abel & Cleland Public Realm	500	(500)		640	(640)																	
Aberdeen Place	4	(4)																				
AGED EXPIRED EQUIPMENT	236		**236**	244		**244**	251		**251**	258		**258**	266		**266**	274		**274**				**1,529**
ANTI SKID SURFACING	155		**155**	160		**160**	165		**165**	170		**170**	175		**175**	180		**180**				**1,005**
Assets of Unknown Origin				100		**100**	100		**100**	105		**105**	105		**105**	110		**110**				**520**
Baker Street 2-Way	5,954	(5,957)	**(3)**	6,320	(6,089)	**231**	6,326	(5,803)	**523**													**751**
Bedford Street - Garrick Street	7	(7)																				
Berkely Square North Side PR Scheme	500	(500)		4,500	(4,500)																	
Berners Street Copyright Building	18	(18)																				
Bluebell Glade Works	98		**98**	45		**45**	40		**40**	30		**30**	40		**40**	40		**40**	40		**40**	**333**
Bond Street	5,422	(3,787)	**1,635**	2,561	(1,610)	**951**	16	(560)	**(544)**	101	(510)	**(409)**										**1,633**
Bsa Programme 16/17	100	(100)																				
Business Processing and Technology Contract - Parking							400		**400**	350		**350**										**750**
Café and Cricket	39		**39**																			**39**
Cambridge Circus	1,268	(542)	**726**																			**726**
CARRIAGEWAY PROG MAINT	3,731		**3,731**	2,750		**2,750**	2,800		**2,800**	2,850		**2,850**	2,900		**2,900**	3,000		**3,000**				**18,031**
CCTV - CRIME & DISORDER ESTATE	1,704		**1,704**																			**1,704**
CCTV Upgrades Leisure Centres	12		**12**																			**12**
Cemeteries Infrastructure	62		**62**	50		**50**	38		**38**	38		**38**	38		**38**	38		**38**				**264**
Ceremonial Streetscape	2,500	(2,500)		7,400	(7,400)		2,000	(2,000)														
Changing Room Refurbishment Programme	150		**150**	50		**50**	150		**150**	100		**100**	150		**150**	100		**100**				**700**
Chelsea Barracks	6	(6)																				
CHERISHED COLUMN REPLA	92		**92**	95		**95**	98		**98**	101		**101**	104		**104**	107		**107**				**597**
Cleveland Row (Dev)	550	(550)		500	(520)	**(20)**	20		**20**													
Commercial Waste Containers	40		**40**	40		**40**	40		**40**	40		**40**	40		**40**	40		**40**				**240**
Covent Garden Streetscrape Scheme				2,000	(2,000)																	
Cross Rail, Bond Street Western Ticket Hall				1,013	(1,013)		1,213	(1,213)					1,213	(1,213)								
Cycle Grid	4,555	(4,555)		5,000	(5,000)																	
Cycle Parking Estates	23	(23)																				
Cycle Superhighway East-West	20	(20)																				
Cycle Superhighway Route 11	4	(4)		1,000	(1,000)																	
DAMAGED PAVING PROG	200		**200**	190		**190**	80		**80**	82		**82**	80		**80**	85		**85**				**717**
Disabled Facilities Grants	1,614	(1,297)	**317**	1,297	(1,297)		1,297	(1,297)		1,297	(1,297)		1,297	(1,297)		1,297	(1,297)					**317**
Drainage Improvements Programme				145		**145**	140		**140**	144		**144**	150		**150**	155		**155**				**734**
Dudley House	11	(11)																				
Duke Street - Public Realm	750	(750)		1,100	(1,100)																	
Duke Street - Selfridges	4	(4)																				
East Finchley Wall	5		**5**																			**5**
East Mayfair - Cork Street	14	(14)																				
East Mayfair Public Realm Scheme	100	(100)		2,765	(2,496)	**269**	1,343	(1,343)		1,393	(1,393)											**269**
Elevated Harrow Road Bridge CP	400		**400**	2,100		**2,100**																**2,500**
EV Charging Point Taxi Cab	6	(6)																				
Externally Funded Public Realm Schemes																						
Floral Street	15	(15)																				
FOOTWAY PROG MAINT	855		**855**	1,625		**1,625**	1,700		**1,700**	1,785		**1,785**	1,880		**1,880**	1,940		**1,940**				**9,785**
French Railways House	2	(2)																				
Golden Jubilee Footbridge																						
Great Portland Street	15	(15)																				
GULLY RECONSTRUCTION																						
Hanover Square Public Realm	1,000	(1,000)		8,174	(6,054)	**2,120**	4,570		**4,570**													**6,690**
Harrow Rd / Ladbroke Grove	40	(40)																				
Harrow Rd Gyratory Taxi Rank																						
Horseferry Road/Dean Ryle Street LSS stage 1	7	(7)																				

Appendix A2 – Capital Programme 2018/19 to 2022/23, forecast position for 2017/18 and future years' forecasts summarised up to 2031/32 by Chief Officer

Project Name	2017/18 1 - Spend	2017/18 2 - External Funding	2017/18 Total	2018/19 1 - Spend	2018/19 2 - External Funding	2018/19 Total	2019/20 1 - Spend	2019/20 2 - External Funding	2019/20 Total	2020/21 1 - Spend	2020/21 2 - External Funding	2020/21 Total	2021/22 1 - Spend	2021/22 2 - External Funding	2021/22 Total	2022/23 1 - Spend	2022/23 2 - External Funding	2022/23 Total	Future Years 1 - Spend	Future Years 2 - External Funding	Future Years Total	Grand Total
	(£,000's)	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*
Jermyn Street	3,500	(3,500)		2,500	(3,200)	**(700)**	600		**600**	100		**100**										
Jnr Fitns Fac Dev In Sprts Cnt																						
John Snow Handpump Broadwick Street	15	(15)																				
Jubilee Sports Centre	27	(27)																				
KENSINGTON GORE BUS STOP FEASIBILITY	921	(401)	**520**																			**520**
King Street Pedestrianisation	38	(38)																				
Large Public Realm Schemes																						
Ldn Cycle Grid Carlton Vale (Wiggins way)	300		**300**																			**300**
Ldn Cycle Grid Cycle Superhighway East West Phase 2	8	(8)																				
Ldn Cycle Grid Cycle Superhighway East West Savoy Street And Strand	22	(22)																				
Ldn Cycle Grid Cycle Superhighway East West Sussex Square	128	(128)																				
Ldn Cycle Grid Cycle Vauxhall Cross Transformation	5	(5)																				
Ldn Cycle Permeability	186	(186)																				
LED Lighting Roll Out	210		**210**	2,000		**2,000**	1,700		**1,700**	1,100		**1,100**										**5,010**
Legible London	196	(196)																				
LEN Paddington Street Walking 1	270	(270)																				
Libraries - 6 Yr Dec Prog	799		**799**	500		**500**	500		**500**	400		**400**	400		**400**	400		**400**				**2,999**
Light Benches Brown Hart Lane	6	(6)																				
Lighting - Gas Valve Safety Connection System				300		**300**	300		**300**	300		**300**	300		**300**	300		**300**				**1,500**
LIGHTING IMPROVEMENTS	1,652		**1,652**	1,459		**1,459**	1,381		**1,381**	1,422		**1,422**	1,465		**1,465**	1,509		**1,509**				**8,888**
LOAD TESTING	66		**66**	68		**68**	71		**71**	73		**73**	75		**75**	77		**77**				**430**
Local Safety Scheme Investigations	42	(42)																				
Local Safety Schemes 1 2015-16				1,100	(700)	**400**	1,100	(700)	**400**	1,100	(700)	**400**										**1,200**
Lodge Road	4	(4)																				
LSS Harrow Road/Ashmore Road	180	(130)	**50**																			**50**
LSS Harrow Road/Woodfield Road																						
LSS Shirland Road / Elgin Avenue	150	(150)																				
Maida Hill Delivery Office Lanhill Road	54	(54)																				
Marble Arch lighting	160		**160**																			**160**
Marylebone Hotel Tree Relocation	5	(5)																				
Marylebone Lane Phase 2	1,100	(1,100)																				
Millbank / Dean Stanley Street	120	(120)																				
Moberley Sports Centre	21	(21)																				
Multi Use Games Areas And Outd				35		**35**	35		**35**	35		**35**										**105**
NEW MTP ICT CAPITAL																						
New Row Pedestrian Zone	27	(27)																				
Newport Place	2,350	(2,000)	**350**																			**350**
North Audley Street	75	(75)		300	(300)		450	(450)														
Oldbury Court	5	(5)																				
Open Spaces & Bio-Diversity Strategy	37		**37**																			**37**
Other Bridges & Structures																						
Other Externally Funded Public Works Schemes																						
Other Large Public Realm Schemes																						
Other Planned PPM Carriageways & Footways																						
Other Waste & Recycling Schemes																						
Oxford Street East Phase III	100	(100)																				
Oxford/Regent Street, Bond Street (Wep)																						
PADD REC GROUND NEW SPEC AND A													200	(100)	**100**	200	(100)	**100**				**200**
Park Crescent	3	(3)																				
Parks And Open Spaces Infrastructure	48		**48**	150		**150**	150		**150**	150		**150**	150		**150**	150		**150**				**798**
PED Ducting	1,300	(1,300)																				
Pedestrian Crossing facilities				850	(300)	**550**																**550**
Piccadilly Two-Way	140	(140)																				
Piccadilly Underpass	100		**100**	3,300		**3,300**	2,000		**2,000**													**5,400**
Planned Preventative Mtce - Bridges & Structures	815	(200)	**615**	865	(225)	**640**	910	(250)	**660**	955	(275)	**680**	955	(275)	**680**	955	(275)	**680**				**3,955**
PLAYGROUNDS - MINOR WKS	81		**81**	50		**50**	50		**50**	50		**50**	50		**50**	50		**50**				**331**
Porchester Spa - Main Pool Capital Works																500	(150)	**350**	500	(150)	**350**	**700**
PPM Carriageways and Footways																						
PRG - SYNTHETIC PITCH REPLACEMENT				100		**100**	50		**50**	50		**50**										**200**
PRG PATHS DRAIN FENC'G HORT PA	545		**545**																			**545**
PRG Replacement of Playground	150		**150**	50		**50**																**200**
Principal Roads	770	(770)		725	(725)																	

Appendix A2 – Capital Programme 2018/19 to 2022/23, forecast position for 2017/18 and future years' forecasts summarised up to 2031/32 by Chief Officer

Project Name	2017/18			2018/19			2019/20			2020/21			2021/22			2022/23			Future Years			Grand Total
	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	
	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)
Protective Paint Coating To Li	199		**199**	315		**315**	324		**324**	334		**334**	344		**344**	354		**354**				**1,870**
Public Lighting																						
Public Realm Council Funded																						
Queensway / Westbourne Grove																						
Queensway Streetscape Improvements Phase 1	900	(300)	**600**	4,251	(1,000)	**3,251**	500	(500)		750	(750)		1,750	(1,750)		3,000	(3,000)					**3,851**
Quiet Way Pimlico To Green Park (Vincent Square) (TFL)	3	(3)																				
Quietway Wayfinding (TFL)	3	(3)																				
Ramillies Street	20	(20)																				
Rathbone Place	10	(10)																				
RECYCLING CONTAINERS & SACKS	140		**140**	100		**100**	100		**100**	100		**100**	100		**100**	100		**100**				**640**
REG SIGN REPLACEMENT	72		**72**	74		**74**	76		**76**	78		**78**	81		**81**	83		**83**				**464**
Regent Street North	10	(10)																				
Regent Street Street Lighting Scheme	275	(275)																				
Regents Street Quadrant	150	(150)																				
REPL STREET NAMEPLATES	60		**60**	55		**55**	55		**55**	57		**57**	60		**60**	65		**65**				**352**
Richmond Buildings	15	(15)																				
Riding House Street 21-23	12	(12)																				
S106 Developer Funded Schemes	114	(114)		5,890	(5,890)		6,000	(6,000)		5,000	(5,000)		5,000	(5,000)		5,000	(5,000)					
Safe & Secure (Private) SS	200	0	**200**																			**200**
Safe & Secure Renovation Grant Programme				200		**200**	200		**200**	200		**200**	200		**200**	200		**200**				**1,000**
Savile Row Public Realm	307	(307)		600	(600)		68	(68)														
SAYERS CROFT - REFURBISHMENTS	80	0	**80**	90	(15)	**75**	140	(15)	**125**	95	(20)	**75**	75		**75**	75		**75**	75	(75)		**505**
School Sports Facilities							50		**50**	50		**50**										**100**
SELCHP PLANT IMPROVEMENTS	132		**132**																			**132**
Semley Place Right Turn	4	(4)																				
Seymour Leisure Centre Pool Capital Works							275	(75)	**200**													**200**
Shaftesbury	150	(150)																				
Sherwood Street				650	(650)																	
SMART SIGNS SCHEME 2015-16	218		**218**																			**218**
Sport & Leisure - Condition Survey & Maintenance	544	(100)	**444**	700	0	**700**	400	0	**400**	550	0	**550**	350		**350**	400		**400**	350		**350**	**3,194**
St James Place Forecourt Public Realm Scheme	250	(250)		1,950	(1,950)		450	(450)														
ST JOHNS GDN HORSEFERRY RD WAL	107		**107**																			**107**
Stone Mastic Ashalpt Replacement	3,000		**3,000**	3,000		**3,000**	3,000		**3,000**	3,000		**3,000**	2,000		**2,000**							**14,000**
Strand/Aldwych Improvements	200	(200)																				
STRUCT CRITICAL COLUMN	195		**195**	201		**201**	207		**207**	213		**213**	220		**220**	227		**227**				**1,263**
Strutton Ground				1,000	(1,000)																	
Synthetic Pitch Replacement	300		**300**																			**300**
TFL LIP Scheme	839	(839)		3,653	(3,653)																	
TfL Sponsored Cycling Initiatives	2,868	(2,868)																				
Tiling & CCTV Improvements All sites	20		**20**	30		**30**	30		**30**	15		**15**	25		**25**	25		**25**	25		**25**	**170**
TRAFFIC MANAGEMENT SCHEMES 1																						
Traffic Signal Modernisation &PCaTS	200	(200)																				
Trial 20mph Scheme	190		**190**	200	(100)	**100**																**290**
TUNNEL IMPROVEMENTS	56		**56**																			**56**
Ultra Low Emission Zone (ULEZ) Compliance – Waste Fleet				2,070		**2,070**																**2,070**
Vehicle Actuated Signs	60		**60**																			**60**
VFM FOOTWAY STRENTHENING	200		**200**	175		**175**	150		**150**	155		**155**	160		**160**	165		**165**				**1,005**
Victoria Embankment Sturgeon	620		**620**																			**620**
Victoria Street Crossing	92	(92)																				
Villiers Street				100	(100)		1,000	(1,000)		1,500	(1,000)	**500**										**500**
Warwick Avenue/Clifton Villas LSS stage 1	90		**90**																			**90**
Waterloo Bridge	1,555		**1,555**	800		**800**	600		**600**													**2,955**
Westbourne Green Outdoor Gym	80		**80**																			**80**
Westbourne Grn Skate Pk Multi	92	0	**92**																			**92**
Westminster Ref Lib - Refurb	340		**340**																			**340**
Whitcomb Street Improvements	275	(200)	**75**																			**75**
Whitehall Streetscape Ph14/ 15	335	(335)																				
Wilberforce Multi-Use Games Area	88	(50)	**38**																			**38**
City Management & Communities Total	**68,031**	**(42,366)**	**25,665**	**94,370**	**(63,177)**	**31,193**	**46,029**	**(22,074)**	**23,955**	**26,706**	**(10,945)**	**15,761**	**22,398**	**(9,635)**	**12,763**	**21,201**	**(9,822)**	**11,379**	**990**	**(225)**	**765**	**121,481**
Capital Contingency	13,500		**13,500**	19,849		**19,849**	26,040		**26,040**	18,681		**18,681**	17,898		**17,898**	21,486		**21,486**	86,051		**86,051**	**203,505**
Capitalisation of Pension Contribution	20,000		**20,000**	10,000		**10,000**																**30,000**
City Hall Revenue Costs	9,000		**9,000**	9,000		**9,000**																**18,000**

Appendix A2 – Capital Programme 2018/19 to 2022/23, forecast position for 2017/18 and future years' forecasts summarised up to 2031/32 by Chief Officer

Project Name	2017/18			2018/19			2019/20			2020/21			2021/22			2022/23			Future Years			Grand Total
	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	
	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)
Future Year Net Spend																0			400,000		**400,000**	**400,000**
City Treasurer Total	**42,500**		**42,500**	**38,849**		**38,849**	**26,040**		**26,040**	**18,681**		**18,681**	**17,898**		**17,898**	**21,486**		**21,486**	**486,051**		**486,051**	**651,505**
CORPORATE SOFTWARE LICENCES	20		**20**	50		**50**				50		**50**	50		**50**							**170**
Data Centre Refresh	90		**90**	110		**110**	100		**100**	100		**100**	100		**100**							**500**
DATA NETWORK REFRESH	353		**353**	497		**497**	200		**200**	200		**200**	200		**200**							**1,450**
Digital Transformation	1,170		**1,170**	2,830		**2,830**	0															**4,000**
END USER COMPUTING REFRESH	616		**616**	1,600		**1,600**	100		**100**	700		**700**	100		**100**							**3,116**
Parking & Integrated St Mgt It	77		**77**	623		**623**	75		**75**	75		**75**	75		**75**							**925**
Tech Refresh				500		**500**	500		**500**													**1,000**
Corporate Services Total	**2,326**		**2,326**	**6,210**		**6,210**	**975**		**975**	**1,125**		**1,125**	**525**		**525**							**11,161**
291 HARROW ROAD				240	(240)		330	(163)	**167**													**167**
33 Tachbrook Street	927		**927**																			**927**
41 WHITCOMB/HUGUENOT HSE REDEV	400		**400**	2,258		**2,258**	12,590		**12,590**	28,760		**28,760**	21,053		**21,053**	1,027		**1,027**				**66,088**
AHF Budget	19,964	(19,964)		3,950	(3,950)		6,250	(6,250)		6,250	(6,250)		6,250	(6,250)		6,250	(6,250)		27,500	(27,500)		
Beachcroft	6,887	(2,000)	**4,887**	13,971	(1,150)	**12,821**	8,381	(2,802)	**5,579**	308	0	**308**										**23,595**
Carlton Dene	200		**200**	3,200		**3,200**	2,175	(19,760)	**(17,585)**	21,990		**21,990**	21,000		**21,000**	331		**331**				**29,136**
CHURCH STREET PUBLIC REALM				2,800	(2,800)																	
Circus Road	300		**300**	143		**143**																**443**
Cosway Street	500		**500**																			**500**
Council House (LBS Available for Lease Works)	700		**700**																			**700**
Council House Lease Disposal Costs	956		**956**																			**956**
Council Hse Fit Out Of Additional Requirements (R	696		**696**																			**696**
Energy Monitor & Compliance	230		**230**	150		**150**	150		**150**	50		**50**	50		**50**	50		**50**				**680**
Farm Street	199		**199**	54		**54**																**253**
FORWARD MANAGEMENT PLAN	1,315		**1,315**	793		**793**	817		**817**	842		**842**	867		**867**	893		**893**				**5,527**
Future Education Needs Project				650		**650**	15,000	(5,000)	**10,000**	15,000	(4,500)	**10,500**	5,000		**5,000**							**26,150**
Housing Investment in Discharge of Duty	10,800		**10,800**	2,700		**2,700**																**13,500**
Housing Investment in Discharge of Duty Phase 2				10,800		**10,800**	2,700		**2,700**													**13,500**
Leisure Review							2,676		**2,676**	5,810	0	**5,810**	7,032		**7,032**	11,847		**11,847**	271,930		**271,930**	**299,295**
Landlord Resp- Mayfair Library	950		**950**																			**950**
Landlord Resp- Regency Cafe Ro	140		**140**																			**140**
LANDLORD'S RESPONSIBILITIES	1,367		**1,367**	1,250		**1,250**	1,250		**1,250**	1,250		**1,250**	1,500		**1,500**	1,500		**1,500**				**8,117**
Legacy Compliance																						
Leicester Square Ticket Booth				470		**470**	2,000		**2,000**													**2,470**
Lisson Grove Improvement-Infra	1,281		**1,281**																			**1,281**
Lisson Grove Programme	775		**775**	2,225		**2,225**	3,000		**3,000**	12,000		**12,000**	18,000		**18,000**	12,000		**12,000**	32,000		**32,000**	**80,000**
Luxborough Development	500		**500**	4,295		**4,295**	4,440		**4,440**	10,839		**10,839**	2,756		**2,756**							**22,830**
Mandela Way Upgrade Rental Prp	398		**398**																			**398**
Minimum Energy Efficiency Standard (MEES) - Investment				50		**50**	125		**125**	50		**50**	25		**25**	25		**25**	25		**25**	**300**
Moberley Sports Centre Redev	12,107	(1,400)	**10,707**	467		**467**	1,067		**1,067**													**12,241**
NHB Places of Work	150	(150)		250	(250)																	
Open Spaces & Bio-Diversity Strategy	200		**200**	225	(25)	**200**	225	(25)	**200**	225	(25)	**200**	225	(25)	**200**	225	(25)	**200**	225	(25)	**200**	**1,400**
Property Investment Schemes	37,613		**37,613**	25,000		**25,000**	25,000		**25,000**													**87,613**
Refurbishment of Coroners Court	2,403		**2,403**	81		**81**																**2,484**
Seymour Leisure Centre (Marylebone Library)	500		**500**	1,500		**1,500**	3,033		**3,033**	1,550		**1,550**	100		**100**							**6,683**
Sir Simon Milton University Technical College	2,977	(15,339)	**(12,362)**																			**(12,362)**
Soho				200		**200**	1,750	(250)	**1,500**	1,750	(250)	**1,500**	1,750	(250)	**1,500**	1,750	(250)	**1,500**	1,500	(250)	**1,250**	**7,450**
Strategic Acquisition - Huguenot	8,948		**8,948**	11,068		**11,068**	6,384		**6,384**													**26,400**
Strategic Acquisitions	27,173		**27,173**	16,942		**16,942**	66,749		**66,749**													**110,864**
STREET TREES - NEW PLANTING	170		**170**	200		**200**	200		**200**	200		**200**	200		**200**	200		**200**	200		**200**	**1,370**
TA purchase OBB				12,670	(8,338)	**4,332**	14,600	(14,600)														**4,332**
Ta Purchases	2,258	0	**2,258**	3,168	(7,500)	**(4,332)**	5,000	(5,000)														**(2,074)**
TA Purchases (IBB)	16,585	(16,585)																				
The Strand/Aldwych	200		**200**	1,238	(1,238)		9,671	(9,671)		12,119	(12,119)		3,067	(3,067)		2,125		**2,125**				**2,325**
Ts - Dudley House	42,300	(15,846)	**26,454**	30,963	(28,180)	**2,783**	5,008	(2,573)	**2,435**	906		**906**										**32,578**
VARIOUS PROPS CAPITALISED SALS	504		**504**	554		**554**	565		**565**	576		**576**	588		**588**	600		**600**				**3,387**
WCH IMPROVEMENT - MAJOR REFURB	35,493		**35,493**	40,598		**40,598**																**76,091**
WEP - Air Quality	150		**150**	893	(811)	**82**	822	(752)	**70**	600	(530)	**70**	200	(180)	**20**	150	(150)					**392**
WEP - Connect Westminster (Broadband)	1,054	(491)	**563**	1,500	(750)	**750**	100	(50)	**50**													**1,363**
WEP - Enterprise	1,100		**1,100**	5,670	(5,670)		5,250	(5,250)		4,250	(4,250)		250	(250)								**1,100**
WEP - Oxford Street East	597		**597**	19,714	(19,714)		56,427	(56,427)		53,455	(53,455)		39,874	(39,874)		14,296	(14,296)		1,545	(1,545)		**597**
WEP - Oxford Street West	2,046	(400)	**1,646**	19,188	(19,188)		35,458	(35,458)		41,413	(41,413)		23,524	(23,524)		20,300	(20,300)		14,209	(14,209)		**1,646**

Appendix A2 – Capital Programme 2018/19 to 2022/23, forecast position for 2017/18 and future years' forecasts summarised up to 2031/32 by Chief Officer

Project Name	2017/18			2018/19			2019/20			2020/21			2021/22			2022/23			Future Years			Grand Total
	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	1 - Spend	2 - External Funding	Total	
	(£,000's)	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*	*(£,000's)*
WEP Freight				1,000	(900)	**100**	1,550	(1,400)	**150**	1,200	(1,100)	**100**	250	(200)	**50**	50	(50)					**400**
WEP General Funding	1,297		**1,297**	3,000		**3,000**	3,000		**3,000**	3,000		**3,000**	3,000		**3,000**	3,000		**3,000**				**16,297**
Westmead	200		**200**	1,350		**1,350**	1,150		**1,150**	10,600	0	**10,600**	10,650		**10,650**	580		**580**				**24,530**
Growth, Planning & Housing Total	**245,510**	**(72,175)**	**173,335**	**247,438**	**(100,704)**	**146,734**	**304,893**	**(165,431)**	**139,462**	**234,993**	**(123,892)**	**111,101**	**167,211**	**(73,620)**	**93,591**	**77,199**	**(41,321)**	**35,878**	**349,134**	**(43,529)**	**305,605**	**1,005,706**
B.I Tri Borough Capital	38		**38**																			**38**
Events And Filming				50		**50**																**50**
Outdoor Media Phase 2																						
Policy, Performance & Communications Total	**38**		**38**	**50**		**50**																**88**
Grand Total	**370,022**	**(125,352)**	**244,670**	**400,973**	**(177,687)**	**223,286**	**378,587**	**(187,905)**	**190,682**	**281,955**	**(135,037)**	**146,918**	**208,282**	**(83,255)**	**125,027**	**120,136**	**(51,143)**	**68,993**	**836,175**	**(43,754)**	**792,421**	**1,791,997**

Summary (Including All Capital Receipts)	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Future Years	Grand Total
Expenditure	370,022	400,973	378,587	281,955	208,282	120,136	836,175	2,596,130
External Funding	125,352	177,687	187,905	135,037	83,255	51,143	43,754	804,133
Net Cost After Capital Funding	**244,670**	**223,286**	**190,682**	**146,918**	**125,027**	**68,993**	**792,421**	**1,791,997**
Capital Receipts	79,750		21,964	20,535	57,425	72,476	174,153	426,303
Grand Total	**164,920**	**223,286**	**168,718**	**126,383**	**67,602**	**3,483**	**618,268**	**1,365,694**

City of Westminster

Cabinet Briefing

Decision Maker	Cabinet
Date:	30 October 2017
Status:	General Release
Title:	Treasury Management Strategy Statement for 2018/19 to 2022/23
Wards Affected:	All
Policy Context:	To manage the Council's finances prudently and efficiently.
Cabinet Member	Cabinet Member for Finance, Property and Corporate Services
Financial Summary:	The Annual Treasury Management Strategy Statement sets out the Council's strategy for ensuring that: 1. Its capital investment plans are prudent, affordable and sustainable; 2. The financing the Council's capital programme and ensuring that cash flow is properly planned 3. Cash balances are appropriately invested to generate optimum returns having regard to security and liquidity of capital.
Report of:	Steven Mair, City Treasurer

1. EXECUTIVE SUMMARY

1.1 The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code for Capital Finance in Local Authorities and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. These are contained within this report.

1.2 The Act also requires the Council to set out a statement of its treasury management strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. The Treasury Management Strategy Statement and Annual Investment Strategy must both have regard to guidance issued by CLG and must be agreed by the full Council.

1.3 This report sets out the Council's proposed Treasury Management Strategy Statement (TMSS) for the period 2018/19 to 2022/23, and Annual Investment Strategy (AIS) for the year ended 31 March 2019, together with supporting information.

1.4 The TMSS and AIS form part of the Council's overall budget setting and financial framework, and will be finalised and updated as work on the Council's 2018/19 budget is progressed in January and February 2018.

2. RECOMMENDATIONS

2.1 The Cabinet is asked approve:

- The Treasury Management Strategy Statement set out in sections 5 to 7;
- The prudential Indicators set out in section 8;
- The overall borrowing strategy and borrowing limits for 2018/19 to 2022/23 as detailed in section 6;
- Investment strategy and approved investments set out in Appendix 1;
- The Minimum Revenue Provision Policy set out in Appendix 2.

3. REASONS FOR DECISIONS

3.1 To comply with the Local Government Act 2003, other regulations and guidance and to ensure that the Council's borrowing and investment plans are prudent, affordable and sustainable and comply with statutory requirements.

4. BACKGROUND INFORMATION

4.1 The Council is required to operate a balanced budget, which broadly means that monies received during the year will cover expenditure. The function of treasury management is to ensure that:

- The Council's capital programme and corporate investment plans are adequately funded;
- Cash is available when it is needed on a day to day basis, to discharge the Council's legal obligations and deliver Council services;
- Surplus monies are invested wisely.

4.2 The Council has formally adopted CIPFA's Code of Practice on Treasury Management, and follows the key requirements of the Code as set out in Appendix 3.

4.3 The TMSS covers three main areas summarised below:

4.3.1 Capital spending

- Capital spending plans
- Other investment opportunities
- CFR projections
- Affordability
- The Minimum Revenue Provision (MRP) policy (Appendix 2)

4.3.2 Borrowing

- Overall borrowing strategy
- Prospect for interest rates
- Limits on external borrowing
- Maturity structure of borrowing;
- Policy on borrowing in advance of need;
- Debt rescheduling.

4.3.3 Managing cash balances

- The current cash position and cash flow forecast
- Prospects for investment returns
- Council policy on investing and managing risk
- Balancing short and longer term investments.

4.4 The Annual Investment Strategy (AIS) at Appendix 1 provides more detail on how the Council's surplus cash investments are to be managed in 2018/19. Approved schedules of specified and non-specified investments will be updated following consideration by Members and Schedules of approved and finalisation of 2018/19 budget plans.

5. SECTION 1 - CAPITAL SPENDING

Capital spending plans

5.1 Table 1 summarises the Council's capital expenditure plans, both in terms of those agreed previously, and those forming part of the current budget cycle. The table sets out the Council's current expectations about whether these plans are to be financed by capital or revenue resources.

5.2 Compared with the forecast in the 2017/18 TMSS General Fund capital spend has slipped back by around £69m in 2016/17 to 2017/18 and the reamains an element of further slippage in future years. The HRA capital programme has seen £100m in forecast slippage annum over the period 2019/20 to 2020/21. The risks are that:

- ➢ continued slippage in new starts will push borrowing requirements to later years when interest rates are forecast to be higher than currently;
- ➢ slippage in the programme of capital receipts may increase the need to borrow in the medium-term.

Table 1 Capital spending and funding plans

2016/17 Actual £m		2017/18 Forecast £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	Total £m
	Expenditure							
118	General Fund	278	393	384	306	227	142	1,730
58	HRA	98	175	201	177	96	146	893
176	**TOTAL**	**376**	**568**	**585**	**483**	**323**	**288**	**2,623**
	Funding							
	General Fund							
(63)	Grants & Contributions	(94)	(165)	(185)	(148)	(96)	(59)	(747)
(4)	Capital Receipts Applied	(80)	0	(16)	(21)	(48)	(69)	(234)
	HRA							
(8)	Grants & Contributions	(4)	(24)					(28)
(15)	Capital Receipts Applied	(24)	(76)	(88)	(101)	(43)	(74)	(406)
(23)	Major Repairs Reserve	(21)	(21)	(21)	(21)	(21)	(21)	(126)
(1)	Revenue Financing	(49)	(41)	(45)	(55)	(32)	(51)	(273)
(114)	**TOTAL**	**(272)**	**(327)**	**(355)**	**(346)**	**(240)**	**(274)**	**(1,814)**
62	**Net finacing need for the year**	**104**	**241**	**230**	**137**	**83**	**14**	**809**

Other investment opportunities

5.3 As well as investing in assets owned by the Council and used in the delivery of services, the Council also invests, where appropriate, in:

- Infrastructure projects, such as green energy;
- Loans to third parties;
- Shareholdings in limited companies and joint ventures.

5.4 Such investments are treated as expenditure for treasury management and prudential borrowing purposes even though they do not create physical assets in the Council's accounts. Appropriate budgets in respect of these activities will be agreed as part of the Council's budget setting and ongoing monitoring processes and considered as part of the Investment Strategy.

5.5 In addition the Council has a substantial commercial property portfolio which forms part of the investment strategy. In previous years, the Council has invested in traditional asset classes of offices, retail and industrial/logistics, which meet the Council requirements for the income to be secure and reliable and the investments low risk.

5.6 Following a Cabinet decision in late 2015, the Council allocated funds to invest in commercial property commencing 2016/17. The aim is to diversify the property portfolio into sectors that have historically been considered alternatives but are increasingly being viewed as mainstream. The strategy focuses on increasing the income generated by the Council from its property holdings while also improving the quality of the Council's current portfolio. The Council has investigated a number of potential projects during 2017/18, although none of these have started development as of yet. These will be further progressed in 2018/19 within the overall context of the Council's annual investment strategy.

Capital Financing Requirement (CFR)

5.7 The CFR measures the extent to which capital expenditure has not yet been financed from either revenue or capital resources. Essentially it measures the Council's underlying borrowing need. Each year, the CFR will increase by the amounts of new capital expenditure not immediately financed.

5.8 Table 2 overleaf shows that the CFR will increase over the medium term. Consequently, the capital financing charge to revenue will increase, reflecting the capital spending plans.

Table 2 Capital Financing Requirement forecast

2016/17			2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Actual			Forecast	Estimate	Estimate	Estimate	Estimate	Estimate
£m			£m	£m	£m	£m	£m	£m
	CFR as at 31 March							
260	General Fund		360	580	750	869	932	926
261	HRA		261	274	321	321	321	321
521		**TOTAL**	**621**	**854**	**1,071**	**1,190**	**1,253**	**1,247**
	Annual Charge							
51	General Fund		100	220	170	119	63	(6)
11	HRA		0	13	47	0	0	0
62		**TOTAL**	**100**	**233**	**217**	**119**	**63**	**(6)**
	Reason for Change							
65	Net financing		104	241	230	137	83	14
(3)	Less MRP		(4)	(8)	(13)	(18)	(20)	(20)
0	Less Cap Receipts		0	0	0	0	0	0
62		**TOTAL**	**100**	**233**	**217**	**119**	**63**	**(6)**

5.9 Table 3 below confirms that the Council's gross debt does not exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for current year and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

Table 3 Borrowing compared to the Capital Financing Requirement

2016/17		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Actual		Forecast	Estimate	Estimate	Estimate	Estimate	Estimate
£m		£m	£m	£m	£m	£m	£m
251	Gross Projected Debt	251	264	298	519	747	747
521	Capital Financing Requirement	621	854	1,071	1,190	1,253	1,247
270	**Under / (over) borrowing**	**370**	**590**	**773**	**671**	**506**	**500**

Affordability

5.10 The objective of the affordability indicators is to ensure that the level of investment in capital assets proposed remains within sustainable limits, and in particular, the impact on the Council's "bottom line" as reflected in the impact on council tax and rent levels. Table 4 below sets out the expected ratio of capital financing costs to income for both General Fund and HRA activities:

Table 4 Ratio of capital financing costs to income

2016/17		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Actual		Forecast	Estimate	Estimate	Estimate	Estimate	Estimate
%		%	%	%	%	%	%
0.32	General Fund	0.84	(0.40)	1.92	7.86	12.79	14.40
31.25	HRA	30.11	28.68	29.87	31.17	30.50	29.68

5.11 For 2017/18 and 2018/19, gross capital financing charges (loan interest, MRP and finance and PFI payments) for the General Fund capital programme are largely outweighed or balanced by income from investments and the commercial property portfolio. However, in future years the Council will begin to incur increasing capital financing charges in line with the forecast increase in the General Fund CFR in Table 2.

5.12 The capital financing charges arising from the HRA capital programme increase in line with the forecast increase income, hence capital charges as a proportion of the HRA net revenue stream remain fairly steady.

5.13 Table 5 below sets out the Incremental impact of the capital programme on council tax and housing rents.

Table 5 Impact of capital investment decisions on council tax and housing rents

2016/17		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Actual		Forecast	Estimate	Estimate	Estimate	Estimate	Estimate
£		£	£	£	£	£	£
(13.63)	Increase / (Decrease) in Council Tax(band D) per annum	11.56	(17.09)	32.11	82.03	68.18	22.25
(1.19)	Increase / (Decrease) in housing rent per week	(2.94)	(0.64)	2.05	4.29	0.31	1.36

5.14 For the General Fund capital programme, although the ratio of capital financing costs to income is relatively low as shown in Table 4 above, there is a much greater impact on council tax as shown in Table 5, because the Council has a very low council taxbase. The decrease in 2018/19 of £5.52 per Band D council tax reflects the reduction in capital financing costs in 2018/19 compared to 2017/18, and the subsequent increase reflects the increase in capital charges as the capital programme progresses.

5.15 The capital charges from the HRA capital programme increase is gradual and therefore there is relatively little impact on weekly housing rents between years as shown in Table 5.

6. SECTION 2 - BORROWING

Overall borrowing strategy

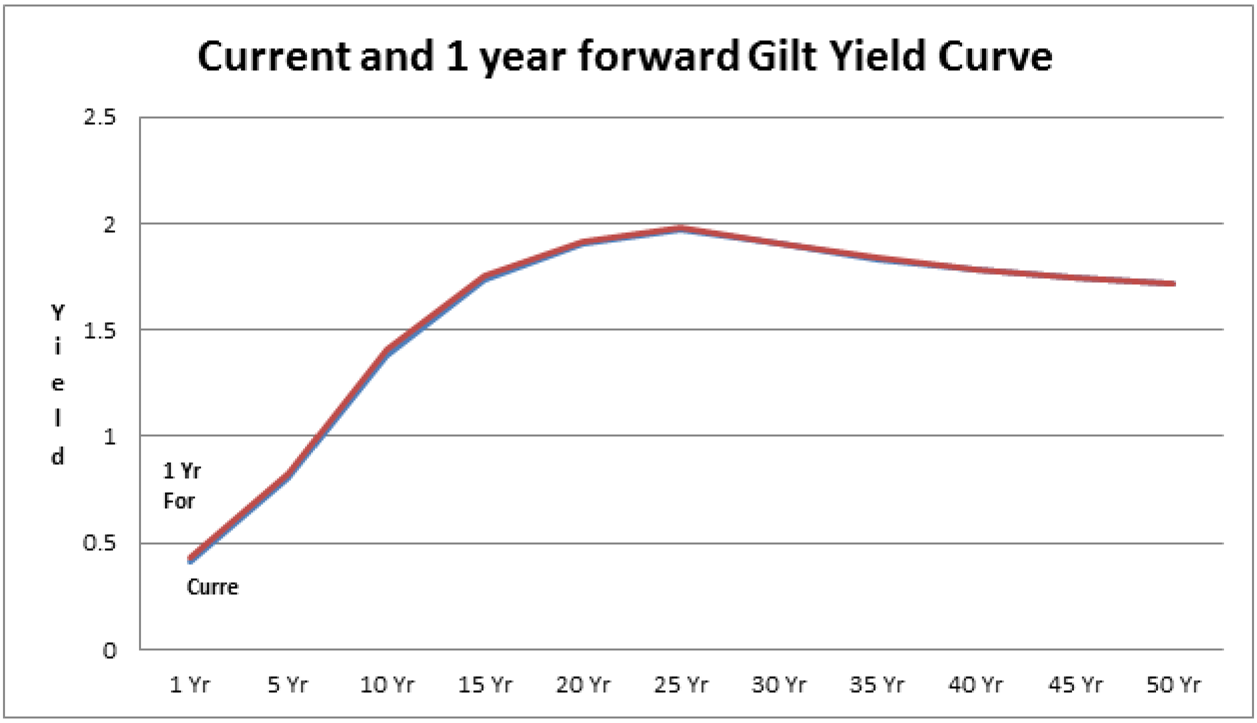
6.1 The Council's main objective when borrowing money is to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required. Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. The key factors influencing the 2018/19 strategy are:

- forecast borrowing requirements,
- the current economic and market environment, and
- interest rate forecasts.

6.2 The Council is currently maintaining an under-borrowed position. This means that capital expenditure has not been fully funded from loan debt as other funding streams (such as government grants and 3rd party contributions, use of Council reserves and cash balances and capital receipts) have been employed where available. This policy has served the Council well over the last few years while investment returns have been low and counterparty risk has been relatively high.

Prospects for Interest Rates

6. 3 However, the borrowing position needs to be kept under review to avoid incurring higher borrowing costs in future years when the Council may not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt. Market commentators are forecasting an increase in interest rates across all maturities (see graph below) – though a limited increase rather than a material change. More detail on their interest rate forecasts is at Appendix 4.



Source: Bloomberg

6.4 Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Treasury Management team will continue to monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances (within their approved remit).

6.5 If it were considered that there was a significant risk of a sharp fall in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

6.6 In the event that interest rates rose beyond the forecast used in the capital programme the revenue interest cost to the Council would increase. A rise of an extra 1% per year during the Council's peak borrowing would cost an additional £32m in interest payments cumulative over the period from 21/22 – 27/28

Limits on external borrowing

6.7 The Prudential Code requires the Council to set two limits on its total external debt, as set out in Table 6 below. The limits have been increased by 10-20% per annum compared with the 2017/18 TMSS to reflect slippage in the capital programme from previous years. The limits are:

- **Authorised Limit for External Debt (Prudential Indicator 7a)** – This is the limit prescribed by section 3(1) of the Local Government Act 2003 representing the maximum level of borrowing which the Council may incur. It reflects the level of external debt which, while not desired, could be afforded in the short term, but may not be sustainable in the longer term.

- **Operational Boundary (Prudential Indicator 7b)** – This is the limit which external debt is not normally expected to exceed. The boundary is based on current debt plus anticipated net financing need for future years.

Table 6 Overall borrowing limits

2016/17 Actual £		2017/18 Forecast £	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £	2021/22 Estimate £	2022/23 Estimate £
	Authorised Limit for External:						
612	Borrowing and other long term liabilities	621	854	1,071	1,190	1,253	1,247
	Operational Boundary for:						
270	Borrowing	300	320	360	620	900	900
12	Other long term liabilities	11	11	11	10	10	10
282	**Total**	**311**	**331**	**371**	**630**	**910**	**910**

6.8 In addition, borrowing for the HRA has to remain within the HRA Debt Limit (prescribed in the HRA Self-Financing Determinations 2012) as detailed in the table below. Borrowing for the HRA is measured by the HRA CFR.

Table 7 HRA borrowing

2016/17		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Actual		Forecast	Estimate	Estimate	Estimate	Estimate	Estimate
£		£	£	£	£	£	£
334	HRA Debt Limit	334	334	334	334	334	334
261	HRA CFR	261	274	321	321	321	321
73	**Headroom**	**73**	**60**	**13**	**13**	**13**	**13**

6.9 The City Treasurer reports that the Council complied with these indicators in the current year and does not envisage difficulties for the future.

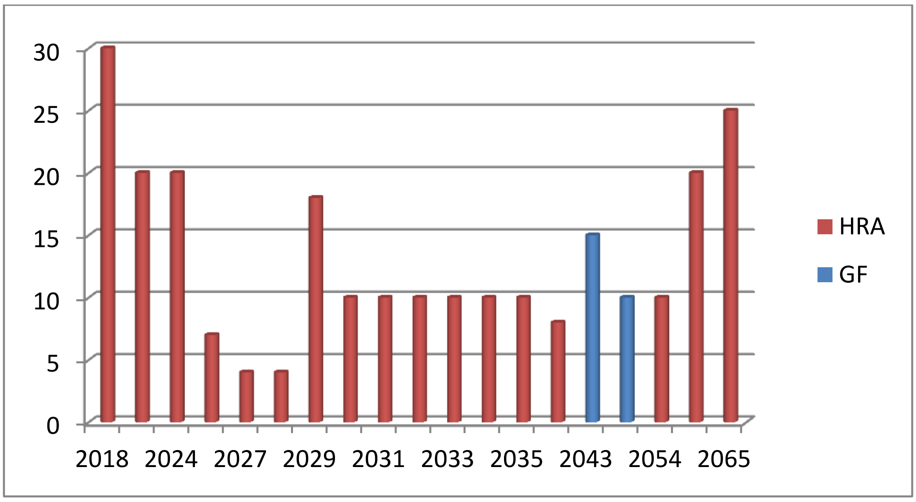
Maturity structure of borrowing (Prudential Indicator 10)

6.10 Managing the profile of when debt matures is essential for ensuring that the Council is not exposed to large fixed rate sums falling due for re-financing within a short period, and thus potentially exposing the Council to additional cost. Table 8 below sets out current upper and lower limits for debt maturity which are unchanged from 2017/18. The chart below shows the principal repayment profile for current council borrowing remains within these limits.

Table 8 Debt maturity profile limits

Actual maturity at 30 Sept 2016 %		upper limit %	lower limit %
0	under 12 months	40	0
12	12 months and within 24 months	35	0
8	24 months and within 5 years	35	0
11	5 years and within 10 years	50	0
69	10 years and above	100	35

Maturity profile of long-term borrowing



6.11 The Council has £70 million of LOBO (Lender Option Borrower Option) debt, none of which matures in the near future. Were the lender to exercise their option, officers will consider accepting the new rate of interest or repaying (with no penalty). Repayment of the LOBO may need to be considered for re-financing.

6.12 In the event that there is a much sharper rise in long and short term rates than currently forecast, then the balance of the loan portfolio will be re-visited with a view to taking on longer term fixed rate borrowing in anticipation of future rate rises.

Policy on Borrowing in Advance of Need

6.13 The Council has the power to borrow in advance of need in line with its future borrowing requirements under the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003, as amended. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

6.14 Risks associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt Rescheduling

6.15 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the cost of debt repayment (premiums incurred).

6.16 The reasons for any rescheduling to take place will include:

- generating cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy; and
- enhancing the balance of the portfolio by amending the maturity profile and/or the balance of volatility.

6.17 Consideration will also be given to identifying the potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

6.18 Any rescheduling will be reported.

7. SECTION 3 - MANAGING CASH BALANCES

The current cash position and cash flow forecast

7.1 Table 9 below shows that cash balances have increased by £300m in the past six months which is mainly due to income such as council tax, business rates and grants received in advance.

Table 9 Cash position at 30 September 2017

As at 31 March 2017			As at 30 September 2017	
Principal	Average Rate		Principal	Average Rate
£m	%		£m	%
		Investments		
884	0.54	Specified	1,135	0.42
25	1.52	Non-Specified	74	0.39
909	**2**	**Total**	**1,209**	
		Borrowing		
181	4.75	Public works loan Board	181	4.75
70	5.08	Market Loans	70	5.08
251		**Total**	**251**	

7.2 The medium-term cash flow forecast (see below) shows that the Council has a substantial positive cashflow position with an average cash position fluctuating around £600m for the medium-term. The reason for the high cash balance is largely due to business rates and the amount held pending rating appeals.

Table 10 Medium-term cashflow forecast

	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Balance at 1 April	**792**	**663**	**572**	**606**	**666**
Movement in Cash					
Capital Receipt	0	16	21	48	69
Grants & Contributions	165	185	148	96	59
Revenue Financing/ MRR					
Cash In	**165**	**201**	**169**	**144**	**128**
Capital Programme	(393)	(384)	(306)	(227)	(142)
Cash Out	**(393)**	**(384)**	**(306)**	**(227)**	**(142)**
Borrowing			221	208	
Repayment of debt	(30)		(15)	(5)	
Balance 31 March	**534**	**480**	**641**	**726**	**652**
Average Balance	**663**	**572**	**606**	**666**	**659**

7.3 The Council aims to manage daily cash flow peaks and troughs to achieve a nil current account balance throughout the year. As such the average yearly surplus cash balances should be fully invested throughout.

Prospects for Investment Returns

7.4 Investment returns on cash-based deposits are likely to remain low during 2018/19 and beyond; despite a potential near term interest rate rise. Borrowing interest rates were on a downward trend during most of 2016; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of August when a new package of quantitative easing purchasing of gilts was announced. As inflationary pressures have mounted in the past year the prospect of an interest rate rise has now increased. The recent prospect of a rate rise from the bank of England has seen the PWLB 25 year loan rate increase by 0.20% from 12 September 2017 to 03 October 017.

7.5 Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. The Council is therefore committed to investigating and pursuing alternatives to cash-based investments where it is considered prudent to do so.

Council policy on investing and managing risk

7.6 The aim is to manage risk and reduce the impact of any adverse movement in interest rates on the one hand but at the same time not setting the limits to be so restrictive that they impair opportunities to reduce costs or improve performance.

Balancing short and longer term investments

7.7 During the first half of 2017/18 investment of surplus funds for more than 364 days totalled £73m which was well within the upper limit for such investments of £450m.

Table 11 Investment limits

2016/17		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Actual		Forecast	Estimate	Estimate	Estimate	Estimate	Estimate
£		£	£	£	£	£	£
	Upper limit for fixed interest rate exposure						
251	Net principal re fixed rate borrowing	251	264	298	519	747	747
	Upper Limit for variable rate exposure						
0	Net Principal for variable rate borrowing	0	0	0	0	0	0
73	Upper Limit for principal sums invested for more the 364 days	450	450	450	450	450	450

8. SUMMARY OF PRUDENTIAL INDICATORS (PIs)

8.1 The purpose of prudential indicators (PIs) is to provide a reference point or “dashboard” so that senior officers and Members can:

- easily identify whether approved treasury management policies are being applied correctly in practice and
- take corrective action as required.

8.2 As the Council’s s151 officer, the City Treasurer has a responsibility to ensure that appropriate PIs are set and monitored and that any breaches are reported to Members.

8.3 The City Treasurer has confirmed that the PIs set out below are all expected to be complied with in 2017/18 and he does not envisage at this stage that there will be any difficulty in achieving compliance with the suggested indicators for 2018/19.

PI ref	Para ref		2016/17 actual	2017/18 forecast	2018/19 proposed
1	5.2	Capital expenditure	£176m	£376m	£568m
2	5.8	Capital Financing Requirement (CFR)	£521m	£621m	£854m
3	5.9	Net debt vs CFR	£270m underborrowing	£370m underborrowing	£590m underborrowing
4	5.10	Ratio of financing costs to revenue stream	GF 0.32% HRA 31.25%	GF 0.84% HRA 30.11%	GF (0.4%) HRA 28.68%
5	5.12	Incremental impact of new capital investment decisions on council tax	£11.56 decrease in Band D council tax charge per annum	£11.57 increase in Band D council tax charge per annum	£1.40 decrease in Band D council tax charge per annum
6	5.12	Impact of new capital investment decisions on housing rents	£13.63 decrease in average rent per week	£2.94 decrease in average rent per week	£0.64 decrease in average rent per week
7a	6.7	Authorised limit for external debt	£612m	£621m	£854m
7b	6.7	Operational debt boundary	£282m	£311m	£331m
7c	6.8	HRA debt limit	£334m	£334m	£334m
8	7.3	Working capital balance	£150m	£0m	£0m
9	7.7	Limit on surplus funds invested for more than 364 days (i.e. non-specified investments)	£25m	£100m	£450m
10	6.10	Maturity structure of borrowing	Upper limit under 12 months - 40% Lower limit 10 years and above - 35%	Upper limit under 12 months - 40% Lower limit 10 years and above - 35%	Upper limit under 12 months - 40% Lower limit 10 years and above - 35%

9. LEGAL IMPLICATIONS

9.1 The Director of Law comments that the legal requirements are set out in the 2003 Act, and in the subordinate legislation. The City Treasurer as section 151 officer, has confirmed (paragraph 8.2) that the PIs are expected to be met in the current year.

Legal comments added by David Walker, Principal Solicitor, 020 7361 2211

10. APPENDICES

1 Annual Investment Strategy

2 Minimum Revenue Provision (MRP) Policy

3 CIPFA Requirements

4 Prospect for Interest Rates/ Economic Update

BACKGROUND PAPERS

Treasury Management Strategy Statement 2017/18 (Approved by Council March 2017)

1. Section 3 Local Government Act 2003
2. Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended
3. DCLG Guidance on Minimum Revenue Provision 2012
4. DCLG Guidance on Local Government Investments – March 2010
5. CIPFA Prudential Code for Capital Finance in Local Authorities, 2011
6. CIPFA Treasury Management Code of Practice, 2011

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

Steven Mair, City Treasurer

Tel: 020 7641 2904

Email: smair@westminster.gov.uk

APPENDIX 1

ANNUAL INVESTMENT STRATEGY

1. The Council holds significant invested funds, representing income received in advance of expenditure, balances and reserves. During the first half of the current year, the Council's average investment balance has been around £1,184m and the cash flow projections shows this pattern is expected to continue in the forthcoming year. Investments are made with reference to the core balance, future cash flow requirements and the outlook for interest rates.

2. The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Investment Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

3. In accordance with the above guidance and to minimise the risk to investments, the Council applies minimum acceptable credit criteria to generate a list of highly creditworthy counterparties which will provide security of investments, enable diversification and minimise risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Investment returns expectations

4. Bank Rate was cut in August 2016 from 0.50% to 0.25%. The risk of the MPC raising Bank Rate by 0.25% in November 2017, the quarterly Inflation Report month, is now greater than them doing nothing. The question then remains as to whether or not they will stop at this point for a lengthy pause, or will launch into a series of further rate increases in 2018. Bank Rate forecasts for financial year ends (March) are:

2018/19	0.25%
2019/20	0.75%
2020/21	1.00%
2021/22	1.25%
2022/23	1.50%

5. The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows

2018/19	0.50%
2019/20	0.75%
2020/21	1.00%
2021/22	1.25%
2022/23	1.50%

Investment time limits

6. This limit is set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment. For the year 2018/19, the proposed limit of investments for over 364 days is £450m as set out in table 11 of the TMSS.

Investment Policy

7. The Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to assess continually and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

8. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Creditworthiness Policy

9. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

   - It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security; and
   - It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

10. The City Treasurer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to those which determine which types of investment instrument are either specified or non-specified as they provide an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

11. The Council takes into account the following relevant matters when proposing counterparties:

   - the financial position and jurisdiction of the institution;
   - the market pricing of credit default swaps[1] for the institution;
   - any implicit or explicit Government support for the institution;
   - Standard & Poor's, Moody's and Fitch's short and long term credit ratings;
   - Sovereign ratings to select counterparties from only the most creditworthy countries; and
   - Core Tier 1 capital ratios[2].

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[1] Credit Default Swaps (CDS) are tradable instruments where the buyer receives a pay-out from the seller if the party to whom the CDS refers (often a financial institution) has a "credit event" (e.g. default, bankruptcy, etc.). The price of the CDS gives an indication to the market's view of likelihood – the higher the price the more likely the credit event.

[2] The Tier 1 capital ratio is the ratio of a bank's core equity capital to its total risk-weighted assets (RWA). Risk-weighted assets are the total of all assets held by the bank weighted by credit risk according to a formula

12. Changes to the credit rating will be monitored and in the event that a counter party is downgraded and does not meet the minimum criteria specified in Appendix 1, the following action will be taken immediately:

- no new investments will be made;
- existing investments will be recalled if there are no penalties; and
- full consideration will be given to recall or sale existing investments which would be liable to penalty clause.

Specified and Non-specified investments

13. The DCLG Guidance on Local Government Investments made under section 15(1) of the Local Government Act 2003, places restrictions on Local authorities around the use of specified and non-specified investments. A specified investment is defined as an investment which satisfies all of the conditions below:

- The investment and any associated cash flows are denominated in sterling;
- The investment has a maximum maturity of one year;
- The investment is not defined as capital expenditure; and
- The investment is made with a body or in an investment scheme of high credit quality; or with the UK Government, a UK Local Authority or parish/community council.

14. A non-specified investment is any investment that does not meet all the conditions above. In addition to the long-term investments listed in the table at the end of Appendix 1, the following non-specified investments that the Council may make include:

- **Green Energy Bonds** - Investments in solar farms are a form of Green Energy Bonds that provide a secure enhanced yield. The investments are structured as unrated bonds and secured on the assets and contracts of solar and wind farms. Before proceeding with any such investment, internal and external due diligence will be undertaken in advance of investments covering the financial, planning and legal aspects.

- **Loans** - The Council will allow loans (as a form of investment) to be made to organisations delivering services for the Council where this will lead to the enhancement of services to Westminster Stakeholders. The Council will undertake due diligence checks to confirm the borrower's creditworthiness before any sums are advanced and will obtain appropriate levels of security or third party guarantees for loans advanced. The Council would expect a return commensurate with the type and duration of the loan. A limit of £50 million for this type of investment is proposed with a duration of over the life of the asset and Council's cash flow requirements. The operator of Westminster's leisure centres is seeking to borrow £1.25 million to finance a refurbishment of the leisure centres and this would be the first call on this type of investment opportunity. All loans would need to be in line with the Council's Scheme of Delegation and Key Decision thresholds levels

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determined by the Regulator (usually the country's central bank). Most central banks follow the Basel Committee on Banking Supervision (BCBS) guidelines in setting formulae for asset risk weights.
The Core Tier 1 ratios for the four UK banks that WCC uses are: Barclays: 10.2%, HSBC: 11.2%, Lloyds: 12.0% and RBS: 10.8%.

- **Shareholdings in limited companies and joint ventures** – The Council invests in three forms of company:

  - Small scale businesses funded through the Civic Enterprise Fund aimed at promoting economic growth in the area. Individual investments are no more than £0.5m and the aim is for the Fund to be self-financing over the medium-term

  - Trading vehicles which the Council has set up to undertake particular functions. These are not held primarily as investments but to fulfil Council service objectives. For example, CityWest Homes is a company limited by guarantee to run the housing arms-length management organisation. Any new proposals will be subject to due diligence as part of the initial business case. As these are not to be held primarily as investment vehicles, then there is an expectation that they will break-even.

  - Trading vehicles held for a commercial purpose where the Council is obliged to undertake transactions via a company vehicle. These will be wholly owned subsidiaries of the Council with the aim of diversifying the investment portfolio risk.

15. For any such investments, specific proposals will be considered by the Director of Treasury and Pensions, and approved by the s151 Officer after taking into account:

    - cash flow requirements
    - investment period
    - expected return
    - the general outlook for short to medium term interest rates
    - creditworthiness of the proposed investment counterparty
    - other investment risks.

16. The value of non-specified investments will not exceed their Investment allocation. The Council must now formulate a strategy that allocates it's cash in the most effective manner to short, medium and long term non-specified investments.

Country of Domicile

17. The current TMSS allows deposits / investments with financial entities domiciled in the following countries: Australia, Canada, Denmark, Finland, France, Germany, Japan, Luxembourg, Netherlands, Norway, Singapore, Spain, Sweden, Switzerland, UK and USA. This list will kept under review and any proposed changes to the policy reported to the next meeting

Schedule of investments

18. The criteria for providing a pool of high quality short, medium and long-term, cash-based investment counterparties along with the time and monetary limits for institutions on the Council's counterparty list are in the table overleaf:

All investments listed below must be sterling denominated

Investments	Minimum Credit Rating Required (S&P/Moody's/Fitch)	Maximum Individual Counterparty Investment Limit (£m)	Maximum tenor
DMO Deposits	Government Backed	Unlimited	6 months
UK Government (Gilts/T-Bills/Repos)	Government Backed	Unlimited	Unlimited
Supra-national Banks, European Agencies	LT: AA/Aa/AA	£200m	5 years
Covered Bonds	LT: AA/Aa/AA	£300m	10 years
Network Rail	Government guarantee	Unlimited	Oct 2052
TfL	LT: AA/Aa/AA	£100m	5 years
GLA UK Local Authorities (LA) Local Government Association (LGA)	N/A	GLA : £100M	5 years
		LA : £100m per LA, per criteria £200m in aggregate	3 years
		LGA : £20m	15 years
Commercial Paper issued by UK and European Corporates	ST: A-1/P-1/F-1	£40m per name, £200m in aggregate	6 months
Money Market Funds (MMF)	LT: AAA/Aaa/AAA By at least two of the main credit agencies	£70m per Fund Manager £300m in aggregate	3 day notice
Enhanced Money Funds (EMF)	LT: AAA/Aaa/AAA By at least one of the main credit agencies	£25m per fund manager, £75m in aggregate	Up to 7 day notice
Collateralised Deposits	Collateralised against loan	£100m	50 years
UK Bank (Deposit or Certificates of Deposit)	LT: AA-/Aa3/AA- ST: F1+	£75m	5 years
UK Bank (Deposit or Certificates of Deposit)	LT: A-/A3/A ST: F1	£50m	3 years
Non-UK Bank (Deposit or Certificates of Deposit)	LT: AA-/Aa2/AA- ST: F1+	£50m	5 years
	LT: A/A2/A ST: F1	£35m	3 years
Green Energy Bonds	Internal and External due diligence	Less than 25% of the total project investment or maximum of £20m per bond. £50m in aggregate	10 years
Rated UK Building Societies	LT: A-/A3/A ST: F1	£10m per Building Society, £50m in aggregate	1 year
Loans to organisations delivering services for the Council	Due diligence	£50m in aggregate	Over the life of the asset
Sovereign approved list: Australia, Canada, Denmark, Finland, France, Germany, Japan, Luxembourg, Netherlands, Norway, Singapore, Spain, Sweden, Switzerland, UK and USA			

Minimum Revenue Provision (MRP) Policy

1. Capital expenditure is generally defined as expenditure on assets that have a life expectancy of more than one year. The accounting approach is to spread the cost over the estimated useful life of the asset. The mechanism for spreading these costs is through an annual MRP. The MRP is the means by which capital expenditure, which is financed by borrowing or credit arrangements, is funded by Council Tax.

2. Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended (Statutory Instrument (SI) 3146/2003) requires full Council to approve a Minimum Revenue Provision (MRP) Statement setting out the policy for making MRP and the amount of MRP to be calculated which the Council considers to be prudent. In setting a level which the Council considers to be prudent, the Guidance states that the broad aim is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits to the Council.

3. The Council is recommended to approve the following MRP Statement:

   - For capital expenditure incurred before 1 April 2007, MRP will be calculated using Option 1 (the 'Regulatory Method') of the CLG Guidance on MRP. Under this option MRP will be 4% of the closing non-HRA CFR for the preceding financial year.

   - For all capital expenditure incurred after 1 April 2007 financed from unsupported (prudential) borrowing (including PFI and finance leases), MRP will be based upon the asset life method under Option 3 of the DCLG Guidance.

   - In some cases where a scheme is financed by prudential borrowing it may be appropriate to vary the profile of the MRP charge to reflect the future income streams associated with the asset, whilst retaining the principle that the full amount of borrowing will be charged as MRP over the asset's estimated useful life.

   - A voluntary MRP may be made from either revenue or voluntarily set aside capital receipts.

   - Estimated life periods and amortisation methodologies will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

   - As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

- Charges included in annual PFI or finance leases to write down the balance sheet liability shall be applied as MRP.

- Where borrowing is undertaken for the construction of new assets, MRP will only become chargeable once such assets are completed and operational.

- If property investments are short-term (i.e. no more than 4 years) and for capital appreciation, the Council will not charge MRP as these will be funded by the capital receipt on disposal.

4. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made. For the Council this is componentised based on the life of component and the gross replacement cost within the overall existing use value – social housing of the HRA stock.

CIPFA requirements

The Council has formally adopted CIPFA's Code of Practice on Treasury Management (updated November 2011) and complies with the requirements of the Code as detailed below:

- Maintaining a Treasury Management Policy Statement setting out the policies and objectives of the Council's treasury management activities

- Maintaining a statement of Treasury Management Practices that sets out the manner in which the Council will seek to achieve these policies and objectives

- Presenting the Full Council with an annual TMSS statement, including an annual investment strategy and Minimum Revenue Provision policy for the year ahead (this report) a half year review report and an annual report (stewardship report) covering compliance during the previous year

- A statement of delegation for treasury management functions and for the execution and administration of statement treasury management decisions. (see below).

- Delegation of the role of scrutiny of treasury management activities and reports to a specific named body. At Westminster City Council this role is undertaken by the Housing, Finance and Corporate Services Policy and Scrutiny Committee.

Treasury Management Delegations and Responsibilities

The respective roles of the Council, Cabinet, Housing, Finance and Corporate Services Policy and Scrutiny committee and Section 151 officer are summarised below. Further details are set out in the Treasury Management Practices.

<u>Council</u>

Council will approve the annual treasury strategy, including borrowing and investment strategies. In doing so Council will establish and communicate their appetite for risk within treasury management having regard to the Prudential Code

<u>Cabinet</u>

Cabinet will recommend to Council the annual treasury strategy, including borrowing and investment strategies and receive a half-year report and annual out-turn report on treasury activities.

Cabinet also approves revenue budgets, including those for treasury activities.

<u>Housing, Finance and Corporate Services Policy and Scrutiny Committee</u>

This committee is responsible for ensuring effective scrutiny of the Treasury strategy and policies.

<u>Section 151 Officer</u>

Council has delegated responsibility for the implementation and monitoring of treasury management decisions to the Section 151 Officer to act in accordance with approved policy and practices. The s151 Officer has full delegated powers from the Council and is responsible for the following activities:

- Investment management arrangements and strategy;
- Borrowing and debt strategy;
- Monitoring investment activity and performance;
- Overseeing administrative activities;
- Ensuring compliance with relevant laws and regulations;
- Provision of guidance to officers and members in exercising delegated powers.

Director of Treasury and Pension Fund

Has responsibility for the execution and administration of treasury management decisions, acting in accordance with the Council's Treasury Policy Statement and CIPFA's 'Standard of Professional Practice on Treasury Management'.

Treasury Team

Undertakes day to day treasury investment and borrowing activity in accordance with strategy, policy, practices and procedures.

Training

The CIPFA code requires the s151 officer to ensure that Members with responsibility for making treasury management decisions and for scrutinising treasury functions to receive adequate training. The training needs of all officers are reviewed periodically as part of the Learning and Development programme. Officers attend various seminars, training sessions and conferences during the year and appropriate Member training is offered as and when needs, and suitable opportunities, are identified.

Prospects for Interest Rates

1. The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%
50yr PWLB rate	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%

2. Capita Asset Services undertook its last review of interest rate forecasts on 9 August after the quarterly Bank of England Inflation Report. There was no change in MPC policy at that meeting. However, the MPC meeting of 14 September revealed a sharp change in sentiment whereby a majority of MPC members said they would be voting for an increase in Bank Rate "over the coming months". It is therefore possible that there will be an increase to 0.5% at the November MPC meeting. If that happens, the question will then be as to whether the MPC will stop at just withdrawing the emergency Bank Rate cut of 0.25% in August 2016, after the result of the EU withdrawal referendum, or whether they will embark on a series of further increases in Bank Rate during 2018.

3. The overall balance of risks to economic recovery in the UK is currently to the downside but huge variables over the coming few years include just what final form Brexit will take, when finally agreed with the EU, and when.

4. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

   - UK economic growth and increases in inflation are weaker than we currently anticipate.
   - Weak growth or recession in the UK's main trading partners - the EU and US.
   - Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
   - A resurgence of the Eurozone sovereign debt crisis.
   - Weak capitalisation of some European banks.
   - Monetary policy action failing to stimulate sustainable growth and to get inflation up consistently to around monetary policy target levels.

5. The potential for upside risks to current forecast for UK gilt yields and PWLB rates, especially for longer term PWLB rates include;

- The pace and timing of increases in the Fed. Funds Rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.

- UK inflation returning to significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Economic Update

6. **UK.** After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y) which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. . The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

7. The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise. The Bank of England Inflation Reports during 2017 have clearly flagged up that they expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. Inflation actually came in at 2.9% in August, (this data was released on 12 September), and so the Bank revised its forecast for the peak to over 3% at the 14 September meeting MPC. This marginal revision can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation. This effectively means that the UK labour faces competition from overseas labour e.g. in outsourcing work

to third world countries, and this therefore depresses the negotiating power of UK labour. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years.

8. It therefore looks very likely that the MPC will increase Bank Rate to 0.5% in November or, if not, in February 2018. The big question after that will be whether this will be a one off increase or the start of a slow, but regular, increase in Bank Rate. As at the start of October, short sterling rates are indicating that financial markets do not expect a second increase until May 2018 with a third increase in November 2019. However, some forecasters are flagging up that they expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weak services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on a series of slow but gradual increases in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

9. **EU.** Economic growth in the EU, (the UK's biggest trading partner), has been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and now looks to have gathered ongoing substantial strength and momentum thanks to this stimulus. GDP growth was 0.5% in quarter 1 (2.0% y/y) and 0.6% in quarter (2.3% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in August inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019.

10. **USA.** Growth in the American economy has been volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1%, resulting in an overall annualised figure of 2.1% for the first half year. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.4%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with three increases since December 2016; and there could be one more rate rise in 2017 which would then lift the central rate to 1.25 – 1.50%. There could then be another four more increases in 2018. At its June meeting, the Fed strongly hinted that it would soon begin to unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

11. **Chinese economic growth** has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial

capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

12. **Japan** is struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

City of Westminster

Cabinet Report

Decision Maker:	Cabinet
Date:	30 October 2017
Classification:	General Release
Title:	Treasury Management Strategy Mid-Year Review 2017-18
Wards Affected:	All
Policy Context:	To manage the Council's finances prudently and efficiently
Cabinet Member	Cabinet Member for Finance, Property and Corporate Services
Financial Summary:	This report forms part of the monitoring of the treasury function as recommended in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice. It reviews the implementation of the strategy to date and allows for any changes to be made depending on market conditions.
Report of:	Steven Mair, City Treasurer

1. EXECUTIVE SUMMARY

1.1. The purpose of this report is to:

- update Members on the delivery of the 2017/18 Treasury Management Strategy approved by Council on 1 March 2017; and
- approve the recommendations in paragraph 2.1

1.2. Treasury management comprises:

- managing the City Council's borrowing to ensure funding of the Council's future capital programme is at optimal cost;
- Investing surplus cash balances arising from the day to day operations of the Council to obtain an optimal return while ensuring security and liquidity.

1.3. This report complies with CIPFA's Code of Practice on Treasury Management, and covers the following:

- a review of the Council's investment portfolio for 2017/18 to include the treasury position as at 30 September 2017.
- a review of the Council's borrowing strategy for 2017/18.
- a review of compliance with Treasury and Prudential Limits for the first six months of 2017/18.
- an economic update for the first part of the 2017/18 financial year.

1.4. The Council has complied with all elements of the Treasury Management Strategy Statement (TMSS) apart from one instance reported last year which has been successfully managed out this year on the maturity of the investment and four instances which arose either because the relevant bank ratings were changed after deposits had been made or in one instance because of an exceptional receipt which was received late on one day too late to be moved from the bank until the following day:

- A historic investment reported last year and successfully managed out in May 2017
- Three investments with banks whose ratings changed after the deposits had been made; and
- One evening excess cash balance due to a receipt for £23m being received after close of business.

2. RECOMMENDATIONS

2.1. Cabinet is asked to approve:

- the Annual Treasury Strategy 2017-18 Mid-Year Review, noting the cases of non-compliance and the action taken to rectify this;
- Increase the maximum loan period for the LGA loan from 12 to 15 years;

- Reduce the credit rating limit for investments in Supra-national banks and European agencies from AA+/Aa1/AA+ to AA/Aa/AA;

- Increase the aggregate limit for lending to local authorities from £100m to £200m;

- Amend the limit on lending to individual local authorities from £50m to £100m subject to lending criteria;

- Increase the limit for collateralised deposits from £60m to £100m;

- Reduce the minimum working capital balance from £150m to £nil to make better use of the Council's cash resources.

3. TREASURY POSITION AS AT 30 SEPTEMBER 2017

3.1. As at 30 September 2017 net cash invested was £958m, an increase of £300m on the position at 31 March 2017 as shown below:

	30 September 2017 £m	31 March 2017 £m
Total borrowing	(251)	(251)
Total cash invested	1,209	909
Net cash invested	**958**	**658**

3.2. The significant increase reflects the forecast pattern of the Authority's cashflows and largely relates to the timing of grants, council tax and business rates received.

Investments

3.3. The Council's Annual Investment Strategy which forms part of the annual Treasury Management Strategy Statement (TMSS) for 2017-18 was approved by the Council on 1 March 2017. The Council's policy objective is the prudent investment of balances to achieve optimum returns on investments subject to maintaining adequate security of capital and a level of liquidity appropriate to the Council's projected need for funds over time.

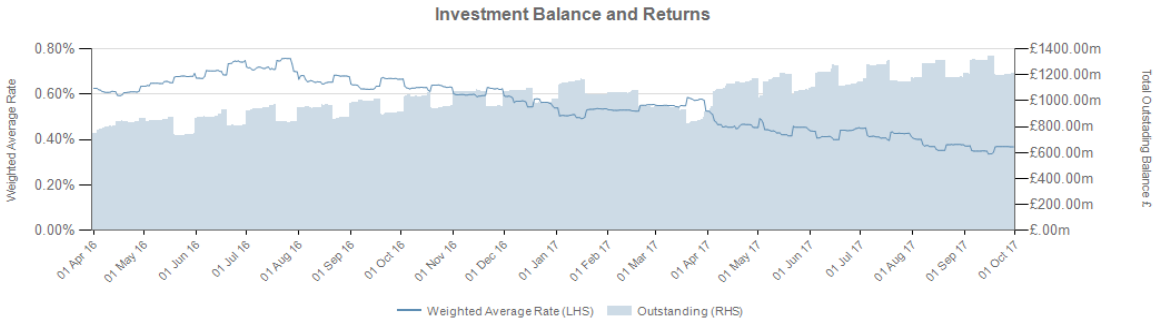
3.4. The table below provides a breakdown of investments, together with comparisons for the last financial year end.

	30 September 2017 £m	31 March 2017 £m
Money Market Funds	181	143
Notice Accounts	94	49
Term Deposits	290	310
Tradable Securities	592	374
Enhanced Cash Funds	52	33
Total cash invested	**1,209**	**909**

3.5. Liquid balances are managed through Money Market Funds providing same day liquidity. Cash has been invested in alternative and less liquid instruments, particularly term deposits and tradable securities. The average level of funds available for investment in the first 6 months of 2017-18 was £1,184m.

3.6. Daily investment balances have steadily increased from £751m at April 2016 to the current £1,209m as shown by the shaded area in the chart overleaf. At the same time average returns have fallen by 0.26% as shown by the solid line in the chart. This reflects the lowering of base rate by the Bank of England in August 2016.

3.7. Although surplus cash for investment has risen by £300m since April 2017, because cash invested with higher interest rate paying counterparties is already at the maximum thresholds permitted within the 2017/18 annual Investment Strategy, cash can only be invested in lower rate paying counterparties such as the UK government. This has contributed to the 0.26% fall in returns.



3.8. All investments limits specified in the 2017/18 investment strategy have been complied with except for:

- A historic investment reported last year and successfully managed out in May 2017
- Three investments with banks whose ratings changed after the deposits had been made; and
- One evening excess cash balance due to a receipt for £23m being received after close of business.

3.9. Appendix 1 provides a full list of the Council's limits and exposures as at 30 September 2017.

Borrowing

3.10. At £251m the Council's borrowing was well within the Prudential Indicator for external borrowing (namely that borrowing should not exceed the capital financing requirement (CFR) for 2017/18 of £692m.[1]

3.11. Currently the Council is "under borrowed" by £748m because it has used internal resources to fund capital expenditure.

3.12. As anticipated in the TMSS for 2017/18, to date the Council has undertaken no new borrowing due to the high level of cash holdings. Officers are monitoring market conditions and reviewing the need to borrow at current low rates if a requirement is identified for either the General Fund or Housing Revenue Account (HRA).

3.13. The table below shows the details around the Council's external borrowing as at 30th September 2017, split between the General Fund and HRA.

External borrowing	30 September 2017		31 March 2017	
	Balance	Rate	Balance	Rate
	£m	%	£m	%
HRA	226	4.9%	226	4.9%
General Fund	25	4.1%	25	4.1%
Total borrowing	**251**	**4.8%**	**251**	**4.8%**

3.14. No new borrowing was incurred in the first half of 2017-18. General Fund external borrowing reduced by £0.1m from repaying the principal on General Fund annuity loans.

[1] The CFR measures the Council's underlying need to borrow for capital purposes.

4. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

4.1. During the financial year to September 2017, the Council operated within the Treasury Limits and Prudential Indicators set out in the TMSS approved by Council on 1 March 2017 as set out below.

PI ref	Indicator	2017/18 indicator	2017/18 actual	Indicator met?
1	Net financing need	£158m	£nil to date	Met
2	Capital Financing Requirement (CFR)	£692m	£521m	Met
3	Net debt vs CFR	£215m underborrowing	£279m underborrowed	Met
4	Ratio of financing costs to revenue stream	GF (0.91%) HRA 32.21%	Nil	Met
5	Incremental impact of new capital investment decisions on council tax	£6.72 decrease in Band D council tax charge per annum	Nil	Met
6	Impact of new capital investment decisions on housing rents	£0.76 increase in average rent per week	Nil	Met
7a	Authorised limit for external debt	£692m	£251m	Met
7b	Operational debt boundary	£464m	£251m	Met
7c	HRA debt limit	£334m		
8	Working capital balance	£150m	£200m	Met
9a	Upper limit for fixed interest rate borrowing	£476m	£251m	Met
9b	Upper limit for variable rate	£0m	£0m	Met
9c	Limit on surplus funds invested for more than 364 days (i.e. non-specified investments)	£450m	£73.7m	Met
10	Maturity structure of borrowing	Upper limit under 12 months - 40% Lower limit 10 years and above - 35%	12% 68%	Met Met

Capital expenditure and borrowing limits

4.2. Capital expenditure to 30 September 2017 was £102m for both the General Fund and the HRA against a forecast for the whole year of £468m. This relates to a number of large development projects and related acquisitions. The forecast for development projects are contingent on progress by developers which is anticipated will improve over the remainder of the year. Acquisitions are reactive and depend on properties becoming available on the market and as such the forecast can be volatile but will continue to be monitored by officers. The £102m capital expenditure incurred to date is well within the forecast use of capital resources of £342m, hence the net financing need to date is £nil.

4.3. External borrowing was well within the Capital Financing Requirement, Authorised Borrowing Limit and the Operational Boundary as shown in the table above:

- The Authorised Limit is a level for which the external borrowing cannot be exceeded without reporting back to Full Council. It therefore provides sufficient headroom such that in the event that the planned capital programme required new borrowing to be raised over the medium term, if interest rates were deemed favourable and a thorough risk analysis determined, the cost of carry was appropriate, this borrowing could be raised ahead of when the spend took place.

- The Operational Boundary is set at a lower level and should take account of the most likely level of external borrowing. Operationally, in accordance with CIPFA best practice for Treasury Risk Management, a liability benchmark is used to determine the point at which any new external borrowing should take place. As a result of the significant level of cash balances, it is deemed unlikely that any new borrowing will be required in the foreseeable future.

4.4. The purpose of the maturity structure of borrowing indicator is to highlight any potential refinancing risk that the Council may be facing if any one particular period there was a disproportionate level of loans maturing. The table below shows that the maturity structure of the Council's borrowing as at 30th September 2017 was within the limits set and does not highlight any significant issues.

Maturity structure of borrowing	Upper Limit (%)	Lower Limit (%)	Actual as at 30 September 2017 (%)
Under 12 months	40	0	12
12 months and within 24 months	35	0	0
24 months and within 5 years	35	0	8
5 years and within 10 years	50	0	12
10 years and above	100	35	68

4.5. The purpose of the interest rate exposure indicators is to demonstrate the extent of exposure to the Council from any adverse movements in interest rates. The table at paragraph 4.1 shows that the Council is not subject to any adverse movement in interest rates as it only holds fixed interest borrowing.

4.6. The average rate on the fixed interest borrowing is 4.84% with an average redemption period of 19½ years. This reflects the historical legacy of borrowing taken out some years ago which is now higher than PWLB interest rates for comparable loans if they were taken out now. Officers have considered loan re-financing but premiums for premature redemption are prohibitively high making this option poor value for money.

4.7. The Council's borrowing portfolio contains £70m of Lender Option Borrower Option loans (LOBOs). There are long-term loans of up to 60 years, which are subject to periodic rate re-pricing. The rates are comparable with loans for similar durations provided by the PWLB. There is some re-financing risk associated with these loans because of the lender option to increase interest rates. Some banks are offering premature repayment or loan conversion for LOBOs and officers will remain alert to such opportunities as they arise.

Investment limits

4.8. Investment in non-specified investments at £73.7m is well within the limit of £450m for such investments. This reflects the fact that 97% of the Council's investments have a life of less than 12 months.

4.9. Whilst the short duration is within approved limits, there is scope within the Investment Strategy to extend the duration of investments for up to 5 years. Using longer duration investments and marginally lower credit ratings is likely to increase the yield the Council earns from its investments by up to £20m in a full year.

Changes to Investment Strategy

4.10. The TMSS approved in March 2017 included approval for a loan to the Local Government Association (LGA) over a life of 12 years subject to due diligence. Since April officers have been working with the LGA to firm up the details of the loan. As part of the negotiations the LGA have requested the loan to be over 15 years. Therefore approval is sought to increase the maximum period of the loan from 12 to 15 years.

4.11. To facilitate the changes set out in the Integrated Investment Framework, the following changes are proposed to the investment limits:

- Reduce the credit rating limit for investments in Supra-national banks and European agencies from AA+/Aa1/AA+ to AA/Aa/AA;
- Increase the aggregate limit for lending to local authorities from £100m to £200m;
- Amend the limit on lending to individual local authorities from £50m to £100m subject to lending criteria;
- Increase the limit for collateralised deposits from £60m to £100m;
- Reduce the minimum working capital balance from £150m to £nil to make better use of the Council's cash resources. Peaks in day to day cashflow needs will be met through daily cashflow management.

5. THE ECONOMY AND INTEREST RATES

5.1. UK Gross Domestic Product (GDP) rose in the first quarter of the financial year, showing a 1.7% year on year increase. This is however the slowest rate of growth since June 2016. Following the referendum vote to leave the European Union, the Organisation for Economic Cooperation and Development (OECD) initially reduced its forecast for growth in 2017 to 1%. However, the OECD now predicts that growth for the year will be 1.6%, with a forecast of 1% growth for 2018.

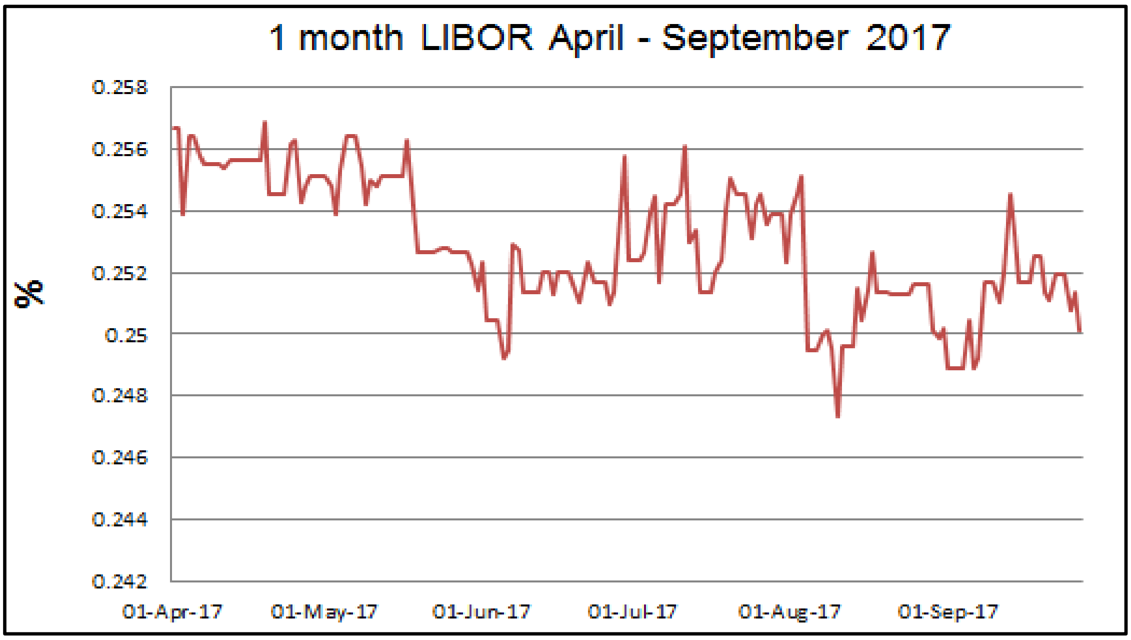
5.2. Consumer Price Inflation (CPI) is running at 2.6% year on year (0.6%, Q2 2016), rising above the Monetary Policy Committee's (MPC) 2% target sooner than the 2018 prediction, with expectations it will stay this way for the next two years. This has been mainly due to the recent fall in the value of Sterling having filtered through following the referendum result.

5.3. Bank Rate has remained at 0.25% for the year to date, with quantitative easing unchanged at £435bn. Following the recent inflation rises, the Bank of England (BoE) has signalled a potential increase in the Bank Rate. The minutes of the

September BoE meeting stated “some withdrawal of monetary stimulus would be appropriate if inflationary pressures continued”.

5.4. Long term interest rates have risen marginally, with 20 to 30 year Public Works Loan Board rates higher by around 15 basis points. If inflationary pressures continue and the Bank of England does raise interest rates, it will increase the Council’s cost of borrowing. This is potentially significant as the Council is currently well below its near term capital financing requirement having delayed borrowing due to current surplus cash reserves. The Council may wish to consider taking on new long term borrowing should the threat of significant long term interest rate rises increase

5.5. The chart below shows movements in the 1 month London Interbank Offer Rate during the first half of the financial year:



6. BACKGROUND

6.1. The Local Government Act 2003 requires the Council to ‘have regard to’ the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable. These are contained within this report.

7. FINANCIAL IMPLICATIONS

7.1. Financial implications are contained in the body of this report.

8. LEGAL IMPLICATIONS

8.1. The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council’s policies for managing its investments and for giving priority to the security and liquidity of those investments. This report assists the Council in fulfilling its statutory obligation under the Local Government Act 2003 to monitor its borrowing and investment activities.

8.2. Legal implications verified by Rhian Davies, Chief Solicitor (Litigation and Social Care)

9. BACKGROUND PAPERS

Full Council Report

Treasury Management – Annual Strategy for 2017/18, including Prudential Indicators and Statutory Borrowing Determinations – 1 March 2017.

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

Peter Worth, Interim Director of Pensions & Treasury

Tel: 0207 641 7689

Email: pworth@westminster.gov.uk

Appendix 1 – Limits and exposures as at 30th September 2017

Category	Limit per Counterparty (£m)	Duration Limit	Counterparty Name	Current Exposure (£m)
UK Government (Gilts/ T-Bills/ Repos)	Unlimited	Unlimited	Treasury Bills	132.9
			Gilt	60.7
European Agencies	£200m	5 years	European Investment Bank	160.5
Network Rail	Unlimited	Oct 2052	Network Rail Infrastructure PLC	28.6
UK Local Authorities	£50m per local authority; £100m in aggregate	3 years	Aberdeenshire Council	5
			Buckinghamshire Council	10
			Cambridgeshire County Council	10
			Dudley Borough Council	10
			Kingston upon Hull Council	10
			Medway Council	10
			Rhondda Cynon Taff Council	5
			South Ayrshire Council	5
			Tameside Borough Council	10
			West Lothian Council	5
			Wrexham Council	20
Money Market Funds	£70m per fund. £300m Total	Three day notice	Federated Sterling Liquidity Fund	46.0
			JP Morgan Sterling Liquidity Fund	70
			Morgan Stanley Sterling Liquidity Fund	65.33
Enhanced Cash Funds	£25m per fund. £75m in total	Up to seven day notice	Payden & Rygel Sterling Reserve	16.8
			Royal London Asset Mgmt Cash Plus	20
			Federated Prime Rate Cash Plus	15.4
UK Banks (AA-/ Aa3/ AA-)	£75m	5 years	HSBC	49.2
UK Banks (A-/ A3/ A-)	£50m	3 years	Barclays Bank Plc	50
			Lloyds Bank	30
			Santander UK Plc	50
			Standard Chartered	50
			Sumitomo Mitsui Banking Corporation	50
Non-UK Banks (AA-/ Aa2/ AA-)	£50m	5 years	Svenska Handelsbanken AB	45
			Canadian Imperial Bank of Commerce	14
			Toronto Dominion Bank	50

Category	Limit per Counterparty (£m)	Duration Limit	Counterparty Name	Current Exposure (£m)
Non-UK Banks (A/ A2/ A)	£35m	3 years	Commonwealth Bank of Australia	30
			National Australia Bank	20
			Nordea Bank AB	35
			Skandinaviska Enskilda Banken AB	20

City of Westminster

Cabinet Report

Decision Maker:	Cabinet Member for Finance, Property and Corporate Services
Date:	30 October 2017
Classification:	General Release
Title:	Integrated Investment Framework
Wards Affected:	All
Policy Context:	To manage the Council's finances prudently and efficiently.
Cabinet Member	Cllr T Mitchell, Cabinet Member for Finance, Property and Corporate Services
Financial Summary:	Implementation of an Integrated Investment Framework will influence investment decisions going forwards and deliver added value to Council services. This report identifies the potential for improved returns aspiring to match inflation in a full year compared with the current forecast return of 0.55%.
Report of:	Steven Mair, City Treasurer

EXECUTIVE SUMMARY

1.1 It has been identified that the Council presently does not have a comprehensive strategic framework for bringing together and managing all of its investments.

1.2 The Council holds £1.3bn of short term cash based investments, managed under the Treasury Management Strategy, which passes through Scrutiny, Cabinet and Full Council on an annual basis. The Council also owns a significant number of Investment Properties currently valued at £455m, which are considered as part of the Capital Programme, and holds longer term investments, mostly Government Bonds and equity shareholdings. In addition the Council is responsible for managing the Pension Fund which has net assets of £1.3bn, and operates under the Investment Strategy set by the Pensions Committee.

1.3 In summary, the Council holds £1.3bn of investments for less than one year in high grade but very liquid investments generating a forecast return of 0.55% and £0.4bn in much longer-term illiquid property investments generating around 4.2%. Compared to the current inflation rate as measured by CPI of 2.7% (as at August 2017) treasury investments are depreciating in value. The £1.3bn is 88% concentrated in the banking sector, and the property portfolio is concentrated within the borough. There is currently therefore limited diversification in the current investment portfolio.

1.4 This report sets out:

- the Council's strategic objectives in respect of risk management, and its attitude towards investment risk;
- current levels of investment activity;
- proposals for an Integrated Investment Framework for the Council going forward which seek to diversify the risk and thus future-proof the Council against possible future economic downturns;
- actions to be taken in connection with implementing this Framework, if agreed.

RECOMMENDATIONS

2 That the Council:

2.1.1 Approve and implement the Integrated Investment Framework set out in this Report (to be reviewed on an annual basis).

2.1.2 Approve that the target for the overall return on Council investments should aspire to match inflation.

2.1.3 Approve that the benefits of investing in the Pension Fund should be used as a benchmark when evaluating other investments.

2.1.4 Adopt the asset allocation percentages set out in the Framework and work towards achieving these.

2.1.5 Approve that the overarching objective of this Framework is to achieve an overall return on Council investments aspiring to match inflation, or to reduce costs and liabilities at an equivalent rate whilst maintaining adequate cash balances for operational purposes and not exposing the capital value of investments to unnecessary risk.

2.1.6 Approve that investments in out-of-borough property developments should be considered individually and should outweigh the benefits of investing in-borough (which can have a number of non-commercial benefits e.g. place making) and in a diversified property fund. Individual decisions will be subject to Cabinet Member approval.

2.1.7 Approve that the property and alternative asset allocation should focus on in-borough, with out of borough options being explored as and when they arise and subject to Cabinet Member approval.

2.1.8 Approve the establishment of an Investment Executive, comprising the membership set out in paragraph 51, to implement, monitor and report on the investment strategy. The Investment Executive will meet half yearly supplemented with ad hoc calls and meetings in times of change.

INTEGRATED INVESTMENT FRAMEWORK

BACKGROUND

3 The Council is responsible for managing cashflows and assets exceeding £7bn at 31 March 2017. At 18 August 2017 investments totalled £1.7bn comprising £1.3bn of short-term cash investments and £0.4bn of investment property. It is important that the Council is able to take a holistic view of its all its investment pools and aligns them with its funding needs and goals. The scale of these figures makes their positive and proactive financial management very important. Investments held as part of the Council's pension fund are managed under a separate regulatory framework and are outside the scope of this report from the point of view of investment management

4 In previous years the Council's Investment Strategy formed part of the Treasury Management Strategy Statement (TMSS) which is developed and updated as part of the Council's Medium Term Financial Plan. The TMSS has tended to focus on the policies for placing short term cash based investments, whilst decisions regarding other types of longer term investment have been considered on an individual basis as opportunities arose.

5 While the assets are distributed across a range of areas the complexity of the Council and its funding needs means that there is a need for the assets to be considered collectively and holistically, as in the aggregate they represent a very significant pool of resources. More specifically in view of:

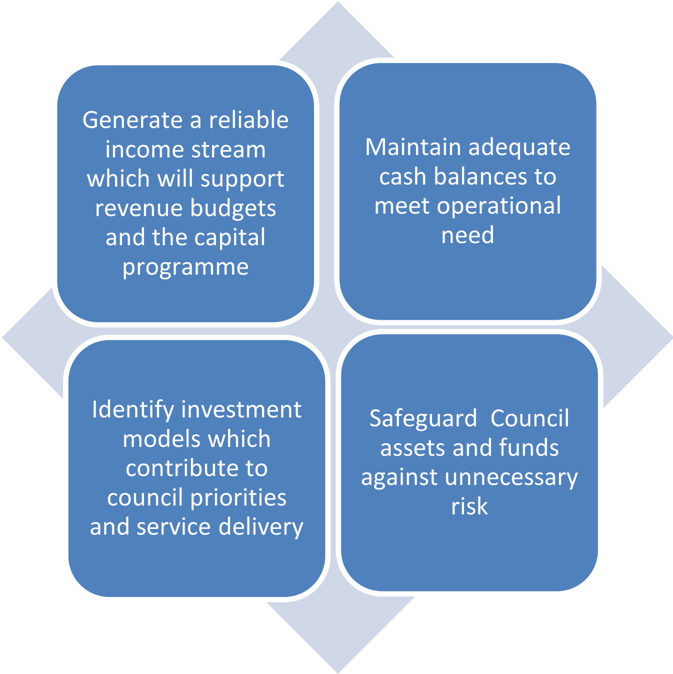
- the significant value of investments held by the Council
- their increasing importance in terms of generating income which supports revenue budgets and capital investment
- their potential to add value and contribute towards corporate objectives in their own right

6 It was felt appropriate to give this aspect of financial management more detailed consideration and to develop a more integrated approach to investment decision making.

STRATEGIC CONTEXT

7 The Council's key focus is on delivering high quality services within the context of reduced government funding and increased demand for services due to demographic change. The Council also needs to have regard to the longer term, given its moral and legal responsibilities regarding sustainability and stewardship of public assets.

8 The role of investment management is to support service delivery by balancing four key strategic objectives as follows:



9 An appropriate investment strategy which balances the above objectives is therefore key.

10 The Council is exposed to possible future events such as

- The potential impact of an economic downturn following Brexit which could reduce tourism income and increase demand for Council services
- more general economic dynamics because of the multiple links that the Council has into the economy through its service and revenue streams
- increases to pay and price inflation which will place cost pressure on both revenue and capital budgets
- the pensions deficit which may result in increased employer contribution rates (although the Council has begun to address this)
- interest rate changes which could materially impact on the cost of for example the capital programme
- government funding policy changes

11 Ideally the investment strategy should be aimed at generating future income to address these longer term risks.

ACCEPTABLE RISK LEVELS

12 An appropriate strategy which balances the above objectives consists of one which:

- focuses on investments with a reasonable return based on reasonable risk;
- includes other Treasury opportunities not covered in the TMSS; and
- likewise investigates property investment opportunities

13 The suggested policy going forwards is that the Council will generally seek to obtain the maximum amount of income consistent with a low level of risk and will be willing to accept a lower level of income in exchange for a low risk product which does not expose the capital value of the investment to potential loss.

14 By more proactive and appropriate management of the Council's investment portfolio, an increased level of income can be achieved but also ensuring that appropriate security is maintained over the Council's assets.

15 Such investments shall be separately identified in Council records and will be subject to the Council's detailed budget monitoring and review as a result

CURRENT INVESTMENT ACTIVITY

16 The Council is responsible for managing two broad investment portfolios:

- The Council investment portfolio of £1.7bn comprising £1.3bn of short-term cash-based investments generating a forecast return of 0.55%, and the investment property portfolio of £0.4bn generating 4.2%, both managed entirely separately; and

- The City of Westminster Pension Fund of £1.3bn which generates an average annual return of 9% measured over the past 10 years.

17 The Council investment portfolio (see below) is larger than any other local authority in the UK, exceeding not just the Council's own pension fund but over 40% of all local authority pension funds in England, Scotland and Wales.

Type of Investment	Expected rate of return	Value at 18 August 2017 £ million	Value at 31 March 2017 £ million	Value at 31 March 2016 £ million
Short term investments (mostly overnight cash deposits, money market etc.)	0.55%	1,233	743	515
Long term investments – mostly shareholdings in controlled companies such as CityWest Homes, Westminster Community Homes, WestCo trading etc.	Under 0.5%	41	41	46
Pooled property fund (Real Lettings)	6.0%	7	0	0
Investment properties	4.2%	455	455	405
Total		**1,736**	**1,239**	**966**

18 The Pension Fund is a separate legal entity and, therefore, its assets cannot fit within the wider investment framework of the Council. However, despite this ring-fencing, the pension fund has a significant second-order impact on the Council's financial position and funding needs, because of the existing deficit in the scheme, and the contribution plan in place to close this over a 19 year horizon.

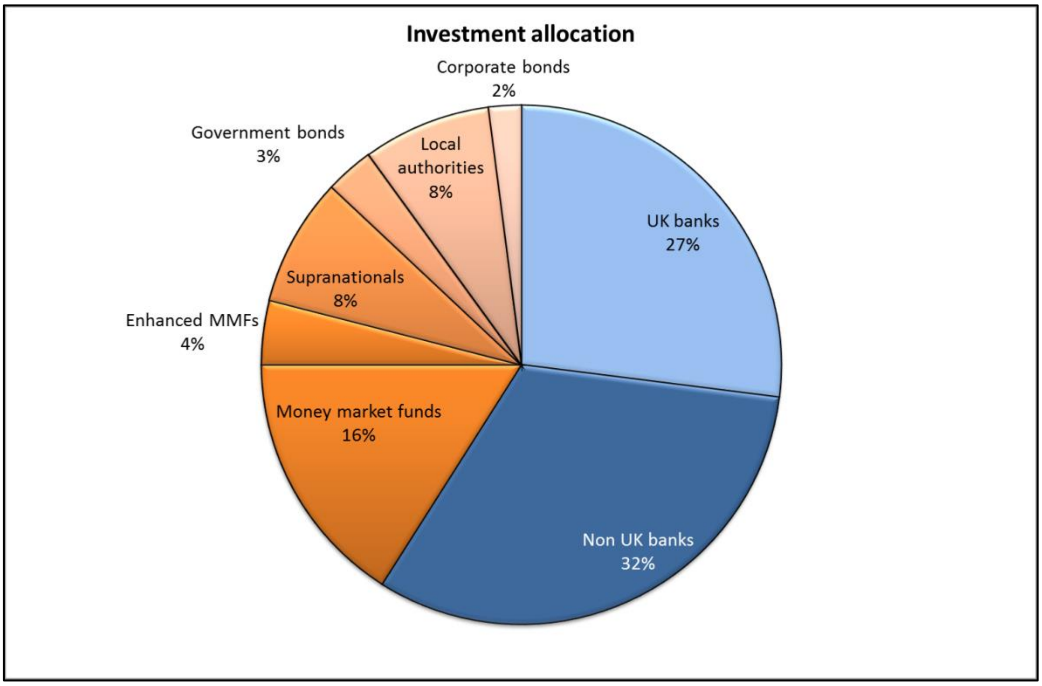
19 Although the funding position of the Pension Fund has improved from 74% at March 2013 to 80% at March 2016, this still represents a liability of £260m. To close the deficit, the Council is injecting £30m of one-off resources and increasing its revenue contributions by £4m per annum cumulatively for each of this and the next two years and maintaining those contributions thereafter until the deficit is resolved.

20 The funding of the Pension Fund assumes an annualized rate of return of 5.1% over the 19 year recovery period as represented in the discount rate used to value the pension fund liabilities. From the Council perspective as an employer paying into the Pension Fund the £260m deficit represents a form of borrowing with an interest rate set at the discount rate of 5.1%.

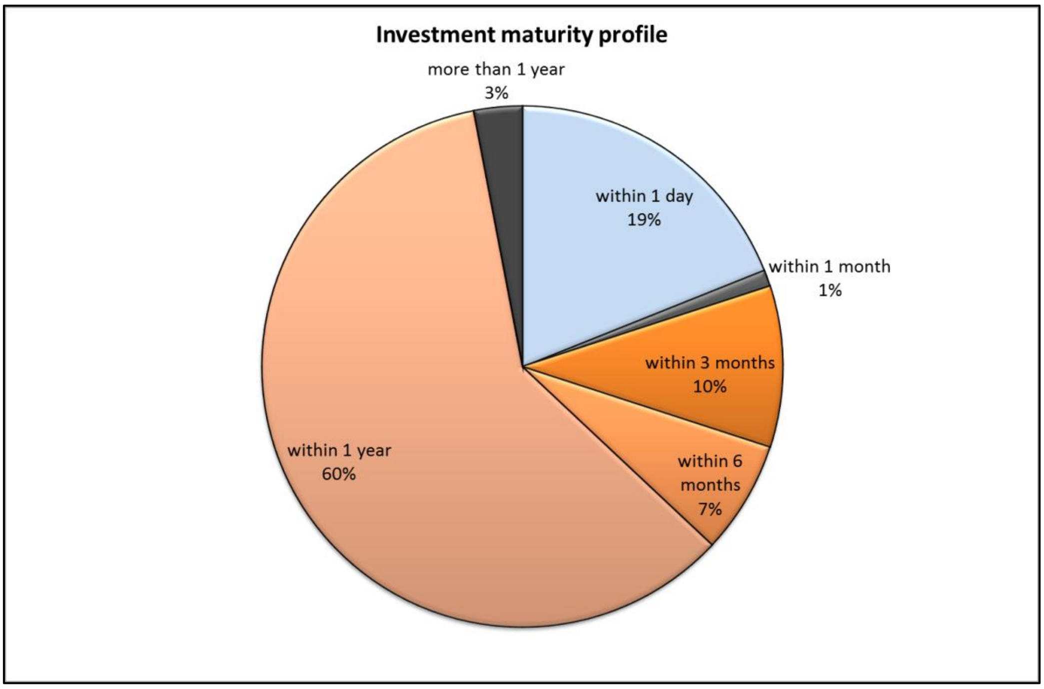
SHORT-TERM INVESTMENTS

21 In line with the current investment strategy, the treasury portfolio of short term cash-based investments is concentrated in the banking sector with almost 60% in bank

deposits, 20% in money market funds and 8% in supranational banks as shown below.



22 97% of investments mature within 12 months as shown below. The lone asset maturing longer is a 5 year gilt maturing in 2018.



23 In line with the above, the portfolio is entirely investment grade and heavily biased toward the top end with 69% of instruments AAA or AA rated, a further 30% A rated with only one BBB rated investment with RBS.

24 This approach provides flexibility for the Council at very low levels of risk, but tends to result in fairly low returns, typically less than 0.5%, and an approach to investment management which focuses very much on short term return as opposed to longer term considerations. Overall, this points to the lack of an optimisation for maximising the yield vs. credit rating.

INVESTMENT PROPERTY

25 Commercial property investment provides investors with:

- a higher income return than equities, bonds or cash
- a secure, regular income with income growth prospects to hedge against inflation
- capital value appreciation
- asset management opportunities to further increase rental and capital growth
- an underlying real asset with minimum capital value

26 However, as with any investment there are associated risks:

- illiquidity – property is a 'bricks and mortar' asset which takes time to sell/buy
- threat to income security if the tenancy fails and the property cannot be re-let.
- capital depreciation, if the asset is not properly managed and kept in good repair

27 Geographically the investment property portfolio is concentrated within the borough, which self-evidently tends to concentrate the economic risk in one area. Commercial property yields are currently ranging from 3.25% in central London to 5.5% in the regions (see Appendix C). In-house investment property generated 4.2% yield (excl. capital growth) in 2016/17.

28 Currently the property portfolio is heavily fragmented due to its historical incremental build-up with a heavy concentration in car parks which generates 52% of total income, followed by offices generating 29% and other smaller units generating the remainder.

29 The car park assets which provide a steady income stream and offer value added opportunities through potential change of use and redevelopment over time. The Council is focused on delivering best returns which acquiring new assets and redevelopment of assets to improve the quality of the portfolio should help to achieve.

30 Funding for £50m of potential investment in new property investment schemes has been approved as part of the capital programme. Schemes funded by this will go ahead if they generate additional income after full due diligence.

31 A more focused property investment strategy is likely to increase returns by:

- setting out more clearly the process and goals of the strategy;
- which would provide a framework for rationalising lot size over time which improve both efficiency and reduce the costs of managing the portfolio;
- targeting properties with a modern specification and minimal management costs.
- diversification of risk, sector and geography.
- improvement of asset quality and increase in average asset value

32 An appropriate Property investment strategy will be agreed with members once the overall Investment objectives of the Council are agreed. Focus should be on optimising performance of the Council's existing portfolio and acquiring

adjacent/adjoining assets which would improve performance and delivery of active asset management of the portfolio.

LONG-TERM INVESTMENTS

33 Prior to 2004, Councils were only permitted to make loans to, or invest in, other local authorities, the Government, banks or building societies. The introduction of the Prudential Code has relaxed these restrictions and gave local authorities the flexibility to invest in much more innovative methods of service delivery and income generation by:

- establishing, controlling and participating in limited companies trading for profit; and
- entering into loans and investments with "non-specified" counterparties including limited companies and not-for-profit organisations.

These are classed as non-specified investments under the DCLG's statutory guidance for local government investments.

34 No general legal restrictions are placed on the value, length or nature of such investments and the only proviso is that investments are placed in accordance with investment strategies formally approved by members. The City Council's Treasury Management Strategy expressly permits new investments in non-specified institutions providing that Cabinet Member approval is obtained.

35 Non-specified investments include vehicles such as infrastructure and housing which offer additional possibilities. As well as generating additional income they can, in and of themselves, make a contribution to corporate priorities and improve service delivery. They also diversify investment risk away from the banking sector and can offer more flexibility in terms of length of investment and timing of drawdowns.

36 This type of investment is becoming more common in local government with authorities investing in projects to increase low cost and affordable housing, improve transport infrastructure, and support sustainable energy programmes as well as pooled property or equity investments, venture capital funds to support new and growing businesses, bond issues and unit trusts.

37 Such investments typically offer returns of 4%-8%. However, they also tend to carry more complex risk profiles and attract higher transaction/due diligence costs, and are unlikely to have a published unit price or credit rating. The onus therefore falls on the Council to make its own evaluation of the investment and whether or not to proceed.

38 The Council's current portfolio of non-specified investments is:

	Value at 18 August 2017 £ million	Value at 31 March 2017 £ million	Expected return
Investments in companies controlled or significantly influenced by the Council	14.4	14.4	Nil direct to the Council, profits made are usually reinvested in the business
Government (UK) gilts	25.6	25.6	0.5%
Other arms' length investments in companies	1.3	1.3	Occasional dividend income but no reliable income stream
Pooled property fund (Real Lettings)	6.6	0.0	6% over 7 year life of fund
Total	**47.9**	**41.3**	

39 By increasing its holdings in this area the Council would reduce its reliance on the banking sector and facilitate the move towards a more long-term investment profile, as discussed below.

40 Identifying and investigating individual investment opportunities across multiple markets can be both time consuming and expensive. Therefore appointing a Fund Manager to manage a "bundle" of separate investments across a range of markets can be cost effective and spread risk by taking assurance on the fund manager's own due diligence processes.

LIABILITIES AND CASHFLOW NEEDS

41 In order to assess appropriate changes to the treasury portfolio, it is important to also consider the council's liabilities and cashflow needs over time. This is imperative as the purpose of investing the assets is to better match upcoming cashflow needs and also to minimize funding gaps.

42 The Council has a significant capital programme totalling more than £2.1bn over the next five years. This will be funded from £0.9bn of external funding leaving a net funding requirement of £1.2bn, as set out below.

	Forecast	Five year plan					Future	Total
	2016/17	2017/18	2018/19	20219/20	2020/21	2021/22	years to	
	Within 1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	more than 5yrs		
	£m	£m	£m	£m	£m	£m	£m	£m
Total expenditure	151	366	328	217	158	166	744	2,130
Total funding	(78)	(220)	(140)	(60)	(154)	(57)	(184)	(893)
Net Funding Requirement	**73**	**146**	**188**	**157**	**4**	**109**	**560**	**1,237**
% of treasury portfolio set against funding needs	6%	12%	15%	13%	0%	9%	45%	100%
Suggested maturity allocation	**10%**	**15%**	**15%**	**10%**	**5%**	**10%**	**35%**	**100%**

Source: capital programme 2016/17-2030/31

INVESTMENT ALLOCATION

43 The Council's investment portfolio is currently polarised between very short term cash based short-term investments on the one hand and commercial property, pension investments and equity shareholdings which tend to be held for perpetuity or at least 20 years or more.

44 Using the net funding analysis above rounded to the nearest 5% provides a suggested allocation by time which more appropriately reflects the Council's cashflow needs.

45 Therefore the proposed approach going forward is to move investment allocations towards agreed percentages as follows:

<table>
<tr><th>Type of investment</th><th>Current allocation</th><th>Proposed allocation</th></tr>
<tr><td>Short-term investments – less than one year</td><td>60%</td><td>10%</td></tr>
<tr><td>Short-term investments – less than two years</td><td>0%</td><td>15%</td></tr>
<tr><td>Short-term investments – less than three years</td><td>0%</td><td>15%</td></tr>
<tr><td>Short-term investments – less than four years</td><td>0%</td><td>10%</td></tr>
<tr><td>Short-term investments – less than five years</td><td>0%</td><td>5%</td></tr>
<tr><td>More than five years:</td><td></td><td></td></tr>
<tr><td>Property</td><td>37%</td><td rowspan="2">45%</td></tr>
<tr><td>Alternative investments</td><td>3%</td></tr>
</table>

OPTIONS FOR INCREASING YIELD

46 This will be achieved by making the following changes to the investment portfolio over the next 6-9 months.

Change	Expected impact	Risk
Treasury Management		
1. Lengthen the maturity structure from the current average 7 months to a target average maturity of 2 years	By investing in longer maturity assets with same credit quality, some additional yield may be generated, but the gilts curve is relatively flat, so yields would likely increase by about 0.3%.	Going out to longer dated bank deposits beyond 5 years would increase counter party risk to individual bank, which becomes more of a risk if there is a future financial crisis
2. Widen the credit quality of investments by moving from the current average rating of AA to A. This would allow the Council to invest a greater number of instruments with a moderate amount of credit risk (eg corporate bonds) that have maturity beyond one year. Yields tend to be higher to compensate for the higher perceived risk and reduced liquidity	For example a portfolio of short duration investment grade sterling denominated credit benchmarked to the Barclays Sterling Corporate Bond index of 3-5 year maturities yields 1.24% currently, which is more than double the yield on the current treasury portfolio. The average credit rating of the index is BBB+/A	By diversifying away from bank deposits, although marginally lower credit rating, this would spread the risk in the event of a future financial crisis.
3. Add more credit sub-asset classes such as asset backed securities (ABS). These are typically listed rated bonds which can be traded, but liquidity varies depending on the issue. Types of credit include car loans, credit cards and residential mortgage backed securities (RMBSs)	Yields are in the range of 0.7-0.9% greater than the current treasury portfolio. Yields can be higher for AA or A rated asset backed securities eg a 3-5 year A rated portfolio could yield 2.25%.	The extra yield reflects the potential complexity of these instruments, but since the last financial crisis regulation has made asset backed securities more secure through risk retention rules, increased ratings scrutiny and credit protection, reflecting government policy increase lending to households and small businesses.

Change	Expected impact	Risk
Investment property		
4. Adopt a more focussed property investment strategy by reducing the number of properties and increasing the lot size to efficiency gains and reduce the cost of management and maintenance. Given the added illiquidity of property investment, this only makes sense of the Council can achieve materially higher yields than the treasury portfolio and meet other objectives such as reducing risk (eg inflation) or help meet statutory duties. Therefore new acquisitions should: • target a yield of at least 5%; • widen the scope of investments from in-borough to at least within the M25 region; • ensure the sale of resultant assets to repay any associated financing costs within an envelope of 5 years.	Increased return on property portfolio of at least 0.8%.	Adverse property markets may result in a fall in sale value
5. Expanding the use of fund structures to deliver specialist functions such as supported living housing, homeless shelters, asylum housing etc. This would meet statutory duties and generate a return	Yields from public social housing real estate investment trusts (REITs), such as the Real Lettings fund which the Council is currently invested in are generating returns of 5-6.5%	By using a fund structure, this arms-length distances the Council from the costs of directly managing such property and investment is secured on the underlying property.
Alternative assets		
These fall outside traditional investments such as listed equities and bonds, and include renewable energy, infrastructure and commodities.		
A multi-alternatives approach could comprise investment in private asset-backed debt (such as pools of mortgages, car loans, credit card loans, aircraft leases, invoices, debt factoring and SME loans), direct lending and commercial real estate debt	Private asset backed debt tends to yield 4-6% with a maturity of 2-5 years. Direct lending and commercial real estate debt tend to generate 7-12% with a similar credit profile to bank loans.	Risks can be managed by appropriate due diligence such as credit analysis. This type of investment can be fairly specialised, therefore this may be an area which would outsourced to a fund manager
Pension Fund		
Pension Deficit – invest an additional £50-60m in the pension fund over current contributions.	This would reduce the interest on the pension fund deficit by 16-19% and thus improve the funding position by 18-22%, providing ongoing revenue savings of £1.1-1.5m per annum	Adverse markets in UK and abroad increase pensions deficit notwithstanding the additional investment made

OVERALL INVESTMENT TARGET

47 It is estimated that, after taking the actions outlined above, the Council should be able to achieve significant improvements in the overall level of investment income generated to support Council services.

48 The overarching objective of this Framework is to increase income generated from Council investments aspiring to match inflation in a full year (compared with the current forecast return of 0.55%), or to reduce costs and liabilities at an equivalent rate, whilst at the same time maintaining adequate cash balances for operational purposes and not exposing the capital value of investments to unnecessary risk. However because 60% of the current portfolio is held for more than 6 months and some of the higher return generating options have a lead-in time of 1-2 years before generating a return, the impact in the shorter term will be likely to be more modest depending on the options within the strategy.

GOVERNANCE

49 Innovation within the financial services industry leads to a constantly changing market and the availability of new asset classes, products and financial instruments. The Council needs to be able to operate flexibly, and make decisions quickly, in order to benefit from the opportunities presented by this environment and to successfully implement the changes outlined above.

50 The day to day aspects of treasury management are delegated to the City Treasurer under the Council's Scheme of Delegation , but the Integrated Investment Framework will:

- Enhance the effectiveness of decision making
- Embed a good risk culture that encompasses appropriate due diligence, option appraisal and an atmosphere of open debate
- Ensure that a holistic approach is taken towards managing the Council portfolio

51 The Investment Executive will monitor, report and advise on the investment portfolio and opportunities as they arise. The Investment Executive will comprise:

- the Cabinet Member for Finance, Property and Corporate Services and the Chair of the Audit and Performance Committee
- the City Treasurer, Tri-Borough Director of Pensions and Treasury, and the Director of Property and Investments
- The Chief Executive and the Executive Director GPH as necessary

52 The Investment Executive will meet half yearly supplemented with ad hoc calls and meetings in times of need of change. Any decisions will be taken by the relevant Cabinet Member or Cabinet.

53 Key information will be reported to Members on a half yearly basis through the half yearly investment reports.

54 Given the complexity of this important area the Council will need to rely on independent experts and advisors. Therefore the Council will engage at least two investment advisors who will:

- ➢ provide advice on the current investment market and recommend new products to invest in
- ➢ benchmark the Council’s performance and identify any areas where there is scope for improvement

DUE DILIGENCE

55 Due diligence is any process undertaken to:

- ➢ investigate a business or person prior to signing a contract.
- ➢ record the reasons behind an investment decision
- ➢ demonstrate that the Council is acting responsibly and has adequately assessed the balance between benefit and risk.

56 Due diligence should be undertaken on all investments in a consistent manner, albeit proportionate in terms of the value and complexity of the financial instruments being considered, and their relative impact on the Council’s finances as a whole

57 For a simple instrument such as a corporate bond, for example, a few paragraphs summarising risks and expected rewards together with analysis from an advisor would suffice. A more complex product might require specialist assistance, comprehensive risk analysis and work undertaken to monitor and re-assess risks and performance regularly.

58 The Council has developed a framework for undertaking due diligence which promotes consistency and rigour whilst at the same time allowing for flexibility and a proportionate approach. It is based around the “6 P’s” principle as set out in Appendix A.

59 Whilst this framework does not rule out in principle any specific type of investment, all proposals will be considered in terms of:

- ➢ reputational risk to the Council
- ➢ social, environmental, ethical and sustainability considerations.

OPTION APPRAISAL

60 An important aspect of due diligence is assessing the value for money offered by a new investment. Option appraisal will be undertaken for all new investments as part of the due diligence process, on a proportionate basis that reflects investment value, expected duration, and anticipated level of risk. It will be:

- ➢ outcome focussed
- ➢ structured around the key questions set out in Appendix B
- ➢ take non-financial benefits into consideration where relevant.

61 Option appraisal should focus on the opportunity costs of the investment and a comparison against returns offered by other products or opportunities realistically available, rather than achievement of a “theoretical” rate of return.

FINANCIAL IMPLICATIONS

62 This report identifies the potential for improved returns aspiring to match inflation in a full year compared with the current forecast return of 0.55%. Approval and implementation will result in an integrated framework for managing the Council's investment portfolio which supports improved returns and a more effective contribution to Council priorities and services.

LEGAL IMPLICATIONS

63 Any investment income from the car park funds must be continue to be distributed in accordance with section 55 of the Road Traffic Regulation Act 1984.

Legal implications drafted by Rhian Davies, Chief Solicitor (Litigation and Social Services)

CONCLUSIONS

BACKGROUND PAPERS

Overview and scrutiny

Treasury performance half year review – 9th January 2017

Council

2017/18 Treasury Management Strategy – March 2017.

Council Tax and Capital Strategy – March 2017

2016/17 Statement of Accounts – April 2017

Consultants Reports

Camdor Report "Investment Strategy Framework" June 2017

Deloitte Report on General Investment Principles June 2017

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

Peter Worth, Interim Tri-Borough Director of Treasury & Pensions

Tel: 0207 641 7689

Email: pworth@westminster.gov.uk

APPENDIX A – DUE DILIGENCE FRAMEWORK

1. The Council has developed a framework for undertaking due diligence which promotes consistency and rigour whilst at the same time allowing for flexibility and a proportionate approach. It is based around the “6 P’s” principle as set out below:

Powers

a) what legal powers is the Council relying on to make the investment being proposed;

b) Has legality been considered in terms of the underlying nature of the activity, as well as the instrument or vehicle itself?

c) Have capital financing and MRP requirements been considered?

Permission

2. Does the Council need permission from the Secretary of State or anyone else before progressing this investment e.g.:

a) Members – and if so who (committee with delegated authority, cabinet or full council)

b) Chief Officer if delegated decision making powers apply

c) Consultation with the public or staff may be a legal requirement

d) Does the proposal involve legal negotiations with a contractor or 3rd party?

Policy

a) Does the proposal fit within the Council’s policy objectives in terms of what it is trying to achieve?

b) If not does the proposal need to go to Full Council for approval?

Payment

a) How is the proposal to be funded both in terms of initial and on-going costs (i.e. is there a budget – revenue and capital)

Procurement

a) Has the proposal been subject to the Council’s procurement procedures?

b) Does it need to go through formal tendering or does it need a waiver?

c) Are there any State Aid or EEC implications?

Press

a) What spin could the press put on the proposal?

b) Might the Council be exposing itself to criticism?

3. Whilst not all of the above considerations will apply to every investment scenario, this framework will be applied in principle to every investment proposal, with results reported to members for consideration.

APPENDIX B – OPTION APPRAISAL

1. Option appraisal should be structured around the following questions:

Key questions	Issues to consider
How is the proposal to be funded in terms of initial and ongoing costs?	Is there an existing budget or is virement required? Does the proposal provide any added value to the Council in terms of improved efficiency, budget savings or reduced costs?
What is the opportunity cost of using up these cash resources?	What is the expected length of the investment period? What additional costs are there (transaction costs, due diligence etc.) in addition to the capital investment itself? Does the expenditure count as a capital transaction under capital accounting regulations? If so what are MRP/CFR implications?* Is there an exit strategy? Will this involve additional costs? Is there a risk of permanent impairment in the capital value of the investment?
Does the proposal link to corporate objectives and statutory services:	If so how does it compare to the cost of achieving similar outcomes? Will this delivery option increase or decrease outcome or cost risk?
Is the proposal is solely to generate income?	What key assumptions and sensitivities are contained in the financial model? * What are best, worst and medium case scenarios? How do these compare to other investment opportunities within the same investment allocation?
What transaction, professional and management costs need to be considered?	Consider for example: Independent advice and “experts” Legal fees/stamp duty Tax, audit, accountancy, secretarial Officer time in attending meetings etc.

* To promote consistency when evaluating potential investments, any MRP set aside requirements for property or alternative investments will be calculated using the annuity method rather than on a straight line basis.

APPENDIX C - Prime yields for commercial property

	Feb 16	Jan 17	Feb 17
West End offices	3.00%	3.25%	3.25%
City Offices	4.00%	4.25%	4.00%
Offices M25	5.00%	5.25%	5.25%
Provincial Offices	4.75%	5.25%	5.25%
High Street Retail	4.00%	4.00%	4.00%
Shopping Centres	4.25%	4.50%	4.50%
Retail warehouse (open A1)	4.50%	5.25%	5.25%
Retail warehouse (restricted)	5.25%	5.75%	5.75%
Foodstores	5.00%	5.00%	5.00%
Industrial distribution	4.50%	5.00%	5.00%
Industrial multi-lets	4.75%	4.75%	4.75%
Leisure Parks	5.00%	5.00%	5.00%
Regional Hotels	5.50%	5.25%	5.25%

Source: Savills

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City of Westminster

Meeting or Decision Maker:	Cabinet
Date:	30 October 2017
Classification:	General Release
Title:	Housing Investment Strategy and Housing Revenue Account Business Plan 2018/19
Wards Affected:	All
City for All:	This report addresses the investment in the Council's current housing stock and the investment in new housing, non-residential buildings and public realm in regeneration areas and as such has a major impact upon all three aspects of Choice, Heritage and Aspiration in the City for All policy.
Financial Summary:	This report presents a 30 year Business Plan for the HRA and investment related activity. The capital investment budget and its funding are presented in detail for the five years 2018/19 to 2022/23 and in summary for the 30 year period, for noting. The plan sets out gross capital expenditure of £794m over the next five years and nearly £1.9bn over 30 years. The Business Plan demonstrates that the investment proposals are fundable, subject to the assumptions within the plan, and that the HRA remains sustainable and viable over the thirty year period. The investment over the next 10 years has been maximised within the available

	borrowing headroom, to within circa £1m by 2025/26. Headroom eases after that year. The funding of the programme over the next five years is highly dependent upon the timing and value of asset disposals that underpin the regeneration programme, along with substantial contributions from the Affordable Housing Fund. The utilisation of the full funding capacity of the HRA over the next 10 years means that the affordability will be sensitive to changes in legislation or the assumptions used in the plan. The options available to mitigate risk are outlined in detail in Section 11.
Report of:	Barbara Brownlee, Executive Director of Growth, Planning and Housing

1. Executive Summary

1.1 This report presents the Housing Investment Strategy and thirty-year Housing Revenue Account (HRA) Business Plan. The City Council's investment plans are ambitious and will deliver a range of lasting benefits for the City, its residents and the City Council. They will allow the City Council to realise much of its 'City for All' ambitions of aspiration and choice; delivering new homes and leveraging the value of our land assets to bring forward investment in some of Westminster's poorer neighbourhoods.

1.2 Since last year the 30 year plan for capital investment in the Council's existing stock and regeneration schemes has increased from approximately £1.64bn over thirty years to approximately £1.86bn. This increase of c. £220m is significantly driven by increases in Church Street (Phase 2) at £100m, Infill schemes increasing by £124m, Section 106 acquisitions of £24.9m and refinements on other schemes. This is offset by an apparent £109m reduction in capex for major works; however, £46m of this is driven by expenditure being moved from capital to responsive and cyclical repairs in the Income and Expenditure account (I&E), recognising that a significant proportion of the work undertaken under major works is ultimately treated as revenue. Section 7.5 clarifies that a further £60m is explained as being driven by savings made through reprocurements.

1.3 The financing of this increase in expenditure has been achieved through an increased use of the Affordable Housing Fund (up £223m), including future expected contributions to the fund and not solely the existing fund held. Funding through Capital receipts and Right to Buy (RTB) receipts increase by a net £120m, although RTB receipts are expected to fall. A reduction in the anticipated use of reserves (£121m) offsets these increases.

1.4 Key elements of the HRA investment programmes included are:

- Continued investment in existing housing stock (£925.0m);
- Investment in the housing estate regeneration programme and other new supply schemes (£938.7m)
- Affordable Housing Fund (AHF) expenditure on new HRA supply over the 5 year period 2018/19 to 2022/23 (£176.7.m)

1.5 The operation of the 'higher value void' levy is still being considered by central government with a pilot scheme in the West Midlands being analysed over the forthcoming years. The impact of such a levy was modelled in the corresponding report last year and this has been omitted this year given the uncertainty as to the implementation of this policy.

1.6 Despite the uncertainties and pressure on resources the Council remains committed to improving or renewing as appropriate our older stock and increasing housing supply. The Leader re-emphasised this through her commitment to deliver at least 1,850 affordable homes by 2023 in the 2017/18 refresh of ‘City for All’ and the Council remains on target to deliver its contribution. Between 2018/19 and 2022/23 it is anticipated that 2,026 new affordable homes will be delivered. 529 of these homes are currently under construction, with the remaining homes due to start and complete by March 2023. Of this pipeline of 2,026 units, the HRA is anticipated to deliver 968 affordable units. 199 of the HRA affordable homes will be delivered on ‘infill’ sites and an additional 183 homes on ‘section 106’ sites. 690 of the HRA units are to be delivered on either Housing Regeneration sites or in the Housing Zone. These HRA programmes will be delivered from a combination of HRA funding and the Affordable Housing Fund (AHF). In addition a further 240 affordable homes will be delivered on General Fund sites, of which 212 homes are partially funded by the AHF. The remaining 818 affordable homes are anticipated to be delivered by Registered Provider (RP) partners mainly from ‘section 106’ opportunities in the City and through spot purchases of existing housing then converted to affordable housing use. This RP supply will be delivered using a combination of direct investment from RPs and the AHF.

1.7 The scale of the Council’s regeneration plans has increased both within and outside of the HRA. Funding of regeneration in the HRA has increased over 30 years from £440m to £603m. The notable increase involves an expansion and acceleration of the ‘infill’ programme which involves new supply on our existing estates on unused or underused areas of land including basements; undercrofts; garages and sheds.

1.8 The Council’s HRA supply plans are dependent on historic levels of receipts into the AHF continuing into the future. Should this not occur the Council will need to look at other mitigations such as scaling back activity or using an alternative to the HRA such as a wholly-owned housing company to deliver some projects.

1.9 The Grenfell fire has had a significant impact on the housing sector in terms of the fire safety arrangements and cladding and other materials used in tower blocks maintained by all local authorities. The council has made an assessment of its own tower blocks which would require remedial works to meet latest expectations and a cost estimate of £25.5m has been factored into the business plan.

2. Recommendations

2.1 To note the indicative HRA capital programme budgets for 2018/19 to 2022/23 (**Appendix B**).

2.2 To note the proposed allocations from the Council’s Affordable Housing Fund to new supply programmes.

3. Reasons for decision

3.1 The plans outlined in this report will enable the Council to invest in maintaining and improving the existing stock of homes and neighbourhoods within its management, while also delivering wider benefits to the City's residents and businesses. The financial plan will ensure the housing stock continues to meet the housing needs with which the city is faced; and ensure the HRA remains sustainable and viable over the long term. Further modelling of a proposal to set up a wholly owned company to enable housing delivery, which may involve delivery of some of the schemes in this plan, together with a reference in the recent prime minister's party conference speech to an additional £2bn to be invested in affordable housing mean that the plan will continue to be assessed in the coming months.

4. Background

4.1 The Council's *Housing Investment Strategy*, approved by Cabinet in 2012, centres on delivering three key programmes:

- Investment to maintain and improve existing council-owned homes;
- Delivery of new affordable homes; and
- Implementation of the initial phases of the housing regeneration programme.

4.2 Annually, the Council reviews and updates its 30 year business plan in line with best practice. This report summarises the latest 30-year HRA Business Plan, and seeks approval from Cabinet for updated and re-profiled capital expenditure proposals. The annual update also outlines how the Council plans to utilise resources from the Affordable Housing Fund (AHF) to deliver new affordable housing supply initiatives.

4.3 The charts in paragraph 10.2 show the key business plan metrics for both last year's and this year's plans. The significant differences between the two years are:

- Fire safety interventions following the Grenfell Tower fire have increased as a proportion of the assumed budget by c.£25.5m (see section 7 for more detail);

- A re-profiling of repairs (revenue) expenditure has resulted in a transfer of funds from capital expenditure (c.£46m);

- An anticipated decrease in the cost of undertaking void refurbishment works following the introduction of CityWest Homes' new 10-year Term Partnering Contracts (c.£15m);

- A general re-profiling of capital expenditure and potential savings taking into account the CityWest Homes' new 10-year Term Partnering Contracts (c.£46m).

4.4 The key achievements made in maintaining, improving and renewing the stock in the last 12 months are listed in **Appendix D**.

5. Government policy announcements and recent legislative changes

5.1 This section provides a summary of the legislative changes and government policy announcements in recent years and the implications for the Council's housing investment plans.

Housing White Paper 2017 "Fixing our broken housing market"

5.2 The paper covered all aspects of housing delivery:

Planning for the right homes in the right places – the White Paper included a range of proposals to ensure local authorities have up to date plans to reflect their housing need and that sites are allocated for new housing development. Proposals also included amending the National Planning Policy Framework (NPPF) to encourage local authorities to consider the social and economic benefits of estate regeneration and use planning powers to deliver this to a high standard.

Building homes faster – the White Paper included a range of proposals to speed up housing delivery by addressing skills shortages and blockages in the planning system; and by holding both developers and local authorities to account for non-delivery.

Diversifying the market – proposals included: entering into bespoke housing deals with local authorities who have a genuine ambition to build; to address issues that are holding them back; supporting local authorities to create innovative ways of developing new homes i.e. by setting up local housing companies or joint venture vehicles.

Helping people now – The White Paper set out that Starter Homes would not be a mandatory requirement, but the NPPF will be revised to introduce a clear policy expectation that housing sites deliver a minimum of 10% affordable home ownership units. NPPF will also clarify that Starter Homes should be available to households with an income of less than £80k (£90k in London), and that mortgages will be required to stop cash buyers. Where sold within the fifteen years, some (or all) of the discount will be repaid.

Welfare Reform and Work Act 2016

Social rent reduction

5.3 Section 23 of the Act provides for a 1% social rent reduction for 4 years from 1 April 2016. The Housing White Paper 2017 “Fixing our broken housing market” confirmed that the 1% per annum social rent reduction would remain in place until 2020, and said that a new rent policy post-2020 would be set out in due course. This has since been confirmed in a statement from DCLG which clarified that increases to social housing rents will be limited to the Consumer Price Index (CPI) plus 1% for five years from 2020. The business plan set out in this report is in line with this, with the assumption reverting to CPI increases beyond the confirmed period.

Universal Credit

5.4 Full roll out in Westminster will be phased between October 2017 and March 2022. Currently only 71 council tenants receive Universal Credit (UC). Direct payments are a key feature of Universal Credit. The experiences of other social landlords indicate an impact on their HRA but it is anticipated that Government will take account of the experiences of pilot authorities in the final design of the system and that the impact on rent collection will be minimal but this remains a risk.

5.6 Government is proposing to introduce Trusted Partner Status for social landlords, whereby they will be able to identify vulnerable claimants and apply to have the housing element of their Universal Credit paid directly to the landlord before the tenant falls into arrears.

5.7 In modelling the impact on the rent roll it has been assumed that bad debts will rise from 1% to 1.5% until 2020 and then return to 1%. However, there remains uncertainty and this assumption will need to be reviewed annually in future business plans.

The withdrawal of the housing cost element of Universal Credit for 18 – 21 year olds.

5.8 This applies to new claims after 1st April 2017 and there are a number of exemptions relating to vulnerability. The impact of this on the HRA is not expected to be great as there were only 3 lets to under 22 year olds in 2016/17 and many young people applying for, and in social housing, are likely to be exempt from the policy change.

Local Housing Allowance (LHA) changes

Application of the shared accommodation rate to the under 35's to social sector tenancies.

5.9 Currently single under 35's in the private rented sector have their Housing Benefit restricted to the shared accommodation rate. From 1st April 2018 this will also apply to social sector tenants with some exemptions. For those currently receiving Housing Benefit it will apply for all new tenancies signed from 1st April 2016.

The impact is not expected to be significant as council rents are generally within the LHA shared accommodation rate (which is £140.62 in central London) and there are relatively few lettings to the under 35's (29 in 2016/17). However some young people in council tenancies might be affected. Young people signing for a council tenancy are told about the policy and CityWest Homes is intending to identify anyone affected by the policy prior to it taking effect and will be proactively contacting people and working with them.

Housing & Planning Act 2016

<u>Disposal of high value voids</u>

5.10 This policy requires local authorities that maintain a HRA to make an annual financial contribution to government equivalent to the estimated revenue from disposal of properties that become void in that year, and which are considered to be 'higher value'. It is being introduced in order to fund an extension of the Right to Buy policy to tenants in the housing association sector. The secondary legislation that will provide for the details of this contribution is not yet made. In May 2017, the Government announced a regional pilot for the housing association right to buy extension (to be funded from the high value void policy) that will continue until 2022. It is not expected that a decision on this policy will be made until the results of the pilot is known. Given the uncertainty over whether this policy will be now be pursued by central government and if so its exact form and impact on the HRA it has not been included in the business plan.

<u>Rents for high income social tenants</u>

5.11 The Act provides the enabling legislation to require stock retaining housing authorities to charge a market rent to households with incomes of £40k or above in London (£30k elsewhere), and that the extra income generated will be paid to government (less an amount to cover administrative costs). However government subsequently announced that the policy will not be mandatory. The council already has a pay to stay policy for flexible tenancies (most tenancies issued after September 2013 are on a fixed term or flexible basis). The council will be reviewing its Tenancy Policy in 2018 and as part of this will review whether to adopt this type of approach for secure tenants.

Phasing out of tenancies for life

5.12 The Act includes a requirement that most new council tenants are offered tenancies for between two and ten years. Existing tenants that are forced to move due to regeneration, for example, can retain their security and local authorities will have some discretion as to when to grant a further secure tenancy e.g. when tenants are transferring. Government has advised that statutory guidance will be introduced to assist local authorities with the implementation of the policy. The date for publication of this guidance or implementation of the policy is unknown.

Housing Strategic Options Study

5.13 During the last year the work commissioned from Deloitte Real Estate (DRE) has been completed. This work responded to the fact that the HRA Business Plan utilises all of the foreseeable headroom and financial capacity within the HRA.

The study considered how the Council can best provide more social, affordable and intermediate housing both in and out of Borough to:

1. provide temporary and permanent accommodation to fulfill the Council's duties under homelessness legislation;
2. provide affordable housing for those working in Westminster;
3. contribute to a built environment which promotes health and wellbeing, and;
4. increase the capacity for regeneration within the Borough.

DRE provided a long-list and short-list of options for the Council to consider with the latter involving the intensification of estate regeneration; the establishment of joint ventures on council-owned land; joint ventures with other public sector bodies; and, the bulk purchase of completed housing units. DRE recommended that the Council consider the delivery options for the above with the creation of a wholly-owned housing company and/or a London-wide housing vehicle being the most obvious options. Officers have been considering the merits of establishing a wholly-owned housing company and will be bringing forth a separate report in the next few months. This will complement the activity of the HRA by developing or acquiring intermediate and market housing, alongside the new social and affordable housing provided within the HRA.

The idea is not new; more than a third of local housing authorities have or are considering setting up such subsidiary companies. They aim to deliver a range of housing provision, often responding to market failure such as where the private market is slow to respond to general housing need or needs ‘kick- starting’ or to supply a particular tenure and/or quality of housing. The key advantage over other options (for example, partnership with Registered Providers or developers) is that the Council retains 100% control and ownership of the company, its activities and the assets created.

The proposal will not involve additional staffing as management and operational activity can be delivered with a Board of Directors comprising Council directors and using agency arrangements with the Council and contracts with external advisors/ and construction/development companies. Funding will be provided by a mix of loans and equity investment from the General Fund at commercial rates and the Company must be able meet interest payments, repay its borrowings and provide a financial return to the Council.

To accompany the recommendation to create such a company a business case is being prepared based on a joint development with the HRA in relation to redevelopment proposals involving a mix of market sale, intermediate rent and new social/affordable housing, the latter being delivered for the HRA. This includes financial modelling to establish the viability of the proposal and ensure they can offer value for money to both the Council’s HRA and General Fund.

Community Supported Housing (CSH)

5.14 The council recently received a draft report from the consultants it commissioned to assess if it is making the best use of its CSH (also known as sheltered housing) asset and to provide recommendations for change. The study asked three main questions:

1. How well is CSH meeting current demand and how well will it meet future demand?
2. How well does it contribute to meeting the Council’s key priorities and objectives?
3. What changes are needed and how can they be made?

5.15 The draft report highlights that:

- Demand is predicted to outstrip supply in future years with much of it coming from older tenants from the private rented sector. A minimum of an additional 225 units by 2030 is required.
- Existing residents are generally satisfied with their housing and associated services.
- Potential future residents, such as ‘downsizers’, need to see that a move to sheltered housing can be an attractive offer.

- The use of CSH in complementing other policy objectives of the Council could be improved and become part of a wider ‘offer’ to older people.
- The design of most of the existing stock presents constraints in adapting it to meet modern expectations, but its geographical location is good.
- There is scope to increase the use of smart technology in the stock.
- To make the best use of the stock, it could be more differentiated to reflect different customer requirements.

5.16 The draft report also includes a framework for making future strategic decisions about the stock and options and recommendations will be presented for members in due course.

City for All

5.17 In December 2015 the Council published its ‘Westminster Housing Strategy – Direction of travel statement’ in response to the *City for All* vision. Investment in existing and new homes, and in our communities, is central to achieving this vision of Westminster being a City of Aspiration, Choice and Heritage. Specific *City for All* commitments supported by the housing investment outlined in this report includes:

- Maximising the delivery of new affordable homes in Westminster;
- Working with others to support new supply within London;
- Delivering the housing renewal programme at Tollgate Gardens and Church Street and moving towards regeneration becoming ‘business as usual’;
- Developing new types of intermediate housing and increasing the supply of intermediate housing;
- Implementing the change programme at CityWest Homes to improve customer service and ensure value for money and improve resident engagement in the scrutiny of services;
- Improving energy efficiency in our stock and investing £12m to tackle cold and damp housing conditions and target action at the 450 tenants most at risk of ill-health from their home; and
- Reviewing the role of our community supported housing;

5.18 Despite the uncertainties and pressure on resources the Council remains committed to improving or renewing as appropriate our older stock and increasing housing supply. The Leader re-emphasised this through her commitment to deliver at least 1,850 affordable homes by 2023 in the 2017/18 refresh of ‘City for All’ and the Council remains on target to deliver its contribution. The housing renewal plans are now gaining momentum and the volume of improvement work planned for the stock over the next five years is ambitious.

5.19 Plans for each of the Council's housing investment programmes are set out in the following sections.

6. Housing Regeneration

6.1 The HRA development programme will see £594.6m of capital expenditure committed over the next five years (2018/19 – 2022/23) on the development of new build housing, regeneration of existing estates and acquisition of affordable homes across Westminster. Within this total funding envelope, the Affordable Housing Fund (AHF) will invest £176.7m to support the delivery of the HRA development programme in addition to other funding sources, including external grant, capital receipts (derived from development agreements, open market sales, and disposals), and capital loans. Table 1 below sets out the detail of each scheme.

Table 1 - Regeneration schemes

Description	Forecast to 31 March 2018	5yr Plan	30yr Plan
	£m	**£m**	**£m**
Cosway Street	0.4	32.5	32.9
Lisson Arches	4.1	24.9	29.2
Luton Street	0.2	14.2	14.4
Parsons North	1.2	26.7	27.9
Ashbridge	0.7	13.0	13.7
Church Street Phase Two	0.8	200.8	309.7
Tollgate Gardens	7.3	9.9	17.2
Other Estates Regeneration	17.9	99.9	157.8
Total Regeneration	32.7	421.9	602.8
Other Schemes			
District Heating Network Scheme	1.9	8.2	17.0
Edgware Rd	2.0	6.9	8.9
Infill Schemes	3.0	64.5	143.4
Self Financing	14.4	50.0	115.0
Section 106 Acquisitions	-	24.9	24.9
Kemp House/Berwick Street	-	0.8	0.8
Central Contingency	-	17.4	26.0
Total Other Schemes	21.3	172.7	335.9
Total	**54.0**	**594.6**	**938.7**

6.2 Investment in the regeneration programme has again been protected in this year's business plan and has increased from the £440m gross investment reported last year. The following schemes are illustrative of those that will progress over the next 5 years.

6.3 **Cosway Street**

In 2013/14 the council acquired the long leasehold and freehold interests for Cosway Street from the City of Westminster College. Since acquisition of the site the proposed delivery model has progressed from being developer led to a self-delivery solution in order to combine and maximise the Council’s development opportunities in the immediate area.

The current proposal involves the provision of 57 new residential units offered to the market as private sale. The surplus generated from the open market sales will be wholly used to subsidise other projects in the wider HRA regeneration portfolio. Cosway Street will be linked to Ashbridge Street via a dual-planning submission in order to meet planning policy compliance.

6.4 **Lisson Arches**

Lisson Arches is sited adjacent to disused railway arches within the Church Street ward. This development will provide 44 sheltered accommodation flats, 1 scheme manager's flat, and 14 private sale flats for adults aged 55 and over. The scheme is based on a two-stage tender process, with continuing negotiations taking place with the preferred main contractor (United Living). The on-going enabling works are being undertaken by FM Conway. The latter consists of several major service diversions that pose numerous logistical and technical difficulties that are having a detrimental impact upon the progress in delivering the programme.

The 45 social housing units provide replacement stock for the 45 units earmarked for demolition in Penn House, a nearby sheltered accommodation block.

6.5 Luton Street

The developer, LinkCity, was selected by tender process via the Development Framework Panel in April 2014 as the preferred delivery partner. The terms of the development agreement have been re-negotiated due to a change in the design and movement on the anticipated sales values. The development will deliver 171 new residential units comprising of 62 affordable units and 109 private sector units.

The commercial negotiations were concluded in July 2017 and the developer has recently submitted a planning application and both parties can work towards agreeing an unconditional development agreement and a start on site date.

Under the structure of the Development Agreement, the council will receive a receipt for the land from the developer (surplus) in addition to other benefits, including a public realm improvement fund (£3m), a contribution to off-site works improvements to surrounding blocks (£2.4m) and a WCC management fee (£1.8m). The Council will not enter into a direct build contract or take the risk on sale of the market units; however an overage agreement is in place that will benefit the council should market sale proceeds exceed a specified threshold.

6.6 Parsons North

Parsons North was initially tendered on a developer- led delivery model. However, the preferred developer withdrew and the project has since been redesigned to increase density under a self-delivery strategy. It is proposed the scheme will deliver 60 new homes, of which 19 are affordable and 41 are private sale. It is intended that the surplus generated from the development will be used to fund enhanced landscaping and biodiversity upgrade works in the immediate vicinity.

6.7 **Ashbridge Street**

Ashbridge Street is the site of a former BT station that was acquired using AHF funding in 2014/15. An existing BT service core within the site is required to be retained and made accessible within the development. The current proposal is for the development of circa 28 affordable homes to provide decant facility for the wider Church Street regeneration. In addition, wider public realm improvements to the immediate surrounding area facilitated by the relocation of a vehicular ramp that accesses the existing underground car parking will benefit the council-owned properties located within Alpha House and Earl House.

6.8 **Church Street Phase 2**

The second stage of the Church Street proposals have been subject to a masterplanning exercise in recent months and local residents and stakeholders are being consulted on the proposals.

6.9 **Tollgate Gardens**

Tollgate Gardens is a developer led regeneration in the Maida Vale ward. The regeneration includes the demolition of 5 blocks previously comprising of 59 tenanted units and 30 private units. The scheme is being delivered by Clarion Group and will deliver 195 new residential units comprising of 86 affordable units, which the Council will purchase from the developer, and 109 private units. The existing Tollgate House tower block will be retained and improved. The project has commenced on site. This project is due to deliver a surplus to the HRA through the consideration paid for the long-lease on the land.

6.10 **Infill Programme**

The Infill Programme identifies development opportunities within the existing estate that can be brought forward for new housing. These include conversion of disused space such as basements, drying rooms and storage sheds and new build opportunities on underutilised garage sites, car parks and vacant land adjacent to estates.

A decision making framework is used to guide assessment of the optimum unit size mix, tenure and potential use of each site. The presumption is for family sized accommodation wherever possible and that new homes will be retained within the HRA. Sites that are unable to yield family homes are typically disposed on the open market, with the sales receipts reinvested back into the programme. It is proposed that the majority of funding is provided by the AHF and the HRA. The programme is structured to be continuously rolling which will result in new sites being brought forward for assessment and delivery. The programme is on track to achieve 25 new units between 2017/18 and 2018/19 with a further 40 units anticipated to be ready for start on site between 2018/19 and 2019/20. Schemes that are due to start on site in 2017/18 include a package of conversions (10 units) and a package of new builds (15 units).

General Fund Projects

The following projects are funded by the General Fund five year capital programme set in February 2017 which included a gross capital budget of approximately £1bn, with projected income of approximately £500m. As well as producing capital receipts that can go back into funding future capital programmes, many of these projects will also generate an on-going revenue stream that is expected to contribute towards funding the delivery of front line services.

6.11 **Dudley House (GF)**

This site has been assembled utilising a former social housing block and a number of private street properties and will provide 197 intermediate rented residential units, the Marylebone Boys school, church and a retail unit.

Demolition began in October 2016 and works will complete in the Summer of 2019. The Dudley House scheme is currently on site and the images below provide an update of progress on site.

6.12 **Farm Street (GF)**

Redevelopment of the entire site will consist of demolishing an existing four storey building with the basement level to be retained. Construction incorporates a new four storey building comprising of ground/first floor street cleansing depot and 14 intermediate rent units at first, second and third floor levels. Demolition was due to commence in its entirety in June 2017, however this has been delayed due to a party wall issue with the existing neighbour and resulted in a more complicated demolition and construction methodologies. The new demolition completion date has been revised to October 2017, and works are due to be completed by August 2018.

6.13 **Huguenot House (GF)**

Huguenot House comprises of a cinema, two office floors, a 247 space car park, and 34 residential flats. Authority has been granted to progress the design for a mixed use scheme including a cinema, retail and office space, and incorporating 49 residential units with 35 being for private sale and 14 affordable units.

6.14 Jubilee Leisure Centre Phase 1 (GF)

A new community leisure facility and residential development across two sites undertaken with the first phase providing 28 homes, comprised of 12 affordable and 16 market homes. The affordable homes were completed in September 2017 and are contracted to Genesis Housing Association. The market homes will complete in October 2017.

The second phase of the redevelopment of Jubilee Sports Centre, will provide a further 56 market homes and a community leisure centre of approximately 772 sq m (8,310 sq ft). This is forecast to complete in June 2020.

6.15 **Luxborough Street (GF)**

The proposed development site offers an opportunity to provide a mix of uses. The new proposal includes ground floor use for community and/or affordable housing alongside private residential apartments above. This project is currently on-hold until a new budget can be agreed.

6.16 **SHSOP Programme**

The following three projects are combined into the SHSOP: Strategic Housing Strategy for Older People programme.

Beachcroft House (GF)

This site is a former pupil referral unit and will be redeveloped to provide an 84 unit sheltered scheme with a mixture of affordable and market sale units. Works will commence in the summer of 2017 and complete in the summer of 2019. The private units will be disposed on the open market via a sales agent.

Westmead (GF)

This property is owned by Westminster City Council and was built in the 1970's and currently consists of 42 bedroom care home which is at the end of its useable existence. It is proposed to redevelop this site to provide a mix of nursing care, extra care and supported housing for people with learning disabilities, and residential for private sale. Construction is expected to commence after the completion of Beachcroft care home early 2020.

Carlton Dene (GF)

This project is being progressed with Westmead as a joint scheme and consists of the redevelopment of an existing 42 bedroom care home, and it is proposed to redevelop this site to provide a mix of nursing care, extra care and supported housing for people with learning disabilities, and residential for private sale. Construction is expected to commence after the completion of Beachcroft care home early 2020.

7. HRA investment programme – expenditure on existing homes

7.1 The 2017/18 HRA Business Plan accepted that, because of the reduced income assumed as a result of Government rent changes, not all of the Council's housing stock would be able to be brought up to – or maintained at – the 'CityWest Standard'. Rather, a 30-year investment programme was set at £1.52 billion (£1,034m capital and £485m revenue), which would continue to enable the Council to meet the Government's Decent Homes standard.

7.2 Following further review of investment, and linked to the Council's desire to accelerate delivery of additional homes, a decrease in the 30 year budget has been budgeted as part of this year's Business Plan. Specifically, a reduction of c.£60m is assumed over the Plan period, leading to a total projected spend of c.£1.46 billion (£925m capital and £531m revenue). All of the stock will continue to be maintained at the Decent Homes Standard and at any one time the majority of the stock will also meet the higher CityWest standard.

7.3 Excluding an assumed £25.5m investment in fire-related works following the Grenfell tragedy, total expenditure on other major works programmes in the first five years of the programme amounts to c.£277m (capital and revenue). This is broken down as shown below (**Appendix B** shows the capital spend in more detail):

Table 2 – Expenditure on existing HRA stock

Description	5yr Plan	30yr Plan
	£m	**£m**
Mechanical & Electrical	30.4	291.2
External	105.7	382.2
Major Voids	12.5	76.0
Kitchen & Bathrooms	3.6	26.7
Lifts	10.7	51.1
General	0.7	6.1
Fire precautions	10.3	35.0
Adaptations	6.0	31.2
Grenfell-related Fire Works	20.0	25.5
Total Capital Works	**199.8**	**925.0**
Repairs & Maintenance	97.3	531.0
Total Investment	**297.1**	**1,456.0**

7.4 Following the tragic event of the fire at Grenfell Tower in June 2017, the Council has committed to undertaking a number of improvements to high-rise blocks within the housing stock. The cost of these works (c.£25.5m) includes re-cladding of the six tower blocks at the Warwick & Brindley estates, and retro-fitting sprinkler systems at a number of tower blocks across the Borough. This additional spend has placed pressure on the rest of the five year capital budget, meaning that certain other schemes will be carried out slightly later.

7.5 One of the key ways that CWH is seeking to continue to ensure better investment and budget control is through its current procurement exercise. This involves long term service agreements with a limited number of contractors. In late summer 2017, CWH entered into five new 10 year term contracts to provide services across their Property Services Directorate including: domestic heating; repairs and voids; mechanical services; electrical services; and lift services. In addition, in late autumn 2017, two further long term service agreements will also cover major works. These contracts will all provide better value for money, improved quality and drive a reduction in costs for the Council and leaseholders and assist in delivering savings of approximately £60m over 30 years.

Asset management

7.6 To supplement allocated funding for new supply CityWest Homes has instituted an active asset management approach, whereby non-performing assets (for example those where the net present value of the income is less than the net present value of costs) are subjected to an options appraisal. Stock deemed not to meet on-going needs is disposed of and the proceeds ring-fenced for investment in new homes that better meet the needs of residents.

7.7 To date, as part of this programme, the Council has disposed of 86 non-performing HRA void properties (mostly studios and 1-bedroom units) on the open market, with a further 8 agreed for disposal. Disposals have so far raised £46.2m, with a further £4.2m anticipated from already agreed disposals. Proceeds have so far been utilised to acquire 45 replacement family-sized homes at a cost of £22.2m.

8. New affordable housing supply schemes

8.1 The majority of new affordable supply currently being delivered in the City is linked to market housing led developments where a proportion of new housing is required to be provided on site as affordable housing linked to Section 106 (s106) planning obligations. These s106 affordable homes are generally transferred by private developers to the Council's Register Provider (RP) partners once built and the Council then nominates households in housing need from its waiting lists to these new affordable homes.

8.2 RPs have therefore been the Council's main historical source of new affordable housing supply in the City. However, RPs are unable to compete with the private sector in Westminster for development site opportunities due to the high cost of land. Also, RPs operating in the City have very limited development capacity within their own estates to deliver new affordable housing supply.

8.3 As new RP affordable housing supply is generally limited to s106 sites, the Council and its partners have sought to supplement this limited affordable housing supply by bringing forward spot purchase programmes of market homes that are then used for affordable housing.

8.4. However, in future years the HRA will play an increasingly important role in delivering new affordable housing. Between 2018/19 and 2022/23 it is anticipated that 2,026 new affordable homes will be delivered. 529 of these homes are currently under construction, with the remaining homes due to start and complete by March 2023. Of this pipeline of 2,026 units, the HRA is anticipated to deliver 968 affordable units. 199 of the HRA affordable homes will be delivered on ‘infill’ sites and an additional 183 homes on ‘section 106’ sites. 690 of the HRA units are to be delivered on either Housing Regeneration sites or in the Housing Zone (and some ‘infill’ and Section 106 units will be within these geographical areas). These HRA programmes will be delivered from a combination of HRA funding and the Affordable Housing Fund (AHF). In addition a further 240 affordable homes will be delivered on General Fund sites, of which 212 homes are partially funded by the AHF. The remaining 818 affordable homes are anticipated to be delivered by RP partners mainly from ‘section 106’ opportunities in the City and through spot purchases of existing housing then converted to affordable housing use. This RP supply will be delivered using a combination of direct investment from RPs and the AHF. Table 3 below provides further details of this supply.

Table 3 – New Affordable homes

	Number of units to complete	Tenure				Funding route		
	Total	Social	Intermediate	Specialist	Spots (Social and TA)	HRA	General Fund	Section 106 or funded directly by RP
2018-19	213	68	120	0	25	23	29	161
2019-20	679	235	280	139	25	174	197	308
2020-21	502	259	173	45	25	273	0	229
2021-22	253	188	40	0	25	157	14	82
2022-23	379	190	164	0	25	341	0	38
	2026	**940**	**777**	**184**	**125**	**968**	**240**	**818**
					2026			**2026**

Note- ‘Spots’ means spot acquisitions. ‘TA’ means temporary accommodation

Affordable Housing Fund

8.5 Payments received from developers on planning schemes in lieu of affordable housing obligations are held in the Council's AHF. These funds are then used by the Council to invest in the delivery of affordable housing elsewhere in the City, either through Council-led developments, such as estate regeneration, or alternately in schemes delivered by housing associations.

8.6 Current balances held in the AHF are £221m. A further £77m in payments are expected within the next 2 years from planning schemes that have been implemented. Future payments into the AHF will be dependent upon new planning applications being submitted and approved and where payments in lieu of on- site affordable housing are agreed instead of on site affordable housing. The Leader's commitment towards the more vigorous enforcement of planning policy compliant applications, including the requirement for on-site affordable housing, may impact upon the level of AHF receipts.

8.7 Of the current AHF balances of £221m, £108m of these funds are presently formally committed against on-going affordable housing projects. These AHF commitments are made up of £22m against HRA schemes, £73m against schemes in the General Fund and £12.9m against registered providers schemes.

However, going forward total funding of £461.1m will be required from the AHF by schemes in the HRA, General Fund and from the HA sector. This includes new schemes where funding from the AHF has yet to be approved by the Cabinet Member for Housing and also schemes with existing funding approvals requiring further top-up funding from the AHF.

Allowing for existing balances held in the Council's Affordable Housing Fund of £221m, plus £77m of additional payments expected to be deposited in the AHF within the next 2 years linked to implemented planning schemes means that further payments of c. £164m will be required from developers linked to new planning schemes over the next few years in order to meet the total AHF funding requirement of £461.1m.

Table 5 below summarises the levels of funding anticipated to be drawn down by HRA, GF and HA schemes during 2017/2018, during the period 2018/2019 – 2022/2023 and funding required beyond this period.

Table 5 – Existing and Predicted AHF requirements

Schemes	2017/18 £m	2018/19-2022/23 £m	Total funding required after 2022/23 £m	Total Funding Requirements £m
HRA	10.4	176.7	138.1	325.2
GF	36.7	51.4	-	88.2
HA	18.6	29.0	-	47.7
Total	**65.7**	**257.1**	**138.1**	**461.1**

Registered Provider Schemes

8.8 Registered Providers (RPs) including Westminster Community Homes and Dolphin Living Foundation are anticipated to deliver 300 new affordable homes over the next five years with the assistance of the AHF. These homes will be delivered as a mixture of spot purchases and new build developments. It is anticipated that c. £29m will be required from the AHF to support the delivery of these 300 new affordable homes, supplementing the funding provided by the RPs themselves. Additional affordable housing supply of over 650 units will also be delivered through RPs during this period mainly from private developer led 's.106' sites and where the delivery of this supply will not be dependent upon investment from the AHF.

8.9 The Council continues to explore, with other boroughs, opportunities to deliver new affordable housing, where joint working will help bring about regeneration activity creating new affordable supply and where access to these new affordable housing supply opportunities will be shared by Westminster and the host borough.

8.10 Westminster will look to use capital receipts from the sale of non-performing HRA housing assets to part fund new affordable supply outside the borough which may include regeneration opportunity sites or new build opportunities currently in private ownership.

9. Financial Implications

9.1 The HRA Business Plan is assessed across a 30-year period so as to understand the long term financial implications of changes in the capital programme, legislative change and other strategic decisions. It has been updated to reflect the latest balance sheet position as reported and audited at the year-end just gone, so as to begin with an accurate opening position for the plan, and the current year (2017/18) budget as approved. It is then constructed so as to include the impact of known Government policies, capital plans, funding arrangements and risk factors.

9.2 The result as shown in Chart 2 in section 10.2 is that the capital programme as set out in **Appendix B** is affordable and sustainable across the 30 years of the plan. The borrowing limit of £333.5m which is imposed on the council is not exceeded during the course of the plan and reserves of circa £11m are maintained throughout. The borrowing limit is approached to within circa £1m in 2025/26 which presents a risk should the assumptions not be accurate. However, as set out in section 11 below, there are options available to the council to mitigate and manage this risk.

9.3 The capital programme proposed sees a significant increase in capital spend over the coming 5-10 year period as the Council embarks on an ambitious plan of regeneration. The gross HRA capital expenditure required to deliver the plans within the investment strategy amounts to £794m over the next five years. This will rely upon funding of £153m of HRA revenue resources, £24m from a grant, £381m from RTB & Other capital receipts, £177m from the Affordable Housing Fund and £60m of new borrowing.

9.4 The funding of this programme is largely dependent upon the timing and value of asset disposals (i.e. capital receipts) that underpin the regeneration programme. These schemes are designed to increase the number of homes available for Westminster residents, in a mix of affordable and private sale units, with the private sale units generating a significant proportion of the overall capital receipts in the plan.

9.5 As funds are committed on the regeneration schemes, the borrowing headroom and hence financial capacity within the HRA reduces. In order to maintain a buffer, the plan aims to retain circa £11m in operating reserves. This also helps by enabling the repayment of debt and reducing interest charges on the debt. It is not until the last 3 years of the plan however that the debt has been substantially repaid and the operating reserves can begin to rise again. Borrowing is set to peak in 2025/26 at £332.4m before then gradually reducing over the remainder of the plan. This will limit the ability of the HRA to contribute major funds to any further housing development until year 10 and beyond. The Strategic Housing Options study is seeking alternative methods, such as a wholly owned subsidiary company, to increase capacity to build more homes on top of those schemes set out in this plan.

9.6 From year 10, the capital programme starts to reduce in size as the effects of the estates regeneration plan reduces. As it reduces, there is capacity for the HRA to start repaying the debt and it reduces from that point until the end of the plan.

9.7 The variables used in the assumptions can only be best estimates and any variation from these would have a significant impact over the full 30 year plan period. These assumptions and the associated impact/risk of change will require close monitoring and potentially the adoption of one or more of the range of management mitigations set out in section 11 if they have a material adverse impact upon the plan.

9.8 The reduction in the capacity of the HRA and the potential impact of risk factors requires a strong risk mitigation strategy that can be quickly adopted if any of adverse risks materialise. The range of management options available to mitigate risk are outlined in detail within section 11.

9.9 In undertaking the HRA business planning process, all regeneration programmes have been subjected to continued robust scrutiny and challenge and an appropriate level of contingency on capex schemes has been provided for within the scheme budgets as well as a central contingency in overall capital programme. **Appendix B** sets out the summary view of spend over both the coming 5 years and the totality of the 30 year period. This sets out the expenditure grouped into Major Works, which is the capital maintenance required for existing stock, Regeneration and Other Investments. There is a significant increase in the level of spend from 2017/18 to 2018/19 as the regeneration projects start to take off, and remedial works on existing stock take place in light of the Grenfell disaster.

9.10 The internal governance processes within Housing, involving CWH development and major projects teams have been rigorously reviewed and focus now upon key project management skills and tolerance reporting. These changes will help to ensure that regeneration scheme budgets and outcomes are managed within agreed exception reporting tolerances.

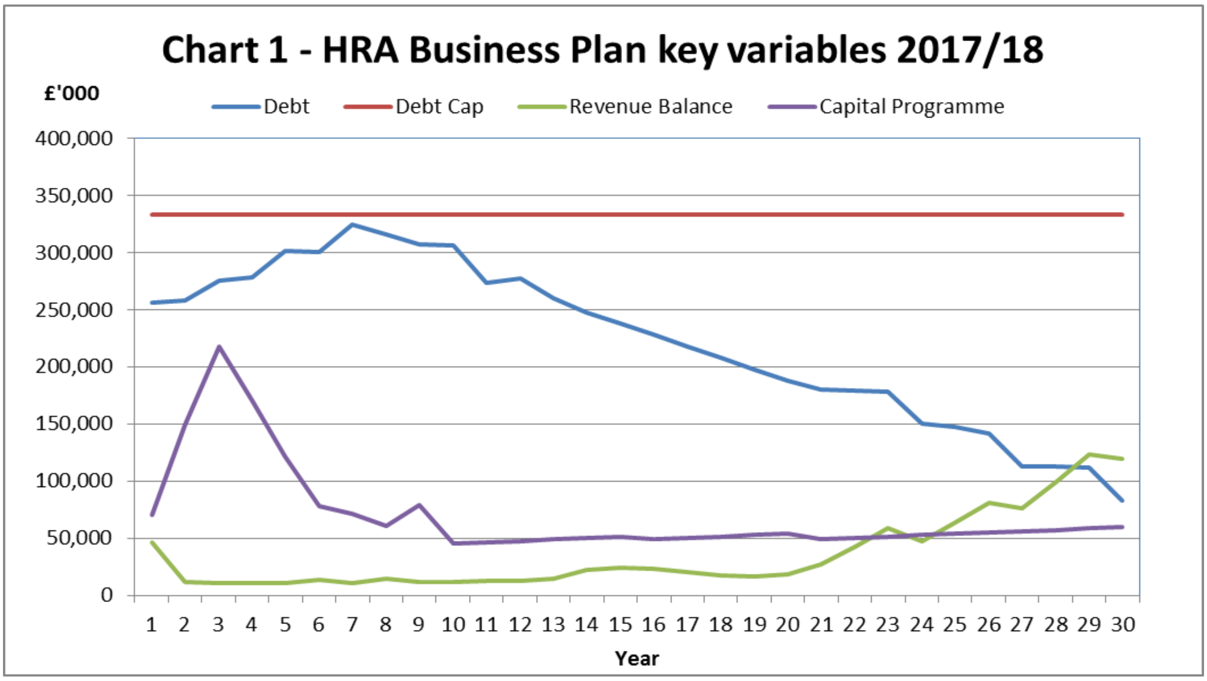
9.11 The business plan will be reviewed on a quarterly basis going forwards, feeding in changes from the annually agreed baseline to understand the impact of changes in the assumptions and capital expenditure on the affordability of the plans. This will enable management to identify any necessary mitigation required at an early stage.

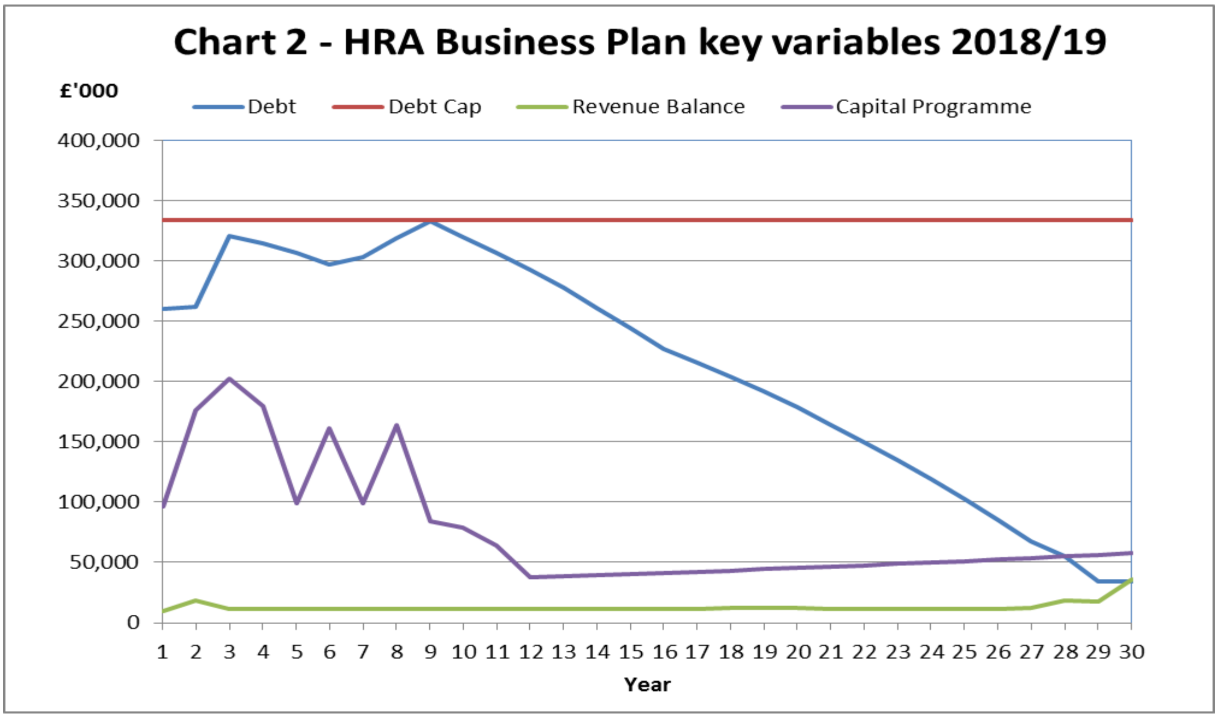
10. The HRA business plan base financial position

10.1 The base financial position will deliver the following:

- Investment in existing stock of £1.456bn, including major works capital expenditure of £0.925bn and revenue repairs and maintenance of £0.531bn.
- Investment in new affordable housing of £0.939bn generating 1,465 new HRA units, along with improved public realm and community facilities.
- Reduction in HRA debt in year 30 to £34m.
- HRA Revenue balances in year 30 of £36m.
- Efficiency savings of £5.2m delivered across 2016/17 to 2020/21 which are reinvested in service delivery.

10.2 The charts below show the key variables of last year's and the current year's Business Plans: the debt cap (set by government under the self-financing settlement); the debt (total borrowing requirement); capital programme expenditure; and the operating reserve balance. Each of these is explained further below. The chart for the current year plan (Chart 2) shows that the HRA can fund the regeneration schemes and other capital investment requirements, with support from the affordable housing fund, a capital grant and increased capital receipts.





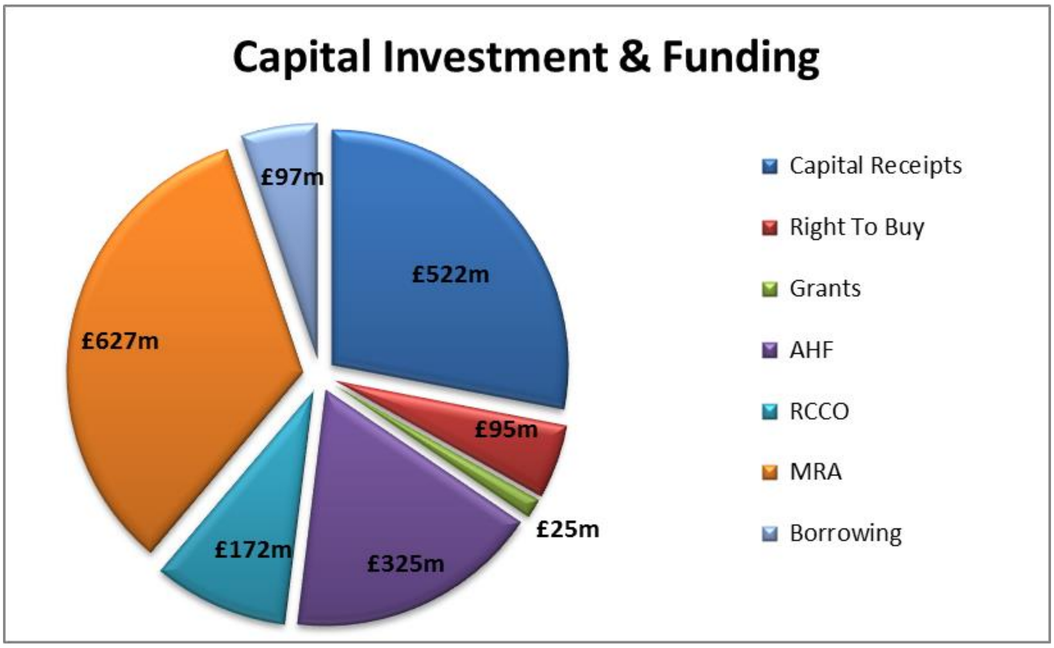
10.3 **Debt cap (red line)** - each local authority HRA has a debt cap, imposed by government as part of the 2012 self-financing settlement. This limits the amount of borrowing that the HRA can undertake. Westminster's cap was originally set at £325m in 2012, but was increased in 2014/15 to £334m. As the chart shows, the borrowing limit remains the same over the 30 year period so the maximum amount the HRA can borrow stays in line with government rules.

10.4 **Debt (blue line)** - As the chart shows, the Council is able to fund the investment programmes outlined in this report with an increase in the level of borrowing. Borrowing rises from the current £260m and peaks in Year 9 just short of the maximum allowed, reducing thereafter as most of the regeneration schemes are completed or near completion. The plan assumes that maturing debt will be re-financed as long term loans expire and when resources allow the principal sums are progressively repaid. Debt levels fall to levels lower than that presented last year because of the approach of repaying debt while operating reserves allow in order to minimise interest costs incurred. Borrowing is estimated to fall to £34m (£82m last year) over the life of the plan resulting in a net debt repayment of £226m (£174m last year) over the 30 year period. The borrowing headroom is estimated to improve from the current £73m (£78m last year) to £299m (£252m last year) at the end of the plan, providing future investment capacity in the later years of the programme. It can be seen from the graphs that the debt level rises more steeply and sooner than in the previous plan. This is driven by the increase in capital expenditure on regeneration schemes during the early years of the plan.

10.5 **Revenue balance (green line)** - A minimum reserves balance of £11m has been assumed as a key requirement in the plan as a contingency against unexpected expenditure, or shortfalls in income and to mitigate potential risk. The risks and other options for mitigation are set out in section 11 to this report, but one significant risk is the dependency upon capital receipts in the plan and whether these happen to the scale and timing projected. These receipts are dependent upon delivery of the regeneration programme and the continued buoyancy of the property development market by the time any private housing units produced are sold off. This minimum reserves level is not a scientific figure but is felt to be prudent in light of the future uncertainty around Brexit, Government housing policy, rent policy, inflation, interest rates and other cash flow dependencies. The chart shows the revenue balance is projected to rise to £35.8m at the tail end of the plan. It is assumed that any reserve levels achieved significantly in excess of this level are used to repay debt, enabling the plan to maximise investment during the early years of the plan on the regeneration schemes, then to repay and reduce the debt levels over the latter years.

10.6 **Capital programme (purple line)** - Total planned capital investment in the HRA totals £1.86bn (£1.64bn last year) over 30 years. This includes major works on existing stock of £925m (£1,034m last year), regeneration £603m (£440m last year) and Other Schemes £336m (£169m). The programme is projected to rise sharply and peak first in 2019/20 and then 2025/26 as a result of increased regeneration expenditure, then gradually reduce from 2026/27 (year 10) onwards as the regeneration projects are completed or near completion. The amount of expenditure on capital projects, in particular on regeneration schemes, has increased compared with last year and consequently the chart shows higher and more sustained levels of capital expenditure over the first 9 years of the plan than previously. This drives the ambitious growth in the number of new homes in the city as set out elsewhere in the report.

10.7 The capital programme will be funded mainly from: Reserves & Contributions of £172m; capital receipts of £522m generated from land and market sale of new homes; capital grants of £25m; drawdowns from the Affordable Housing Fund of £325m; Right To Buy sales receipts of £95m; MRA of £627m; and borrowing where appropriate. This is shown in the chart below.



10.8 The council's bid for housing zone status in respect of the Church Street regeneration area has been approved and both parties have entered into an Overarching Borough Agreement. The capital grants will provide £23m for site assembly on the western aspects of Church Street (primarily the acquisition costs of the residential leasehold interests in these blocks.) together with £2m for the Lisson Arches site.

Key Business Plan assumptions

10.9 The key assumptions that underpin the business plan are set out below.

10.10 **Housing stock** – the Plan is based on a forecast of increasing tenanted stock numbers from 11,753 at the beginning of year 1, to 12,207 in year 30. This includes a total 1,021 additional units (bought or built), offset by 509 RTB sales and 58 demolitions. The regeneration scheme will also lead to a further net increase in intermediate and leasehold stock, as set out in Table 6 below.

Table 6 – HRA stock movement

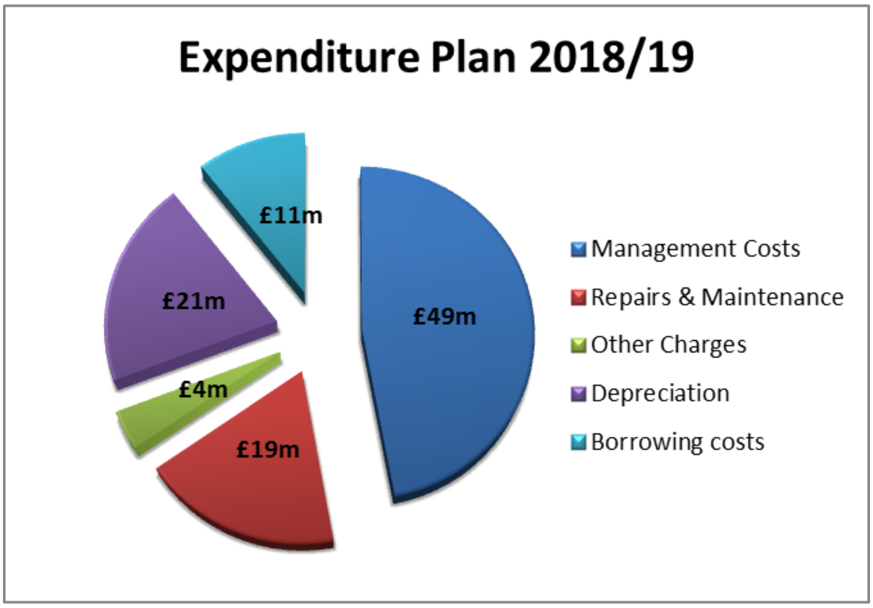
Tenure	Tenanted	Affordable / Intermediate	Leasehold	Total
Stock numbers at 01/04/2017	11,753	-	9,134	20,887
Additions	1,021	356	88	1,465
Demolitions	(58)	-	(272)	(330)
Disposals - RTB	(509)	-	509	-
Stock numbers at 31/3/2047	**12,207**	**356**	**9,459**	**22,022**

10.11 **Dwelling rents -** average weekly rent per property is estimated to increase from £123.14 to £220.29 in year 30 of the plan. This reflects the 1% rent reduction in the first three years to 2019/20 in line with government regulation, followed by an estimated 3% average rent increase for the next five years (being CPI +1%) up to the end of the original 10 year rent policy. For subsequent years a prudent inflationary increase (CPI, at 2%) is assumed as Government rent policy beyond the initial 10 years rent policy period is yet to be determined.

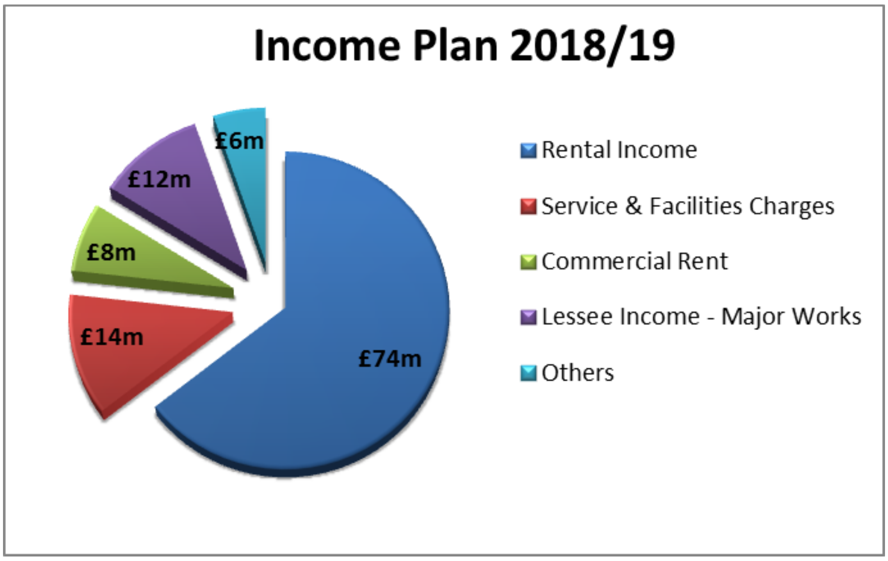
Table 7 - Assumed rent increases

Year	Year	Average Rent per week	Assumed Rent Increase / (Decrease)	% (Decrease) /Increase	Real Terms Rent Increases
1	2017.18	£123.14	(£1.15)	-1%	-1%-CPI
2	2018.19	£122.01	(£1.13)	-1%	-1%-CPI
3	2019.20	£120.90	(£1.11)	-1%	-1%-CPI
4	2020.21	£124.64	£3.74	3%	1%
5-9	Annual increases in line with CPI +				1%
10-30	Thereafter annual increases in line with CPI +				0%

10.12 **Management Costs** – the chart below shows the operating account expenditure for 2018/19. The total annual expenditure is £104m, the bulk of which is the housing management and service costs of £49m. £41m of the management costs represents direct estate management services for tenants and lessees delivered through City West Homes (CWH) and other providers, and support services delivered through other Council service areas. The repairs comprise £5m of planned repairs, £13m of responsive repairs and £1m for void properties.



10.13 The chart below shows the operating account income of £113m for 2018/19 in the Business Plan. Rental income from dwellings, including £1m for sheds and garages, accounts for the majority at £74m. Service and facilities charges, mostly from lessees but some from tenants, is also significant at £14m. Rent from commercial properties brings in circa £8m gross before costs for repairs and management. Income from lessees in respect of major works is circa £12m but can fluctuate depending on the nature of works undertaken. The remainder of the spend includes recoveries for heating and hot water charges and other miscellaneous charges.



Appendix C of this report sets out the 30 year profile for income and expenditure.

10.14 CWH have in consultation with the Council and in response to an independent review by the housing consultancy Altair produced a new strategy and savings plan. The plan will by March 2021 produce permanent annualised savings of £5.2m to the HRA with approximately half of these derived from the CWH management fee. The key elements of this programme are listed below.

Digital transformation programme

- A new website and improved services available online, making it easier for customers to contact CWH and access information when they want.
- Mobile working to improve staff effectiveness when working on our estates and visiting residents in their homes.
- A new target operating model: channel shifting customers to on-line services wherever possible, improving the quality of the phone service, supporting on-line services and continuing to provide face to face services to tenants with greater support needs.
- Reviewing the role of their office portfolio.
- Reducing the volume of non-value added contacts.

Setting new standards for customer service delivery

- Revising the resident engagement processes to attract a broader range of residents.
- Consulting residents on their service requirements and developing tenure specific service standards that tenants and lessees can expect CWH to deliver upon.
- Regularly publishing performance against the standards for our customers to see.

Growth and improvement of the stock through effective asset strategy

- Working through a series of options with the Council to make better use of the housing stock as an asset. Churning the stock to create more homes through disposals, acquisitions and new build.

New arrangements for repairs and major works

- Seven new 10 year partnering contracts for maintenance repair and major works. Five of these have now been let.

These changes required some upfront investment which arose mainly in 2016/17 and 2017/18 and will achieve permanent annualised savings of £5.2m partly through reduced management costs, by 2020/21. The target of £1.05m in 2016/17 was exceeded with £1.38m of savings delivered and this will rise to £2.1m in

2018/19, being delivered through savings on re-procured 10 year contracts and reductions in the management fee charged by CWH to the HRA.

10.15 Being a 30 year plan, the HRA Business Plan is based on a number of assumptions about the future. Prudence has been applied in setting these assumptions so that risk is minimised. The key assumptions used in the plan are shown below. Section 11 sets out an assessment of the risks which are inherent in the plans and options for managing and mitigating against such risks.

Risk area	Assumption	Comment
Inflation	RPI at 2.5% CPI at 2%	Assumed long term inflation for planning purposes applied to expenditure items.
Rent policy	Yrs 1-3: 1% reduction Yrs 4–9: CPI +1% Yr 10 on: CPI only	A conservative approach to rent increases as local authorities have flexibility under the self-financing regime.
Void rates	1.0%	Assumed long term void rate for planning
Bad debt provision (BDP)	1.5% from Y2-Y4 1.0% Y5 onwards	Assumed long term bad debt provision rate for planning
Interest on debt/balances	0.5% on balances held; 4.5% on new and rescheduled debt; 5% from year 9 onwards	Reflects current rates available and historic evidence.
RTB Receipts	25 in the first four years, 24 in year 5, 20 in years 6 &7, then 15 thereafter.	Best estimate based on historical sales trends and expressions of interest
Minimum operating reserves	£11m	Approximately 10% of turnover. Prudent in light of current economic and market risks.

10.16 Based on the above assumptions, the business plan remains viable over the 30-year period; and the investment programmes are deliverable.

11. Risk Management

11.1 As has been portrayed in the graphs and information earlier in this report, the latest plan seeks to maximise the investment in regeneration programmes in order to deliver new homes for the city. The consequence of this is that the capital expenditure profile drives up the level of borrowing required in order to achieve this objective, taking the peak borrowing year in the plan (2025/26) to within circa £1m of the borrowing limit. In the next 5 years, the peak borrowing year is in 2019/20 when the remaining headroom in borrowing capacity reduces to £12.8m before growing again over the subsequent 4 years. This reduced headroom in borrowing limits the ability of the HRA to absorb and manage the financial impact of unforeseen and unplanned risks that may materialise during the course of the plan.

11.2 This means that if any overspends to budget occur and build up, for example if caused by a change in legislation which places an increased burden on the HRA, or if capital receipts are delayed or reduced, this could push the borrowing requirement above the level of the cap. The HRA is by law not allowed to budget for a deficit or to exceed the borrowing cap, so this cannot be allowed to happen. Consequently, the Council would need to identify and implement a number of actions which mitigate and reduce the pressure on borrowing.

11.3 The range of management options available within the HRA to mitigate any additional risks are as follows (in no particular order):-

a. Project spend monitoring and management information. It is key that there are early warning indicators for management to be able to identify whether any projects are going to overspend in order to be able assess the impact on the HRA plan.

b. Regular updates to the HRA business plan. Quarterly reviews and updates to the business plan are undertaken, at which point any changes identified in operating or capital project performance can be remodelled to identify the impact and any further mitigation required. The fact that the business plan is updated on an annual basis means that steps can be taken to reprofile or reprioritise elements of the plan well in advance of any peak year. In reality, we would seek to avoid getting too close to the cap in the near term.

c. Utilisation of contingency. The main regeneration schemes each have a certain level of contingency built into the cost of the projects as a buffer against overspend within the project budget. This will be the first port of call for any overspend within a project. Monitoring the use and need for contingency on a project will be important as an indicator of whether a project is going to go over budget. Secondly, the capital programme has a separate contingency budget which has not been specifically allocated any given scheme. This amounts to £17.4m over the next 5 years.

d. Reduce or delay the reinvestment of self-financing capital expenditure. Currently it is assumed that the cash generated through disposal of HRA assets for re investment is fully reinvested back into acquiring new stock. There is £50m assumed for reinvestment over the next 5 years. The rate of reinvestment could be slowed so as to avoid the plan going into deficit or exceeding the borrowing limit of £333.8m. The consequence of this strategy would that a reducing housing stock within the HRA would have a direct impact on the cost of Temporary Accommodation in the General Fund, creating pressures on the rest of the Council to stay within budget.

e. Dispose of HRA assets. Similar to the above, but without reinvesting the cash generated. Achieved through identifying surplus assets or selling additional HRA properties.

f. Increase or accelerate funding drawn from the Affordable Housing Fund (AHF). The risk of increases in cost for the acquisition of affordable housing can be met from the AHF fund through reprioritisation of funding. However, the AHF currently held by the council is assumed to be fully used over the coming years, and the plan as a whole assumes that further AHF money will be received and used in order to make the whole plan affordable. This would need careful modelling to understand the impact on other schemes assumed to draw from the fund in later years.

g. Transfer schemes from HRA into an alternative vehicle, such as a wholly owned company. This could help the profile of the business plan by moving expenditure from peak years when the borrowing cap is under pressure to another delivery vehicle so that the scheme can still proceed without drawing upon HRA borrowing. This could enable more to be achieved than is currently shown within the plan. It could also generate a capital receipt sooner for the HRA through the transfer of land out of the HRA. The downside would be that this could be removing schemes which would generate longer term benefits in terms of rental income on the affordable housing which was otherwise planned to be retained within the HRA.

h. Re-profile, extend or delay regeneration capital expenditure

    i. Reprofile the regeneration spend so that schemes run sequentially rather in parallel, or delay some projects until the peak borrowing period has passed.

    ii. Reprofile and extend regeneration scheme programmes to be delivered over a longer period, slowing down the rate of spend. This however is likely to be an inefficient way of working and not favourable with development partners.

    iii. Some elements of the plan or certain schemes could be decided to begin or progress only when certain other conditions have been met which assure the financial safeguarding of the plan, such as the level of capital receipts received needing to be met.

These would need to be modelled so as to demonstrate the impact of not only the deferred expenditure but also the deferred capital receipts arising at the end of the schemes when the income from private sale units comes through.

i. Reduce major works expenditure. This amounts to £199.8m over the next 5 years, £925m over 30 years. However, this could be a risky strategy as the council has recently signed up to term contracts which gave an indication of a certain minimum level of spend with the suppliers. If these minimum levels were not achieved, the council could be subject to penalties or compensation which negate or reduce the potential mitigation and impact on the council’s reputation.

j. Increase affordable rents assumed in the new units to be delivered through the regeneration schemes to 80% of market rents. Average rents for new units have been modelled at £150 a week but could be increased up to £187 per week to increase the annual return and total dwellings rent received.

k. Increase HRA rents following the period of 1% reductions to the maximum allowable. At this stage however it is not clear what limitations will be placed on local authorities following this period (i.e. from 1 April 2020). Currently the business plan assumes increases of CPI+1% for the 4 years following before reverting to annual CPI increases. When the 1% reductions legislation came in, this had a significant impact on the HRA plan, as the reductions have a compounding and lasting effect on future years. Reversing this position would have a similar but favourable effect on the plan. Rent policy is only guidance and the only control at present is the limit on Housing Benefit.

l. Lobby for legislative changes such as an increase in the debt cap, reversal of the 1% rent reduction etc. This is not something that the council can directly change (only try and influence) as it is subject to central government decision making, and could take some time to be implemented if at all. This has already been referenced to in correspondence with government in the aftermath of Grenfell. The cost impact of remedial works in the light of Grenfell is modelled at £25.5m; it is conceivable that the cap could be increased to account for the pressure caused by this previously unforeseen expenditure. At time of writing we have not had a formal response to our communication.

m. The model maintains a minimum reserves balance of £11m, but this in itself is a buffer against overspends and hence acts as a source of mitigation.

11.4 As noted in section 10 above, the base business plan uses prudent assumptions so as to reduce the chance of certain risks arising. Set out below is a summary of other potential risks to the stability of the business plan. Quarterly reviews of the HRA business plan will be held between senior officers and the lead member, at which programme performance will be reviewed and risks monitored.

Risk	Impact	Mitigation
Capital Receipts: The plan assumes estimated capital receipts of £522m will be generated and used to fund the development of new homes.	Any significant slippage in the timing or value of these receipts will pose a cash flow risk for staying within the borrowing limit.	Robust monitoring of the timing and expected value of the receipts will help inform management action to mitigate this risk. Management options identified above would need to be applied.

Risk	Impact	Mitigation
Rent Policy	If rents were only to increase annually by CPI after the 1% reduction period, not by CPI+1% as modelled, the impact would be significant and the plan would be unviable.	Lobbying is key to the success of avoiding this risk from happening in the first place. Regeneration spend would need to be significantly curtailed.
Interest rates	The rates assumed are between 4% and 5% on new borrowing throughout the plan. If interest rates were to rise this would have a significant adverse impact as the peak debt is only £1m less than the cap. Ignoring profiles of current fixed term loans, a 1% rise in interest would add £2-3m per annum to costs and increase debt levels further. This would compound annually.	The HRA has some fixed loans in place which would not be affected until they matured and needed to be replaced. Further fixed rate loans could be taken out to prevent uncontrolled increases. However, the scale and pace of regeneration may need to be reviewed.
Inflation	If inflation were to increase above that assumed by 1%, the Plan would no longer be viable over 30 years.	The increase in costs would be partially offset by increased income as this is also based on CPI inflation. The situation would not be uncontrolled as there would need to be a decision as to whether certain expenditure is still deemed affordable or value for money. Management options identified above would also need to be applied.
Capital Costs	If the cost of construction and professional fees on the regeneration programme were to increase by 20% this would cost £50m.	This is provided for within contingency on the regeneration scheme budgets. The central contingency could be drawn upon. Other general estates

Risk	Impact	Mitigation
		expenditure could be reprofiled.
Welfare Reform: Implementation of Universal Credit, benefit cap and other welfare reform changes.	May increase rent arrears which impacts HRA income.	More active/proactive debt management action may be required. Robust monitoring of service activity to act as an early warning.
Brexit: Adverse impacts on costs and values as a consequence of Brexit	There is increased uncertainty about the cost of projects due to changes in the cost of materials and labour arising from changes in the value of the pound relative to other currencies. Equally there are changes in the attractiveness of London as a residential investment, positively due to falls in the value of the pound and negatively from lack of access to Europe. These are highly uncertain and may lead to increased caution on the part of contractors and developers when bidding for work or assessing the risks/rewards of current projects.	A selection of current projects are being reviewed to identify and seek to quantify the impacts based on the best evidence available to highlight areas where further measures need to be taken.

11.5 In addition, the Business Plan conforms to the Chartered Institute of Housing (CIH) and CIPFA voluntary code on self-financing HRAs. This includes compliance with CIPFA's Code of Practice on Local Authority Accounting in the UK including depreciation of assets on a componential basis.

11.6 The Council complies with the both the principles of co-regulation as set out in "The Regulatory Framework for Social Housing in England from 2012." and also the requirements of the CIPFA/CIH "Voluntary code of practice on self-financing HRAs".

11.7 Under the Regulatory Framework code, governance arrangements should be fit for purpose, and reflect the complexity and risk profile of the organisation. Boards and Councillors need to set clear objectives and develop a forward looking strategy that enables their organisation to make the most of future opportunities and mitigate risks. There should be a continuous focus on effective financial management and improving value for money.

11.8 The self-financing code of practice is a voluntary framework of best practice for local authority governance of the HRA aimed at promoting effective governance, finance and business planning and aimed at providing transparency to stakeholders on how the housing business is being managed. Its key principles are:

- **Financial viability.** The housing authority has put in place arrangements to monitor the viability of the housing business and takes appropriate actions to maintain viability.
- **Communications and governance**. The housing authority keeps under review the communications and governance arrangements with regards to the new operating environment and adopts governance arrangements appropriate to supporting viability and accountability of the housing business.
- **Risk management**. The housing authority has in place an effective system for the on-going management, monitoring and reporting of risks to the HRA.
- **Asset management**. The housing authority has in place arrangements to maintain its assets to maximise their value into the future. The authority complies with the principles of good asset management as they apply to HRA assets.
- **Financial and treasury management**. The housing authority complies with formal accounting practices including CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom and CIPFA's Treasury Management in the Public Services Code of Practice.

12. Legal Implications

12.1 The expenditure referred to in this report will be spent pursuant to the Council's powers and duties. Individual reports on each project will be approved by the Cabinet or by the relevant Cabinet Member.

12.2 Statutory requirements as to the keeping of a Housing Revenue Account (HRA) are contained in the Local Government and Housing Act 1989. The provisions include a duty, under Section 76 of the Act, to budget to prevent a debit balance on the HRA and to implement and review the budget.

12.3 The Localism Act 2011 contains provisions relating to housing finance in Sections 167 to 175. These provisions introduced a new system of council housing finance which ended the current Housing Revenue Account subsidy system in England and replaced it with self-financing arrangements. Section 171 of the Localism Act 2011 empowered the Secretary of State to make provision relating to the level of indebtedness in relation to local housing authorities in England which keep a Housing Revenue Account.

12.4 Under Regulation 12 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) local authorities are required to use RTB capital receipts to pay the "poolable amount" to the Secretary of State, on a quarterly basis.

12.5 This report deals with other legislative provisions which are expected to influence the Housing Investment Strategy such as the social rent reduction introduced by Section 23 of the Welfare Reform and Work Act 2016 and changes to the social benefits system under Sections 8 – 17 of the Welfare Reform and Work Act 2016.

12.6 The Housing and Planning Act 2016 is also likely to affect the findings of subsequent reports and also the Council's regeneration initiatives. The relevant provisions include the imposition of a liability for local housing authorities which maintain a Housing Revenue Account to make payments to the Secretary of State based on the market value of any vacant higher value void properties which the local authority owns. Additionally under Chapter 6 and Schedule 7 the Housing and Planning Act 2016 seeks to phase out secure tenancies as life interests and replace them with fixed term secure tenancies thus potentially allowing for more flexibility in terms of stock management. Full details of any of these provisions are not available at the moment.

12.7 The Housing and Planning Act 2016 also contains provisions which have been implemented and may attract procedural changes in the way the Council progresses its regeneration projects. Such provisions include the amendments made to the planning regime under Part 6 and amendments to the compulsory purchase and appropriation procedures under Part 7.

12.8 The Equality Act 2010 introduced a single public sector equality duty. This duty requires the Council to have due regard in its decision-making processes to the need to:

a. Eliminate discrimination, harassment, victimisation or other prohibited conduct;

b. Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not share it, and;

c. Foster good relations between those who share a relevant characteristic and those that do not share it.

12.9 The relevant protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation.

12.10 The Council is required to act in accordance with the equality duty and have due regard to the duty when carrying out its functions, which includes making new decisions in the current context and in relation to the new Strategy. An Equalities Impact Assessment and or consultation maybe necessary if significant changes are envisaged to Housing Management Schemes.

13. Consultation

13.1 Development of the Business Plan and Housing Investment Strategy has involved officers from within the Housing and Regeneration Department, City Treasurers and CityWest Homes. We have had regard to national and local housing policies and objectives which have informed the priorities for investment.

13.2 A key component of the housing regeneration programme is community engagement: officers and consultants have worked with local communities to develop plans for their neighbourhoods. Community engagement teams work on the ground with residents, visiting residents in their homes, staffing drop-in sessions and holding open days. Resident expectations are high, and the City Council is committed to an on-going programme of resident involvement as these schemes develop further.

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

Dick Johnson (djohnson@westminster.gov.uk; 0207 641 3029) or Jake Mathias (jmathias@westminster.gov.uk 0207 641 3359)

Appendix A

Other Implications

1. Resources Implications

The resourcing implications to deliver the proposed capital programme are contained within the attached indicative HRA capital programme.

2. Business Plan Implications

Approval of the HRA Business Plan is critical to delivery of key components of the Housing Business Plan, such as the estate regeneration programme and reducing homelessness pressures.

3. Risk Management Implications

See section 11 of the report.

4. Health and Wellbeing Impact Assessment including Health and Safety Implications

Programmes delivered within this strategy are aimed at addressing health and wellbeing issues, through improvements to housing and the public realm, and through related programmes addressing employment and skills and provision of community facilities. A key part of the early years' investment in the existing stock will be to address health and safety issues brought to light as a result of the Grenfell Tower fire.

5. Crime and Disorder Implications

Safety and security measures form a component of the programme of works to existing stock, and the estate renewal schemes, both of which are factored into the HRA Business Plan.

6. Impact on the Environment

New homes are built to Code 4 as a minimum and environmental and energy efficiency works are key considerations in the works to existing housing stock and the housing regeneration schemes. The Church Street regeneration scheme incorporates a new Combined Heat and Power district heating scheme.

7. Equalities Implications

Each of the estate regeneration schemes has been subject to an Equalities Impact Assessment to ensure any arising issues are addressed. DDA works and disabled adaptations are included as essential works within the capital programme

8. Human Rights Implications

The investment programmes outlined in this report will involve the enforced displacement of residents and their human rights under Article 1of the First Protocol and Article 8 of the

European Convention on Human Rights will be taken into account at the appropriate time.

9. Communications Implications

See section 13 on consultation.

Appendix B – Capital Expenditure

HRA FIVE YEAR CAPITAL PROGRAMME (£m)

Schemes	2017-18 Forecast £m	2018-19 Plan £m	2019-20 Plan £m	2020-21 Plan £m	2021-22 Plan £m	2022-23 Plan £m	Total 5yr Plan £m	Total 30yr Plan £m
Major Works								
OT Adaptation	1.2	1.2	1.2	1.2	1.2	1.2	**6.0**	**31.2**
Electrical Works & Laterals	12.0	6.8	5.7	6.0	6.5	5.4	**30.4**	**291.2**
External Repairs & Decorations	15.1	25.7	24.3	19.1	15.4	21.3	**105.7**	**382.2**
Fire Precautions	1.3	4.5	1.5	2.0	0.1	2.2	**10.3**	**35.0**
General	1.3	0.1	0.1			0.5	**0.7**	**6.1**
Kitchen & Bathroom	0.8	0.7	0.8	0.7	0.7	0.7	**3.6**	**26.7**
Lifts	4.2	2.7	2.0	2.0	2.0	2.0	**10.7**	**51.1**
Major Voids	3.4	2.5	2.5	2.5	2.5	2.5	**12.5**	**76.0**
Grenfell	5.5	10.0	10.0				**20.0**	**25.5**
Total Major Works	**44.8**	**54.1**	**48.1**	**33.5**	**28.4**	**35.8**	**199.8**	**925.0**
Regeneration								
Cosway Street	0.4	8.4	21.2	2.9			**32.5**	**32.9**
Lisson Arches	4.1	10.6	14.0	0.3			**24.9**	**29.2**
Luton Street	0.2	2.0	6.4	5.8			**14.2**	**14.4**
Parsons North	1.2	14.8	11.4	0.4			**26.7**	**27.9**
Ashbridge	0.7	6.3	6.5	0.2			**13.0**	**13.7**
Church Street Phase Two	0.8	8.4	13.0	96.4	26.8	56.1	**200.8**	**309.7**
Tollgate Gardens	7.3	9.9					**9.9**	**17.2**
Other Estates Regeneration	17.9	33.0	28.5	9.7	13.4	15.4	**99.9**	**157.8**
Total Regeneration	**32.7**	**93.5**	**101.1**	**115.6**	**40.2**	**71.4**	**421.9**	**602.8**
Other Schemes								
District Heating Network Scheme	1.9	1.9	5.9	0.4			**8.2**	**17.0**
Edgware Rd	2.0	0.0	6.9				**6.9**	**8.9**
Infill Schemes	3.0	9.3	9.8	15.0	15.3	15.3	**64.5**	**143.4**
Self Financing	14.4	10.0	10.0	10.0	10.0	10.0	**50.0**	**115.0**
Section 106 Acquisitions	-		12.4			12.4	**24.9**	**24.9**
Kemp House/Berwick Street	-	0.8					**0.8**	**0.8**
Central Contingency	-	5.4	6.3	2.3	2.0	1.4	**17.4**	**26.0**
Total Other Schemes	**21.3**	**27.4**	**51.3**	**27.7**	**27.2**	**39.1**	**172.7**	**335.9**
Total Capital Expenditure	**98.7**	**175.0**	**200.5**	**176.8**	**95.8**	**146.3**	**794.4**	**1,863.7**

Financed By:								
Capital Receipts	15.4	53.1	81.8	98.7	41.4	61.0	**336.0**	**522.4**
Right To Buy	8.9	23.2	5.8	1.6	1.6	13.1	**45.3**	**94.6**
Grants	3.8	23.6	-	-	-	-	**23.6**	**25.5**
AHF	10.4	17.4	38.1	51.3	21.9	48.1	**176.7**	**325.2**
RCCO	39.2	23.8	7.0	4.2	9.9	3.2	**48.2**	**172.1**
MRA	20.9	20.9	20.9	20.9	20.9	20.9	**104.7**	**627.0**
Borrowing	-	13.0	47.0	-	-	-	**60.0**	**96.9**
Total Financing	**98.7**	**175.0**	**200.5**	**176.8**	**95.8**	**146.3**	**794.4**	**1,863.7**

Appendix C – Operating Account

Westminster City Council
HRA Business Plan
Operating Account
(expressed in money terms)

Year	Year	Net rent Income	Other income	Misc Income	**Total Income**	Managt.	Depreciation	Responsive & Cyclical	Other Revenue spend	Misc expenses	**Total expenses**	Capital Charges	**Net Operating (Expenditure)**	Repayment of loans	Transfer to MRR	Transfer from / (to) Revenue Reserve	RCCO	**Surplus (Deficit) for the Year**	**Surplus (Deficit) b/fwd**	**Interest**	**Surplus (Deficit) c/fwd**
		£,000	£,000	£,000	**£,000**	£,000	£,000	£,000	£,000	£,000	**£,000**	£,000	**£,000**	£,000	£,000	£,000	£,000	**£,000**	**£,000**	**£,000**	**£,000**
1	2017.18	88,002	5,559	17,468	**111,028**	(48,157)	(20,932)	(19,586)	(4,200)	(745)	**(93,620)**	(12,269)	**5,139**	0	0	3,821	(40,014)	**(31,054)**	**40,105**	**401**	**9,452**
2	2018.19	87,455	5,697	20,129	**113,282**	(49,361)	(21,470)	(18,986)	(513)	(2,713)	**(93,042)**	(11,337)	**8,904**	0	0	0	0	**8,904**	**9,452**	**243**	**18,599**
3	2019.20	87,426	5,840	20,773	**114,039**	(50,595)	(22,001)	(18,900)	0	(3,840)	**(95,337)**	(12,058)	**6,644**	0	0	0	(14,229)	**(7,584)**	**18,599**	**93**	**11,108**
4	2020.21	90,882	5,986	20,800	**117,668**	(51,860)	(22,600)	(18,912)	0	(4,124)	**(97,496)**	(13,218)	**6,954**	(6,454)	0	0	0	**500**	**11,108**	**161**	**11,769**
5	2021.22	94,715	6,136	20,029	**120,880**	(53,156)	(23,464)	(19,907)	0	(4,752)	**(101,279)**	(12,826)	**6,775**	(7,301)	0	0	0	**(526)**	**11,769**	**264**	**11,507**
6	2022.23	98,303	6,289	22,457	**127,050**	(54,485)	(24,045)	(20,592)	0	(5,653)	**(104,776)**	(12,468)	**9,806**	(10,126)	0	0	0	**(320)**	**11,507**	**210**	**11,397**
7	2023.24	102,592	6,446	22,988	**132,026**	(55,847)	(25,024)	(21,447)	0	(5,794)	**(108,112)**	(12,613)	**11,301**	0	0	0	(11,697)	**(396)**	**11,397**	**108**	**11,109**
8	2024.25	106,419	6,607	23,871	**136,897**	(57,244)	(25,958)	(22,177)	0	(5,939)	**(111,318)**	(12,164)	**13,415**	0	0	0	(13,519)	**(105)**	**11,109**	**55**	**11,060**
9	2025.26	109,837	6,773	24,187	**140,797**	(58,675)	(26,674)	(23,000)	0	(6,088)	**(114,436)**	(13,150)	**13,211**	0	0	0	(13,267)	**(57)**	**11,060**	**55**	**11,058**
10	2026.27	113,254	6,942	23,873	**144,069**	(60,141)	(27,807)	(23,830)	0	(6,240)	**(118,018)**	(13,160)	**12,890**	(12,438)	0	0	0	**452**	**11,058**	**82**	**11,592**
11	2027.28	116,705	7,115	22,880	**146,700**	(61,645)	(28,529)	(24,658)	0	(6,396)	**(121,227)**	(12,525)	**12,949**	(13,165)	0	0	0	**(217)**	**11,592**	**168**	**11,544**
12	2028.29	120,153	7,293	23,452	**150,897**	(63,186)	(29,712)	(25,484)	0	(6,556)	**(124,938)**	(11,842)	**14,118**	(14,255)	0	0	0	**(138)**	**11,544**	**215**	**11,621**
13	2029.30	122,680	7,476	24,038	**154,193**	(64,766)	(30,423)	(26,091)	0	(6,720)	**(128,000)**	(11,154)	**15,040**	(15,227)	0	0	0	**(187)**	**11,621**	**188**	**11,622**
14	2030.31	125,259	7,662	24,639	**157,560**	(66,385)	(31,151)	(26,713)	0	(6,888)	**(131,136)**	(10,452)	**15,971**	(16,134)	0	0	0	**(162)**	**11,622**	**160**	**11,620**
15	2031.32	127,891	7,854	25,255	**161,000**	(68,045)	(31,897)	(27,349)	0	(7,060)	**(134,350)**	(9,702)	**16,948**	(16,945)	0	0	0	**3**	**11,620**	**132**	**11,755**
16	2032.33	130,576	8,050	25,886	**164,512**	(69,746)	(32,660)	(28,000)	0	(7,236)	**(137,642)**	(8,963)	**17,907**	(16,941)	0	0	(1,278)	**(312)**	**11,755**	**107**	**11,549**
17	2033.34	133,317	8,252	26,533	**168,102**	(71,489)	(33,442)	(28,666)	0	(7,417)	**(141,015)**	(8,398)	**18,689**	(11,938)	0	0	(7,282)	**(531)**	**11,549**	**97**	**11,115**
18	2034.35	136,114	8,458	27,197	**171,768**	(73,277)	(34,242)	(29,349)	0	(7,603)	**(144,470)**	(7,980)	**19,318**	(10,934)	0	0	(7,478)	**906**	**11,115**	**105**	**12,126**
19	2035.36	138,969	8,669	27,877	**175,515**	(75,108)	(35,062)	(30,047)	0	(7,793)	**(148,011)**	(7,535)	**19,969**	(11,930)	0	0	(7,678)	**361**	**12,126**	**116**	**12,602**
20	2036.37	141,883	8,886	28,573	**179,343**	(76,986)	(35,901)	(30,763)	0	(7,988)	**(151,637)**	(6,988)	**20,717**	(12,871)	0	0	(7,884)	**(38)**	**12,602**	**124**	**12,689**
21	2037.38	144,857	9,108	29,288	**183,253**	(78,911)	(36,760)	(31,495)	0	(8,187)	**(155,353)**	(6,345)	**21,555**	(14,922)	0	0	(8,095)	**(1,462)**	**12,689**	**129**	**11,356**
22	2038.39	147,892	9,336	30,020	**187,248**	(80,884)	(37,639)	(32,245)	0	(8,392)	**(159,160)**	(5,613)	**22,476**	(13,918)	0	0	(8,311)	**247**	**11,356**	**135**	**11,737**
23	2039.40	150,991	9,569	30,770	**191,331**	(82,906)	(38,540)	(33,012)	0	(8,602)	**(163,060)**	(4,880)	**23,390**	(14,914)	0	0	(8,533)	**(56)**	**11,737**	**145**	**11,825**
24	2040.41	154,154	9,809	31,540	**195,502**	(84,978)	(39,462)	(33,798)	0	(8,817)	**(167,055)**	(4,098)	**24,349**	(15,910)	0	0	(8,760)	**(321)**	**11,825**	**154**	**11,658**
25	2041.42	157,383	10,054	32,328	**199,765**	(87,103)	(40,406)	(34,602)	0	(9,037)	**(171,148)**	(3,264)	**25,352**	(16,905)	0	0	(8,994)	**(547)**	**11,658**	**162**	**11,273**
26	2042.43	160,679	10,305	33,136	**204,121**	(89,280)	(41,373)	(35,425)	0	(9,263)	**(175,342)**	(2,406)	**26,373**	(16,901)	0	0	(9,233)	**240**	**11,273**	**172**	**11,684**
27	2043.44	164,045	10,563	33,965	**208,573**	(91,512)	(42,363)	(36,268)	0	(9,495)	**(179,638)**	(1,522)	**27,412**	(17,896)	0	0	(9,478)	**38**	**11,684**	**184**	**11,906**
28	2044.45	167,477	10,827	34,814	**213,118**	(93,800)	(43,376)	(37,131)	0	(9,732)	**(184,040)**	(765)	**28,314**	(11,891)	0	0	(9,730)	**6,693**	**11,906**	**212**	**18,812**
29	2045.46	170,982	11,098	35,684	**217,763**	(96,145)	(44,414)	(38,014)	0	(9,975)	**(188,549)**	66	**29,281**	(20,784)	0	0	(9,988)	**(1,491)**	**18,812**	**237**	**17,558**
30	2046.47	174,559	11,375	36,576	**222,511**	(98,549)	(45,476)	(38,919)	0	(10,225)	**(193,168)**	(1,105)	**28,237**	0	0	0	(10,252)	**17,984**	**17,558**	**292**	**35,834**

Appendix D

Key achievements in the last 12 months

Achievements in the past year have included:

- Church Street draft masterplan out for public consultation.
- Submission of planning application for Church Street Green Spine public realm improvements.
- Submission of planning application for Parsons North housing development, which includes 19 affordable units.
- Launch of the Church Street Neighbourhood Keepers programme, which delivers positive activities to promote health & wellbeing in the local community.
- Significant progress made on the Infills programme with 25 affordable units programmed for completion in the next 12 months and an identified pipeline for the next 5 years.
- Commercial negotiations completed and Base Case agreed with Linkcity on the Luton Street development that will deliver 62 new affordable homes. Planning submission to be completed in October 2017 with start on site to follow in 2018. Associated enabling works for Luton Street taking place at Tresham Crescent and Venables Street now complete.
- Works progressing well on the Tollgate Gardens development with the ground floor slab complete on all affordable blocks, which is noted as an important milestone under the development agreement.
- Imminent submission of a joint planning application on the Cosway and Ashbridge developments that will provide up to 28 affordable homes.
- CityWest Homes have implemented their new ‘Target Operating Model’ and instigated their 5 year savings plan. This has involved new operational structures; a new contact centre; office rationalisation; a new website and the beginning of the digitisation of customer transactions.
- Five of the seven new 10 year partnering agreements have been implemented with the remaining two about to complete this Autumn
- The Council has exceeded its City for All target of 479 new affordable homes to be delivered during the 2 year period 2015/2016 and 2016/2017. The actual outturn for this period was 532 new affordable homes delivered.

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Executive Decision Report

Decision maker(s) at each authority and date of Cabinet meeting, Cabinet Member meeting or (in the case of individual Cabinet Member decisions) the earliest date the decision will be taken		THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
	Cabinet Date of decision: 30th October 2017	City of Westminster
Report title (decision subject)	Shared Legal Services Alternative Business Structure Proposal	
Reporting officer	John Quinn	
Key decision	Yes	
Access to information classification	Public	

1. EXECUTIVE SUMMARY

1.1 This report provides a business case for the merger of the Shared Legal Services with LGSS Law Ltd. When Shared Legal Services was being created in 2015, the Cabinet reports for all three Councils indicated that once the new shared service was in place and embedded, the next step would be to explore alternative models such as a Company and /or an Alternative Business Structure (ABS), which would enable the service to generate income. LGSS Law Ltd is such an ABS, which operates as a social enterprise law firm.

1.2 Councils are looking at alternative delivery models for their services including joint ventures and the existing Legal Service is currently unable to act for any Council vehicle that involves the private sector. This is because it does not have the necessary professional licence to provide advice to these organisations and, unless it moves to operate as an Alternative Business Structure under the Legal Services Act 2007, would not be able to act in future. A local authority legal services ABS enables the service to follow the work or retain the work that the in-house service used to carry out prior to any outsourcing or joint venture.

1.3 Recent interviews with clients of the Shared Legal Service indicate that although they are very satisfied with the quality of legal advice received and have seen significant improvements in the service provided, there are areas where improvements are required (particularly in the commercial and financial aspects). Clients' priorities for how the overall service should be improved are as follows:

- Clear demonstration of value for money including transparency on legal costs and how they break down.
- The right business processes including regular and correct billing.
- More business-like (more structured and consistent) strategic relationship management.
- A Legal Service that acts in more business-like and commercial way, focused on supporting services achieve desired outcomes.
- Some services have identified responsiveness and accessibility as an issue – these are in areas of routine work eg some property work.

1.4 This proposal addresses the above issues and recommends the expansion of the current shared services and the creation of a social enterprise law firm through a merger with LGSS Law Ltd, to enable the Legal Service to act for organisations with an affiliation with the private sector such as Council Joint Ventures and to also deliver a more rigorous and business-like experience for clients. The recommendation is to create a company wholly owned by five local authorities, which provides a good quality, value for money, resilient and responsive legal service to the shareholder clients and a range of other bodies in the public and not-for-profit sectors.

1.5 Our Shared Legal Service office will in effect form a London Branch of LGSS Law Ltd, which will be well positioned and resourced to expand through merger and increased ad-hoc work. The ABS vehicle established by LGSS Law over the past two years will provide a modern business-like platform from which the combined teams will grow their business through in-sourcing work currently outsourced and attracting new external clients by trading surplus capacity released by productivity improvements. If necessary, capacity will be increased to grow the business and expertise.

1.6 The following four options have been considered in the development of this business case.

1. Shared Legal Service merges with LGSS Law Ltd.
2. LBHF Legal Service remains in-house and WCC & RBKC merge with LGSS Law Ltd.
3. Shared Legal Service creates its own ABS.
4. Remain As Is (with continuous improvement).

Option 2 is recommended to enable WCC and RBKC to progress the merger for a 1st December 2017 go-live and to start to realise the projected benefits early. WCC and RBKC leadership have endorsed Option 2 and LBHF have confirmed that they do not wish to progress with the merger. This option provides the two Councils with access to a tried and tested ABS vehicle and its associated processes and infrastructure. It also avoids the requirement to set-up a new ABS from scratch (involving a 12 to 18 month regulatory process) and provides access to LGSS Law's clientele.

See **Appendix A**: Options Considered section for an analysis of the pros of cons of each option.

1.7 The primary objectives of the proposal are to (1) continue to improve the quality of the service, (2) further increase the resilience and (3) deliver significant financial benefits to the owner councils through cost reduction and income generation. This recommendation is projected to deliver the following combined financial benefits for WCC and RBKC:

£000's	WCC	RBKC	Total
Total General Fund Savings by 2019/20	374	329	703
Other Efficiencies by 2019/20 (HRA, Capital & Other Funded)	247	89	336
Increased Income by 2022/23 (low projection)	178	178	356

1.8 The savings above have been calculated based on legal services controllable staff and non-staff budgets only. Non-controllable budgets for overheads (e.g. IT, Finance, HR and Accommodation) have been excluded and any potential saving resulting from Legal staff transferring to LGSS Law would require a plan for realisation as part of a wider corporate-led initiative. It is expected that over time, the variable portion of the overhead costs will be realised as savings via budget and financial plans due to a lower staff population.

1.9 The business case is based on progressing implementation at pace to enable go-live for the RBKC and WCC Shared Legal service to operate as LGSS Law Ltd from 1st December 2017. The overall cost of implementation is £572k with a WCC share of £291k and a RBKC share of £281k.

2. RECOMMENDATIONS

2.1 To note this report and the business case for the Shared Legal Services to join LGSS Law Ltd as the London branch.

2.2 To agree that WCC joins LGSS Law Ltd as a shareholder and to transfer staff to LGSS Law Ltd under TUPE regulations.

2.3 To delegate to the Bi-borough Director of Corporate Services, following consultation with the Cabinet Member for Finance, Property and Corporate Services, the authority to approve and enter into the agreements and take such other steps necessary to implement the decision recommended at paragraph 2.2.

2.4 To delegate to the Chief Executive authority to vary the s113 agreement in respect of Legal Services as necessary to reflect changes following the merger with LGSS Law Ltd and to serve notice to terminate the s113 agreement if necessary.

3. REASONS FOR DECISION

3.1 A key decision is required as the proposal has significant financial implications in that it results in significant savings for the Councils.

4. BACKGROUND

4.1 Since 2015 the Shared Legal Service has been looking at further opportunities for sharing services with other Councils and in late 2016 started considering a more commercial approach. In late 2016 / early 2017, their discussions with legal services outside London led to LGSS Law, an ABS in the South East, who were very keen to explore a partnership with them. This coincided with the vision Members had when they approved the current shared arrangements. See section 5 of the RBKC Cabinet report of December 2014 and WCC Cabinet report of March 2015.

4.2 LGSS Law Ltd is a company limited by shares, which is currently wholly owned by three Councils, Cambridgeshire County Council (CCC), Northamptonshire County Council (NCC) and Central Bedfordshire Council (CBC). LGSS Law was established as a shared legal service in 2010 and following sustained growth, it converted to an ABS under the Legal Services Act 2007, using a company limited by shares. It is a Social Enterprise Legal Practice and surpluses are returned to its local authority owners. There are a number of local authority ABSs but LGSS Law is recognised as being the most advanced and successful example of this emerging model for the shared provision of legal services. Since its launch in April 2015, LGSS Law's turnover has increased by 30% (by £2.2m) to almost £8m.

4.3 The recommended model is for a merger with LGSS Law and establishment of a London arm. This would enable access to a tried and tested ABS vehicle and associated infrastructure such as case management and accounting systems. Also, a key advantage of joining an already established ABS is that the Councils would avoid the time, cost and uncertainty of a regulatory process.

4.4 Our Legal Service has gone through three restructures/ mergers since 2012 and the last merger to create the current shared service delivered £1.4m savings across the three Councils. Further savings of such a significant scale are not possible to deliver without some considerable innovation. The ABS proposal provides such an opportunity.

4.5 Councils have for some time sought to reduce their external legal spend and this has been done incrementally by growing the in-house teams as far as possible and creating a critical mass. An ABS would provide an opportunity to create a sizeable firm of over 200 staff which can reduce external legal spend more significantly.

4.6 Shared Legal Services also has an ambition to be more business-like and commercial and an ABS provides the best chance of instilling those private practice disciplines whilst retaining the best of public sector ethos.

5. PROPOSAL AND ISSUES

Proposal

5.1 The proposal is to merge the Shared Legal Service with LGSS Law Ltd, creating a firm owned by five local authorities, which provides value for money, responsive and excellent legal services to the shareholder clients and a range of other bodies in the public and not-for-profit sectors.

5.2 From the point of merger, the Shared Legal Service lawyers will be employed by an SRA (Solicitors Regulation Authority) regulated legal practice and will be authorised to provide a full range of legal services to any organisation. The merged service will operate flexibly out of six branch offices (two in London ie Kensington Town Hall and City Hall in due course and four in the home counties).

5.3 As an ABS the service will be able to act for any organisation but the intention is to continue to grow expertise in all aspects of local government work. For example there is no intention to venture into private client work eg divorce, conveyancing etc. The target new clients will be local authority partner organisations eg police, health and other local authority service providers such as charities, housing associations or private organisations that provide local authority services.

5.4 The aim of the ABS is to be wholly owned by the Councils and therefore there is no intention to set up a mutual or consider a management buy-out. It is anticipated that the ABS will be successful due to the Shared Legal Service's track record of operating successfully with an internal trading account for each of the three Councils. The unique selling point will be that Shared Legal Services will continue to be part of the Councils, as a wholly owned company of the councils, operating from the same locations for the same WCC and RBKC clients but under a different legal structure.

5.5 One of the key objectives of the recommendation is to deliver significant financial benefits to the owner Councils through the following:

1. <u>Reduced internal legal costs through economies of scale and improved transparency and control</u> - Fixed costs spread over a larger cost base and the centralisation of business support functions will deliver early returns and reduce the cost of the services. Internal legal costs will also reduce due to transparent and regular billing allowing for greater user discipline and cost control.

2. Reduced external legal spend through significantly more work being done in-house – The merged organisation would create greater resilience and capacity to allow the further development of specialist teams, which will enable more legal work currently delivered externally to be done in-house.

3. Increased income – the ABS vehicle will provide the required business platform for the combined team to grow their business through attracting new external clients by trading surplus capacity (released by productivity improvements).

5.6 It is proposed that the merger will be implemented through the existing Shared legal team members transferring to LGSS Law. In return, LGSS Law will issue and transfer shares to each Council, which will constitute each Council's key instrument of ownership and influence over LGSS Law Ltd. In summary, the deal would involve each Council receiving an allocation of LGSS Law shares in exchange for the transfer of their legal team and a commitment to work with LGSS Law to deliver savings.

5.7 The allocation of shares will be based on the value of the Shared legal business currently being undertaken in-house. The offer of shares from LGSS will be validated by an independent valuation of the Shared Legal Service, LGSS Law and the combined entity, which has been commissioned from an external firm of accountants, BDO LLP. The allocation of shares, and the rights attached to the shares, will be agreed by the Bi-borough Director of Corporate Services prior to contract completion and go-live, which is proposed to be on 1st December 2017.

5.8 LGSS Law have indicated that the agreed commercial terms will be encapsulated in a five-year exclusivity agreement, which will mirror the terms agreed by the existing owners. These terms include a commitment to route all legal work through LGSS Law, thereby enabling all work to be managed in an intelligent way to ensure that maximum value for money is delivered for all shareholder owners. It is recognised that on occasion it will be appropriate to use external law firms and this is accommodated under the terms of the agreement, which ensure that the client councils retain the ability to use specialist support accessed via LGSS Law.

5.9 The five-year term not only ensures that maximum value for money is delivered for all shareholding owners, it also provides certainty to clients and staff. It ensures that the new business is given maximum opportunity to achieve its full potential. There will be provision for termination on 12 months' notice. However, it should be noted that the same staff will be providing the same services, which they have been doing for the past 10 or 15 years with minimal turnover. So, clients will experience little or no disruption to services but will see significant improvements in the areas identified in para 1.3. A description of the Target Operating Model is included in **Appendix B**.

Cashable Financial Benefits

5.10 The financial benefits projections shown in section 5.12 have been calculated for the benefits listed below and are based on the following assumptions.

1. Reduced **internal legal costs** through economies of scale and improved transparency and control. Benefit assumptions:
   - 5% reduction in internal legal costs due to transparent and regular billing allowing for more effective demand management through greater user discipline and cost control.
   - 9% reduction in costs in relation to: Improved systems processes and support, spreading of fixed costs and operating overheads (staff and non-staff), shared systems/procurement, increased buying power/leverage.
   - It is assumed that these improvements will be realised over 2 years.

2. Reduced **external legal costs** through significantly more work being done in-house. Benefit assumptions:
   - Additional scale and capacity will allow the further development of specialist teams, which will enable more legal work currently delivered externally to be done in-house.
   - It is assumed that **50%** of external spend can be brought in-house, and delivered **30% cheaper** than the external cost (based on LGSS Law's experience and comparison with other providers/competitors).
   - This assumption has been validated through a thorough assessment of existing external legal spend to identify whether it can be delivered in-house now, later as part of the wider LGSS Law or whether specialist external expertise would continue to be required. See **Appendix C** for analysis.
   - It is assumed that this benefit will be realised over 2 years.
   - There will also be opportunities in relation to increased purchasing power, enabled by being a legal provider for five local authorities.

3. Increased income (Shareholder dividends). Benefit assumptions:
   - The dividends are calculated based on a growth forecast for LGSS Law that reflects the larger scale that the Shared Legal Services authorities would bring.
   - The LGSS vehicle will provide the required business platform for the combined team to grow their business through attracting new external clients by trading surplus capacity (released by productivity improvements). LGSS Law has delivered average annual external sales growth of 34% since 2010 (see **Appendix D**).
   - Legal work done for other clients (ie. income from non-partner clients) is charged at a higher rate, which allows for greater profits to flow back to the partners in the dividend.
   - There will be a negotiated share/dividend agreement, which will result in dividends being paid to the partner authorities. The estimate range (high and low scenarios) in the benefit calculation is based on a tapered

approach, which results in the full 100% of dividend being paid in Year 5. See section 5.14 for details.

- This benefit is also paid back to partner authorities in the form of reduced hourly rates (which are 18% lower than non-partner not-for-profit rates).

5.11 The 2017/18 opening budget shown in the table below indicates that for 2017/18, WCC has budgeted for a £915k surplus and RBKC a small £62k deficit.

Current Legal Services Planned Budget (2017/18)

£000's	**WCC**	**RBKC**	**Total**
Cost Budget			
Staff salaries	1,451	1,439	2,890
Non-staff controllable budget	741	539	1,280
Non-staff non-controllable budget	775	602	1,377
Total Cost Budget	2,966	2,580	5,546
Income Budget			
Internal re-charge income	-2,752	-2,184	-4,936
Fees & charges	-1,129	-334	-1,463
Total Income Budget	-3,881	-2,518	-6,399
Total Budget (2017/18)	**-915**	**62**	**-853**

5.12 For the full business case, the following spend figures have been validated at a departmental level and used to calculate a baseline for the current cost of internal and external legal support:

- Internal legal spend: Two year average (2015/16 and 2016/17) spend on internal time recorded work from General Fund, HRA and Capital budgets.
- External legal spend: Actual 2016/17 general fund revenue spend, HRA, Capital and Other funded spend on external legal firms.

Current Legal Costs Baseline for Business Case

£000's	WCC	RBKC	Total
External			
General Fund	541	477	1,018
HRA	464	120	584
Capital	236	354	590
Other (e.g. funded by reserves)	181	-	181
Sub Total	**1,422**	**951**	**2,373**
Internal			
General Fund	2,117	1,863	3,980
HRA	775	188	963
Capital	133	12	145
Other (e.g. funded by reserves)	395	-	395
Sub Total	**3,420**	**2,063**	**5,483**
Grand Total	**4,842**	**3,014**	**7,856**

* External Legal spend figures are based on total value of invoices paid to external Legal firms during 2016/17 (identified top firms by spend). No disbursements (e.g. counsel and other payments etc) are included.

Total Projected Savings (General Fund)

£000's	2018/19	2019/20	Total
External Spend			
RBKC	36	36	72
WCC	41	41	81
Internal Spend			
RBKC	170	88	258
WCC	193	100	293
RBKC Total	**206**	**124**	**329**
WCC Total	**234**	**140**	**374**
Grand Total	**439**	**264**	**703**

5.13 Thorough financial due diligence has been completed and the internal and external legal savings shown above have been identified at a service level at WCC and RBKC. In order to realise general fund savings, budgets will need to be retracted from service areas. For information, additional efficiencies will be delivered for HRA, Capital and Other funded legal support as shown below.

Other Efficiencies (HRA, Capital & Other Funded)

£000's	**2018/19**	**2019/20**	**Total**
External Spend			
RBKC	36	36	71
WCC	66	66	132
Internal Spend			
RBKC	13	4	18
WCC	86	29	115
RBKC Total	**49**	**40**	**89**
WCC Total	**152**	**95**	**247**
Grand Total	**201**	**135**	**336**

5.14 The table below shows the future hourly charge-out rates which underpin the business case and that will be charged to London branch partner Councils. A formal process to review rates will form part of LGSS Law governance and will be documented within the contract with LGSS Law to ensure that these rates can not be altered without agreement from at least one of the London shareholder Councils.

Future Hourly Charge-out Rates

Grade / Level	Rate Level	Current Rate	% Reduction	£ Reduction	Revised Rate
Director	1	£180	-18.5%	-34	£147
Chief Solicitor / Project Lawyer	2	£140	-18.5%	-26	£114
Principal Lawyer	3	£140	-18.5%	-26	£114
Solicitor	4	£80	-18.5%	-15	£65
Legal Officers	5	£55	-18.5%	-10	£45
Paralegal / Admin	6	£50	-18.5%	-9	£41

5.15 The Councils' existing corporate overhead costs for the Shared Legal Service will continue following the transition to LGSS Law and a corporate approach to reduce these costs will be required to realise further savings. The Shared Legal Service budget for non-controllable overhead costs totals £775k for WCC and £602k for RBKC (2017/18 budget). It is expected that over time, the variable element of the overhead costs, for example ICT support and software licences, will be realised as savings via budget and financial plans due to a lower staff population.

Dividend Payments

5.16 LGSS Law have proposed that dividends will be payable using a tapered approach that works by releasing a percentage of the total dividend entitlement to new partners, and growing this percentage each year. At year 1 this is 10% of the declared distribution and this increases to 20% in year 2, 40% in year 3, 80% in year 4 and 100% in year 5.

5.17 The incremental approach is proposed by LGSS Law in recognition of the significant investment of time and resources that was required to establish the company by the founding owners (NCC and CCC). (CBC has the same arrangement as that proposed for the Shared Legal Service). The dividend amount not paid as part of the tapered entitlement during years 1 to 4 will be reinvested in the company.

5.18 For this business case a dividend range (low to medium) has been provided and reflects the fact that exact arrangements around shareholding, the tapering approach and dividend retention policy require discussion and agreement by the Bi-borough Director of Corporate Services prior to go-live. These discussions will include consideration of the independent business valuation (by BDO LLP) to ensure that WCC and RBKC receive an allocation of shares representative of the value of their legal business contribution to the merged company. The dividend calculations are based on the LGSS Law profit forecast, which reflects the greater scale of the merged organisation and market analysis.

5.19 Dividends are subject to corporation tax and there may be a preference to reduce hourly rates for shareholder Councils as part of planning prior to the start of each tax year rather than issue a dividend.

<u>Increased Income (Shareholder Benefits Range) 2017/18 – 2022/23</u>

£000's	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Low Scenario						
RBKC	0	0	27	59	130	178
WCC	0	0	27	59	130	178
Total (Low)	**0**	**0**	**53**	**119**	**261**	**356**
Medium Scenario						
RBKC	0	13	30	70	160	230
WCC	0	13	30	70	160	230
Total (Medium)	**0**	**25**	**59**	**139**	**320**	**459**

Cost Avoidance Benefits

5.20 The proposal has the following cost avoidance benefits:

- Setting up of an SRA licensed Law firm, including 2 years of operation and the expertise developed in that period.
- Required procurement, design and implementation of a new case management system. The proposed merger avoids the associated procurement and implementation costs for this necessary upgrade.

Non-Financial Benefits

Benefit	Description
Increased resilience through greater scale	A larger service would bring much needed resilience to our smaller teams eg adult social care, education and employment. Larger teams would also benefit from greater resilience as our workload increases.
Additional areas of specialisation	Increased scale would help us develop in areas of law that we don't cover now eg company law, construction law, enabling more work to be undertaken in-house at significantly lower cost. The service would have the freedom to attract staff from private firms and attract the best talent.
Ability to support Council partners	We would be able to provide legal advice and support to joint venture companies owned by the Council or private organisations that undertake Council work, which we are currently not licensed to support.
Increased staff retention and ability to attract good lawyers	The opportunity to work as part of a larger and well supported team opens up additional opportunities for lawyers to undertake more complex and interesting matters which benefits them in terms of career development. The team benefits through better rates of retention.

Implementation Costs

5.21 The costs of the change will include the capital expenditure to roll out the LGSS Law case management system, enablement of flexible working through laptops and smart phones and change project management (on both the LGSS Law and Shared Legal Service side). There are also the costs of external legal advice, business valuation advice and the actuarial assessment required for pensions as part of the transfer.

Implementation Costs (One off during 2017/18)

£000's	Total Cost	WCC Share	RBKC Share
Case Management implementation (external DPS costs)	100	50	50
Case Management implementation (LGSS costs)	52	26	26
ICT equipment (e.g. laptops, monitors, docking stations etc)	127	64	64
ICT infrastructure (e.g. network connectivity, server build etc)	66	33	33
Accommodation moves (Amey)	8	4	4
Shared Legal Services Programme Management	96	48	48
LGSS Law Project Management	56	28	28
LGSS Partnership Officer time (implementation project)	18	9	9
LGSS IT Resource Costs	16	8	8
Business Valuation Advice	16	8	8
Legal Advice (Commercial & Pensions DD)	6	3	3
Actuarial Assessment (Pensions)	10	10	0
Grand total	**572**	**291**	**281**

Implementation Approach

5.22 Implementation will be managed by a joint team from the Shared Legal Service and LGSS Law and comprise Leads for change management, communication, HR, IT and Systems and Process change (including billing and accounts). The joint team will report into a Programme Board jointly chaired by the SROs, namely the Shared Legal Services Director of Law and the Executive Director of LGSS Law Ltd. Effective management of programme risks will be the responsibility of the Programme Board (see **Appendix E** for Risk Register).

5.23 It is proposed that the implementation plan is based on the approach successfully used by LGSS Law for a previous merger, which is to make the LGSS Law network and case management system fully accessible to the Shared Legal Service team members from day one. The proposal is to set up appropriate network connections/availability within the Shared Legal office location to enable a fast and reliable connection to the LGSS Law network and case management system. Staff will access the network through docking, wireless connection and when working outside of the office, remotely through 4g and broadband connection. The system will interact seamlessly with the client councils through email and other document exchange systems, which provide effective and secure methods of sharing large volumes of data such as court bundles.

5.24 TUPE will apply so staff will be transferred to LGSS Law on their existing Terms and Conditions. LGSS Law have indicated their preference for access to the LG Pensions Scheme for new starters to be retained as an important staff benefit.

5.25 The implementation approach will have a strong focus on communication and engagement and on managing the business change. This has already begun with senior clients and staff being engaged during the business case development stage. A full communication and engagement approach will be delivered during implementation to raise awareness, understanding and buy-in to the change across all identified stakeholder groups.

5.26 Implementation Timeline

No	Activity / Deliverable	Timeline
1.	CEOs approval to proceed to complete full business case	mid-June (Complete)
2.	Full business case officer-level approvals at EMT, Management Board	July (Complete)
3.	Briefing for Cabinet Members	July (Complete)
4.	Cabinet Briefing in WCC	17 July (Complete)
5.	Leader's Group in RBKC	September (Complete)
6.	Staff / TUPE consultation, financial and legal due diligence	August / Sept
7.	Cabinets' approvals	October
8.	Go live with implementation of new case management system	November
9.	Go-live for new Legal Services ABS	1st December

6. CONSULTATION

6.1 Staff and stakeholder engagement has taken place. This has included briefings to Cabinet Member and Chief Officers, meetings with senior officers and directors, drop in sessions with staff and meetings with Unions. Key clients were engaged during April and May. Twelve Directors and senior officers have been interviewed. The Director of Law and the Business Change Consultant have attended Senior Officer Boards in all three Councils.

6.2 There has been extensive consultation with staff since April. The early informal /soft consultation was put on a formal footing on 18 August, with a formal letter to all staff and Trade Union representatives. The consultation which started in April took the form of:

- *April onwards* - Around a dozen staff drop in sessions have been held from April – one or two per month

- *June onwards* - The Director of Law has attended team meetings so that all staff have had an opportunity for a face to face discussion

- *July and August* - Three sessions were held in July and August, called Meet the Directors Sessions (including the Director of Law and the LGSS Law's Executive Director), when 74 staff attended

- *August and September* - Four HR sessions for staff and Trade Unions on TUPE were held in August and September, as part of an ongoing consultation process. Again over 70 staff attended as well as Trade Union representatives.

- *September and October* - Individual drop in sessions for staff on Pensions and HR issues were held over three days in September and October.

- There have been six meetings held by HR with the Trade Unions since the summer (4 with staff in attendance and 2 separately with the trade unions) and a further three meetings with the trade unions are scheduled up to the transfer date. The Director of Law has attended some of these meetings as part of the ongoing dialogue and formal consultation process required as part of the proposed TUPE transfer process.

- Following these sessions written Q&As were prepared and published in July, August and September. In total 78 Questions have been answered, some were repeated questions about terms and conditions and pensions.

- The service had also established a staff group of Change Champions with a representative from each team, who have contributed to the project throughout.

6.3 The only outstanding consultation until recently was on the TUPE measures and this is taking place now (as of 18 October). A key outstanding issue for staff is the pensions arrangements, which will be agreed and incorporated in the contract with LGSS Law prior to go-live. If for any reason this is not complete the go-live date will be delayed.

7. EQUALITY IMPLICATIONS

7.1 There are no equality implications for staff resulting from this proposal as it is a direct TUPE transfer.

8. INFORMATION, COMMUNICATIONS AND TECHNOLOCGY (ICT) IMPLICATIONS

8.1 Following discussions with Cambridgeshire County Council IT department who will be providing the systems to support the merged service, the bi-borough shared ICT service is satisfied that what is being proposed is appropriate. Our network team will be providing the necessary in-building network connectivity to support the Shared Legal Service staff once they become part of LGSS Law under the new business model.

9. PROPERTY IMPLICATIONS

General and Royal Borough of Kensington and Chelsea

9.1 At present, the Shared Legal team occupy 79 desk spaces on the 3rd floor at Kensington Town Hall. This proposal, if accepted, will see this requirement reduce to 55 desks. However, due to the need for independent I.T and telecoms to be installed, these 55 desks will not be capable of use by Council officers. Similarly, staff from the new Legal company will not be able to occupy or use any other desk space within Kensington Town Hall. This being the case, it is currently proposed that the new Legal company will move to room G29 at Kensington Town Hall. Room G29 is a semi-detached and self-contained office area which will be much better suited to an occupation by a 3rd party than the main office areas at the Town Hall.

9.2 This proposal will see non-Council staff occupying and having some limited access to office space at Kensington Town Hall. Whilst some concerns have been raised regarding security, similar arrangements do already exist elsewhere in the building with Amey PLC occupying office space in room B118 and CNWL NHS Trust occupying office space on the 2nd floor. All non-Council staff using KTH will be issued with a security pass in the usual manner with access restrictions incorporated as required.

9.3 As above, whilst Initially, staff from the new Legal company will require access to some parts of the building for the purposes of file and archive retrieval, it is anticipated that in time, much of this stored material will be digitised and therefore, the need to access the main building will diminish over time.

9.4 Corporate policy dictates that an external service provider occupying Council property and providing services to a customer base beyond RBKC should be liable for a full market rent. In this case, it is estimated that the all-inclusive rent for this occupation will be approximately £275,000 per annum. This increase in income will be offset by the loss of income from the current shared services property arrangements whereby LBHF and WCC pay between them £257,000 to RBKC in respect of the shared use of Legal office space at KTH.

9.5 Room G29 has limited meeting facilities and as such, it has been agreed that a room booking facility will be maintained with the new Legal company using and paying for meeting space on a pay as you go basis. This arrangement will be reviewed over time so as to ensure that it suits all parties.

9.6 This occupation will be documented by way of a formal lease which will be co-terminus with the associated service contract. The Council will retain responsibility for all maintenance/repair and compliance activities in respect of this occupation so that consistency of service may be maintained and so that any associated compliance risks may be mitigated against. Similarly, the Council will reserve the right to relocate this occupation elsewhere in the building should the need arise.

Westminster City Council

9.7 Westminster City Council is currently based in temporary accommodation at 5 Strand and Portland House while 64 Victoria Street undergoes a major refurbishment. It is anticipated that the council will return to Victoria Street at the end of 2018/early 2019. Lisson Grove remains in operation as the north borough administrative centre and it is anticipated that this facility will be moved into new accommodation in 2022. The following applies to any WCC administrative building, temporary or permanent. Given the accommodation strategy adopted by WCC, EMT should consider whether the arrangement proposed by the Legal department can be adopted by the Council. Property's proposal to seeking a solution follows -

9.8 The council has committed its administrative sites to a shared workspace arrangement (nominally 7 desks per 10 employees) and staff now work flexibly with fixed 1:1 desks only where required for an individual's accessibility needs or for specific operational requirements. As this is fundamental to the success of the property strategy and the realisation of operational cost savings, Council property officers have proposed a scheme whereby the new legal structure can have access to workspaces (including meeting facilities) while maintaining the principles of a shared work environment.

9.9 It is therefore proposed that Legal team members can have access to a total of six desks throughout the WCC administrative sites. These desks will not be in fixed locations, however. It is anticipated that legal team members will co-locate with their (internal) clients in the course of their work and as the services which are expected to employ the legal team themselves work in a flexible environment (and often over multiple sites), it is logical to enable and require the legal team to do so.

9.10 In the Council's current layout, the legal team can use shared desks on the 2nd floor of 5 Strand as a touchdown "base" as it has done in the past, but this area, like all others within the administrative sites is subject to the dynamic nature of flexible space usage and there is no implied "ownership" of desks in this area. Touchdown spaces are provided at Portland House and Lisson Grove and the emphasis should be on legal team members working with their clients in the team areas in the first instance.

9.11 Access to the same facilities enjoyed by WCC staff can be given to the legal team, including kitchen, toilet and other amenities.

9.12 No provision for lockers or storage cabinets has been given as legal team members will not be permanently based at WCC. Temporary storage of materials relevant to client work will be at the discretion of the client team within allocated storage for that team

9.13 Access cannot extend to printing or other ICT-facilitated operations as these are restricted to council staff for security firewall reasons. This includes the ability to book general meeting room space (see below).

9.14 Meeting room facilities: WCC manages its administrative site meeting rooms with two separate systems. These will continue to operate for the foreseeable future. As there are implications for external organisations, attention has been paid to this aspect of the scheme. General purpose meeting rooms are bookable only through an MS Outlook system. However, external organisations are not able to access this for firewall reasons. The "formal" (sometimes referred to as "committee") rooms can only be booked through the reception desks at 5 Strand and Portland House. The legal team can book the formal rooms by this method, but due to demand for these and all meeting rooms, use of these facilities is restricted to WCC business.

9.15 General meeting rooms can be booked for meetings with the legal team by WCC employees (hosting clients), who will have access to the booking system.

9.16 Legal team members will require WCC passes to access the facilities. Passes can be issued with the appropriate access privileges given. Access into Portland House is given by LandSec security, not WCC, and arrangements, including payment for the cards, will be made by the legal team directly with LandSec. WCC will verify to LandSec that the personnel are authorised visitors, but assumes no responsibility for administration of LandSec access privileges.

9.17 As there is no demised accommodation, this occupation cannot be documented by a formal lease, unlike RBKC. Thought must be given, if the principle of occupation itself is agreed, how to formalise the arrangement which might be via a licence to occupy co-terminus with the associated service contract. The Council will retain responsibility for all maintenance/repair and compliance activities in respect of this occupation.

9.18 The cost of this arrangement will be £6,400 per person per annum, therefore £38,400 total, per annum, inclusive of rates and service charges.

10. LEGAL IMPLICATIONS

10.1 Section 1 of the Localism Act 2011 provides the Council with a general power of competence and as such allows it to enter into arrangements such as the collaborative provision of legal services via a jointly owned corporate vehicle.

10.2 The Council is currently seeking external legal advice from external lawyers in respect of:

- The responses to legal due diligence questions, which have been received from LGSS Law.
- Legal issues arising from the terms of transfer of the Bi-borough Shared Legal Service to LGSS Law including the mechanisms for issuing shares in LGSS Law to RBKC and WCC and for restricting profit distributions, as explained earlier in this paper.
- The governance arrangements for LGSS Law under its expanded ownership structure.
- The terms on which RBKC and WCC will receive services from LGSS Law.
- The appropriateness of mechanisms to apply in the event that either RBKC or WCC chooses to take its service provision back in-house (or to transfer it to a third party) at a future point.

10.3 External lawyers are also advising on the following matters and that advice will be considered by the Bi-borough Director of Corporate Services before he takes any decisions in accordance with recommendation 2.3:

- The ability of LGSS Law to accept business from third parties (ie from non-shareholding authorities) without jeopardising its privileged Teckal procurement status. That is to say, given that LGSS Law will be owned by 5 local authorities, it is acceptable for the company to trade with its owning authorities and vice versa without being required to follow the procurement rules. Regulation 12 of the Public Contract regulations 2015 gives statutory force to the Teckal principle and this provides an exemption to the procurement requirements in circumstances of a multi-authority version of a "Teckal" company.

- Further advice will be sought to confirm the current understanding that the proposed arrangement would not constitute ‘State Aid’. As proposed, the company will not be provided with any financial advantage by way of service or accommodation being provided at preferential rates. In addition there is no suggestion that this arrangement will distort the market for legal services.

11. FINANCIAL AND RESOURCES IMPLICATIONS

11.1 There is a WCC MTP commitment of £0.500m for this initiative of which, £0.200m is expected to be realised in 2018/19 and £0.300m in 2019/20. Legal budgets would need to be retracted from services within the different directorates to realise the saving on the internal and external legal spend. Engagement with service managers will be undertaken prior to any budget retraction. A shortfall of circa £0.100m is anticipated in 2019/20 due to a tapering approach being applied to the projected dividend income. This is expected to be mitigated through non-recurrent financial savings from within corporate services.

11.2 The implementation costs for the WCC are £0.291m which are expected to be financed from under spends within Corporate Service's overall financial position for 2017/18.

11.3 The RBKC Group Finance Manager, Corporate Services, has been consulted and is satisfied that the Service have made every effort to ensure that the financial analysis within this Report has been based on comprehensive, accurate and up to date information on Legal operating costs, income and demand in relation to the proposed merger of the Shared Legal Services with LGSS Law Ltd. The reduction in the charge out rate resulting from the merger should bring about the savings as expected.

11.4 The fact remains that the sustainability of the financial benefit projections (and on-going savings) are based on a set of assumptions which, whilst reasonable, cannot in themselves be guaranteed (e.g. around expected demand for internal/ external legal services; demand management from greater transparency and LGSS growth forecasts). Furthermore, as stated in the Report, additional savings to the Council from a reduction in Corporate overheads will only be realised following a real reduction in Support Service resources, which may not be seen in the medium term.

John Quinn
Bi-borough Director of Corporate Services

Local Government Act 1972 (as amended) – Background papers used in the preparation of this report

None

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Options Considered (including Pros & Cons)

The following four alternative options have been considered in the development of the business case.

1. <u>Shared Legal Service merges with LGSS Law Ltd</u>

Pros	Cons
• More business-like legal practice. • Generates income for the Councils through surplus, rent and dividends. • LGSS Law has an established clientele in the market • Reduces external legal spend. • Increased transparency of costs • Greater resilience through scale. • New areas of expertise. • Reduced costs of overheads. • More accurate billing as real money. • Clients will be more conscientious about spending on legal advice (demand management). • Greater efficiency through focus on core business.	• A need to manage client misconceptions (e.g. concerns about reduced availability, less contact). • Fear of change for staff (new employer). • Change for clients having to deal with finances, e.g. new billing processes. • More business-like (more rigorous processes), which some clients will need to adjust to.

2. <u>WCC and RBKC merge with LGSS Law Ltd (H&F Legal Service remains in-house)</u>

Pros	Cons
For WCC & RBKC: • Generates income for the Councils through surplus, rent and dividends. • LGSS Law has an established clientele in the market • More business-like legal practice. • Reduces external legal spend. • Increased transparency of costs • Greater resilience through scale. • New areas of expertise. • Reduced costs of overheads. • More accurate billing as real money. • Clients will be more conscientious about spending on legal advice (demand management). • Greater efficiency through focus on core business.	For WCC & RBKC: • Some reduction in benefit of increased resilience compared to option 1. • A need to manage client misconceptions (e.g. concerns about reduced availability, less contact). • Fear of change for staff (new employer). • Change for clients having to deal with finances, e.g. new billing processes. • More business-like (more rigorous processes), which some clients will need to adjust to. •

3. Shared Legal Services creates its own ABS

Pros	Cons
• More management control. • Ability to do some work for external clients (potential capacity issue). • More commercial and business-like. • Some reduction in external legal spend. • Generating some income for the Councils through surplus, rent and dividends. • Increased transparency of costs. • More accurate billing as real money. • Clients will be more conscientious about spending on legal advice (improved demand management). • Greater efficiency through focus on core business.	• Requires lengthy regulatory set-up process (12 to 18 months). • Officer time and cost in creating an ABS. • May fail as a project if license not granted by SRA. • Loss of opportunity to join ABS case management system (new procurement required). • Increased risk in market as a new business.

4. Remain As Is (with continuous improvement)

Pros	Cons
• Continue to increase transparency of finance and billing. • Increased efficiency with a new case management system (requires procurement). • Continue to improve staff compliance on time recording and billing processes. • Less change for staff • No change for clients	• Reduced scope for improvement in business approach / transformation. • Less opportunity to grow new areas of expertise. • Inability to generate income, such as through surplus, rent and dividends. • Lost opportunity to drive change in clients' behaviours in relation to costs. • More difficult to manage demand. • Loss of opportunity to join ABS case management system (new procurement required).

APPENDIX C

External Legal Spend Cost Reduction Validation

A validation exercise has been conducted to test whether at least 50% of existing external legal work can be delivered in-house or whether specialist external expertise would continue to be required. The tables below show a breakdown of current external legal spend by type of work and indicate the percentage of this work that can be delivered in house now or later as part of the larger LGSS Law organization.

<u>Validation of Total (16/17) External Legal Spend Deliverable in-house (WCC)</u>

Type of work	External legal spend	Deliverable in-house now?	Deliverable in-house as part of ABS?	Requires external legal expertise	Total spend deliverable in-house	% of externa l spend
Contracts	222,746		✓□90%	✓□10%	200,471	90%
Debt Recovery	83,700		✓		83,700	100%
Education	46,645		✓		46,645	100%
Housing	195,526		✓		195,526	100%
Mixed	213,054		✓□90%	✓□10%	191,749	90%
Property	659,082	✓□5%	✓□75%	✓□20%	527,266	80%
Social Care	1,702	✓			1,702	100%
Total	**£1,422,455**				**£1,247,058**	**88%**

Note: WCC figures include revenue (general fund), capital and HRA revenue funded external legal spend.

<u>Validation of Total (16/17) External Legal Spend Deliverable in-house (RBKC)</u>

Type of work	External legal spend	Deliverable in-house now?	Deliverable in-house as part of ABS?	Requires external legal expertise	Total spend deliverabl e in-house	% of external spend
Charity	10,600			✓	0	0%
Contracts	192,879		✓□90%	✓□10%	173,591	90%
Employment	27,572	✓□90%		✓□10%	24,814	90%
Parliamentary	2,097			✓	0	0%
Property	717,671		✓□80%	✓□20%	574,137	80%
Total	**950,818**				**772,542**	**81%**

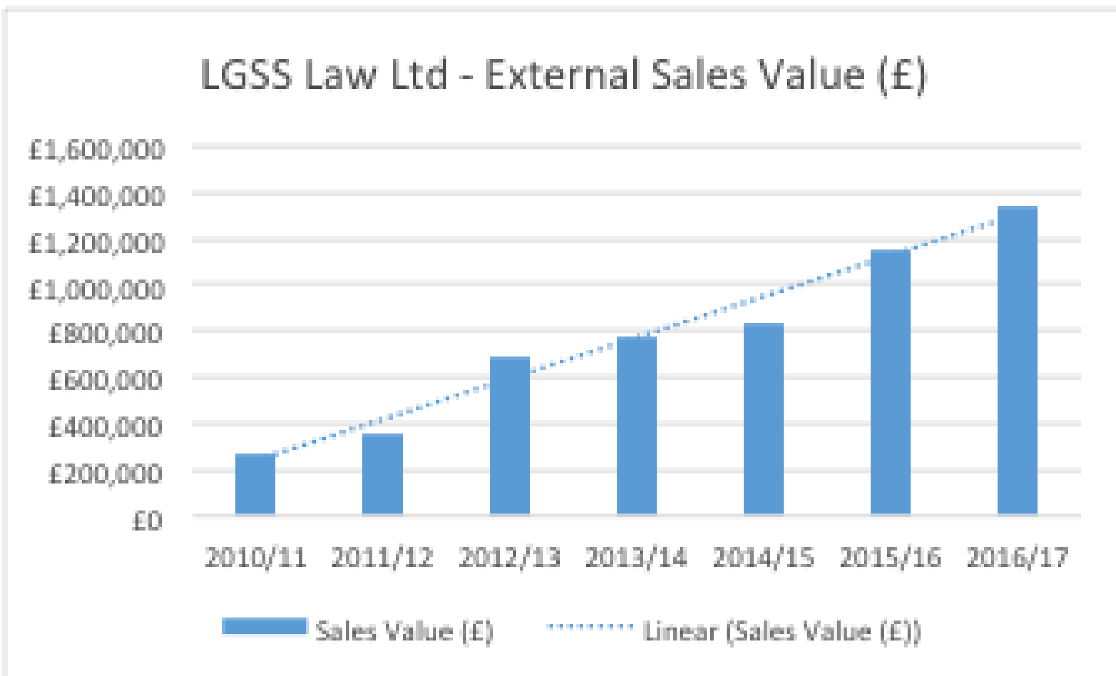
Note: RBKC figures include revenue (general fund) and capital funded external legal spend.

The analysis shown in the tables above indicates that there is a potential to bring at least 80% of existing external legal work in-house (to LGSS Law) and deliver it for 30% less than current costs. As part of the next stage, a detailed analysis by Finance is required of actual legal spend in departments. Departmental agreement will then be required to claw back appropriate budgets so that the savings projections can be realised.

APPENDIX D

LGSS Law Historic External Sales Value

Year	Sales Value (£)	Sales Growth (%)	Average Sales Growth (%)
2010/11	264,301		
2011/12	352,585	33.4	
2012/13	694,298	96.92	
2013/14	775,428	11.7	
2014/15	830,000	7.0	
2015/16	1,156,630	39.4	
2016/17	1,333,336	15.3	34.0



Risks **APPENDIX E**

No.	Risk	Negative Consequence	Mitigation
1	There is a risk that the Councils (as only a part shareholder) will not be able to protect their interests and receive the legal service they require if the ABS fails to deliver.	Increased costs as Council departments look to external firms for the service they are not receiving from the ABS.	- Need clear and acceptable contract terms to protect the Councils' interests, e.g. exit arrangements and performance management - Independent Legal firm to advise, mediate contract negotiation and finalise all legal documents
2	There is a risk of conflict of interest if the ABS is acting for both sides of a dispute between two shareholder boroughs. Authorities now need assurance that acting in best interest.	- Lack of trust in the Legal Service that it is acting in the Council's best interest. - Potential increased costs if the Council looks to an external firm to act for it instead.	- Require right arrangements within the ABS to flag and manage any potential conflicts of interest (e.g. Chinese walls), which will be easier as the ABS will be in six locations and can physically separate lawyers and files - Need to manage perception of Members as part of stakeholder engagement. And if necessary send work to external solicitors
3	There is a risk that the move to a more invoice driven relationship (and if the service re-locates) will negatively impact the day-to-day client relationship with Legal Services.	- Reduced client satisfaction. - Client relationships more transactional and less strategic. - Less ability to horizon scan and anticipate client requirements.	- Client relationship management approach needs to be defined including finance set aside to fund day-to-day conversations with Legal. - Communicating clearly the benefits (transparency of costs, potential demand management) - Working with clients to help them change their process. Ensure visibility of staff in all locations
4	There is a risk that the ABS will not be able to provide (or be perceived to be providing) value for money for existing shareholders.	- Client dissatisfaction with ABS legal service leading to increased external legal spend. - Possible decision to exit the ABS contract.	- Preferential hourly rate for shareholder Councils equating to 18% discount from not-for-profit rate. - Transparency on costs drives greater discipline on legal spend - SLAs and performance monitoring.
5	There is a risk that the boroughs will be unable to absorb the required change for managers due to the scale of	- Managers are unable to engage with the change and do not understand how to engage legal support following go-live.	- Need to fully understand and manage impact of change on managers, local and central Finance teams. Communicate the changes and the

No.	Risk	Negative Consequence	Mitigation
	change already underway.	- Negative perception of the ABS due to 'bumpy' go-live & transition.	timescales and provide extra support to clients who are not heavy users of the service.
6	There is a risk that Shared Legal Services will lose the productivity gained from new ways of working (e.g.using Office 365) if the service moves to the ABS's ICT environment.	- Staff disappointed to lose good IT experience in move to ABS. - Some loss in productivity as flexible working less effective.	- Communicate benefits of better invoicing, case management etc enabled by move to ABS as part of communication and engagement approach. Identify and communicate the advantages of ABS IT cloud eg speed.
7	There is a risk that the Shared Legal Services ABS does not have the capacity to take on additional external work.	- Shortfall in realising business case external income projection. Reduced dividend payment (to that projected) for shareholder councils.	- Business development focus required including definition of service offers (building on strengths & specialisms) and target clients to make up the 20% of external business.
8	There is a risk that staff who currently cover transactional activities will feel disengaged if this work moves outside London and anxious about covering higher value work.	- Increased staff turnover. - Disengagement with the desired culture change and objectives of the programme.	- Likely to affect very small number of staff - one to one communication of the reasons for the change and target benefits. - Management of the change including for staff taking on new and more challenging activities.
9	There is a risk that there is a gap in the commercial skills (e.g. business development) and culture (e.g. commercial mindset, responsiveness) required to make the move to an ABS a success.	- Failure to develop the external business effectively leading to a shortfall in the business case income projection.	- ABS programme of learning and skills development in business development. - Shared Legal service will have access to the ABS's existing market.

No.	Risk	Negative Consequence	Mitigation
10	There is a risk that there will be a loss of Member control over senior appointments with a move to an ABS. The Director of Law is currently appointed by a panel of councillors from the three Councils.	- Perception by Members of loss of influence / control over appointment of senior Legal officers. - Reduced buy-in to the change at Political level.	- Agree approach for Snr Officer appointments ensuring appropriate Member influence as part of finalising contracts. - Clearly describe how future senior appointments will work in Key Decision reports.
11	There is a risk that the ABS will not be able to provide value for money and be competitive in the market and will be unable to win new external business.	- Shortfall in realising business case external income projection. Reduced dividend payment (to that projected) for shareholder councils.	- Business leadership to drive the required change in culture. - Programme of learning & skills development. Shared legal have access to ABS's existing market. - Focused business development approach (exploiting competitive advantages)

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Appendix B

Shared Legal Services Alternative Business Structure (ABS)

Target Operating Model

20th October 2017

Introduction

- The purpose of this slide deck is to describe the future design for the London Arm of LGSS Law Ltd and includes the information listed below. It summarises how the London Arm of LGSS Law will operate at a high-level and provides overall principles to inform detailed design activity, including future case management system and finance processes, which will be developed as part of implementation.

Contents:

Vision

A social enterprise law firm providing **excellent**, **responsive** and **value for money** legal services to shareholder Councils and other clients, including not-for-profit and public sector organisations.

Objectives

Improve Client Experience	• Continue to improve on the good quality legal advice and support provided to clients • Improve responsiveness for clients across all teams • Increase the scale and resilience of the service • Increase expertise and specialisation by creating centres of excellence (e.g. Compulsory Purchase Order, Assets and Community Value) • Attract, develop and retain the best staff
Increase Efficiency & Reduce Costs	• Develop the required ABS business-like approach and discipline (an imperative for change) while retaining the best of the public sector ethos • Retain the core legal work which has been lost or will be as part of Councils' joint venture organisations • Reduce the cost of Legal services to the owner Councils through economies of scale • Significantly reduce Councils' spend on external legal advisers.
Generate Income / Surplus	• Generate income from new clients. • Develop new markets, e.g. charities and not-for-profit organisations

Scope & Purpose

LGSS Law London provides **excellent**, **responsive** and **value for money** legal advice and representation to its shareholder Councils and other clients, including not-for-profit and public sector organisations.

The purpose of LGSS Law London is:

•To act as the principal legal service for shareholder Councils, ensuring that they deliver services and meet statutory obligations in a manner that is lawful, cost-effective and responsive.

•To fulfill the role of intelligent client with responsibility for managing all external legal support on behalf of the shareholder Councils, enabling a single view of total legal spend.

•To ensure that shareholder Councils receive professional legal advice, advocacy and litigation services that cover for example: Contracts, employment, planning, highways, licensing, commercial property, housing, regeneration, housing litigation, general litigation, prosecution, adult and children social care, education, public-private partnerships and joint ventures, in addition to all over arching local government corporate law.

•To provide high quality legal advice to all three councils, individual councillors, chief officers and senior managers, including personal attendance and advice at business boards, cabinets, committees and council meetings.

•To provide and ensure there is a statutory Monitoring Officer for all shareholder councils and ensure compliance with the requirements of relevant legislation in respect of the councils' constitutions and decision-making processes.

•To act as key adviser to the shareholder councils and their Members on issues of ethics and probity.

•To ensure that the shareholder councils' corporate governance frameworks are reviewed and modified as necessary, to meet legislative requirements as set-out from time to time.

•To support corporate projects and events such as elections.

•To appoint and oversee the input of counsel as required, acting in the interest of the clients.

•To generate income from new clients and develop new markets, including charities and not-for-profit sectors.

•To ensure that effective casework management and quality assurance systems are in place to enable transparency and accountability.

Design Principles

Customer

- Structured and consistent strategic relationship mgt to help clients achieve their aims & objectives
- Access to greater breadth & depth of legal expertise across a larger team at a reduced cost
- Client self-service is maximised for routine legal work through training, toolkits & information
- Intelligent client* for external legal support is managed by LGSS Law on behalf of all shareholder Councils providing a single view of total legal spend.

Organisation

- Shared Legal Services forms a London arm of LGSS Law Ltd
- If expertise is unavailable or clients require, private firms on or off panels/frameworks are used.
- Multi-specialist teams support complex corporate and service specific projects.
- Performance is monitored through a defined set of management information
- Ability to generate 20% of turnover as external profit-making income

People

- Staff demonstrate the business-like approach (with public sector ethos) required of the social enterprise law firm.
- Staff are experienced in their area of work, self managing and are consistently responsive to clients.
- Staff are willing and able to work in multi-specialist teams and embrace a matrix mgt. approach.
- Line managers support and develop staff to achieve maximum efficiency and performance.
- LGSS Law is committed to the development of staff and future public sector lawyers.

Design Principles

Process

A single trading account, significantly reducing the administrative burden and staff costs.

Transactional processes are streamlined to make it simple and easy for clients.

Support overheads are shared across the wider merged team, reducing costs through economies of scale

Differential charging rates are used (owners vs. non-owners) to maximise savings for shareholders

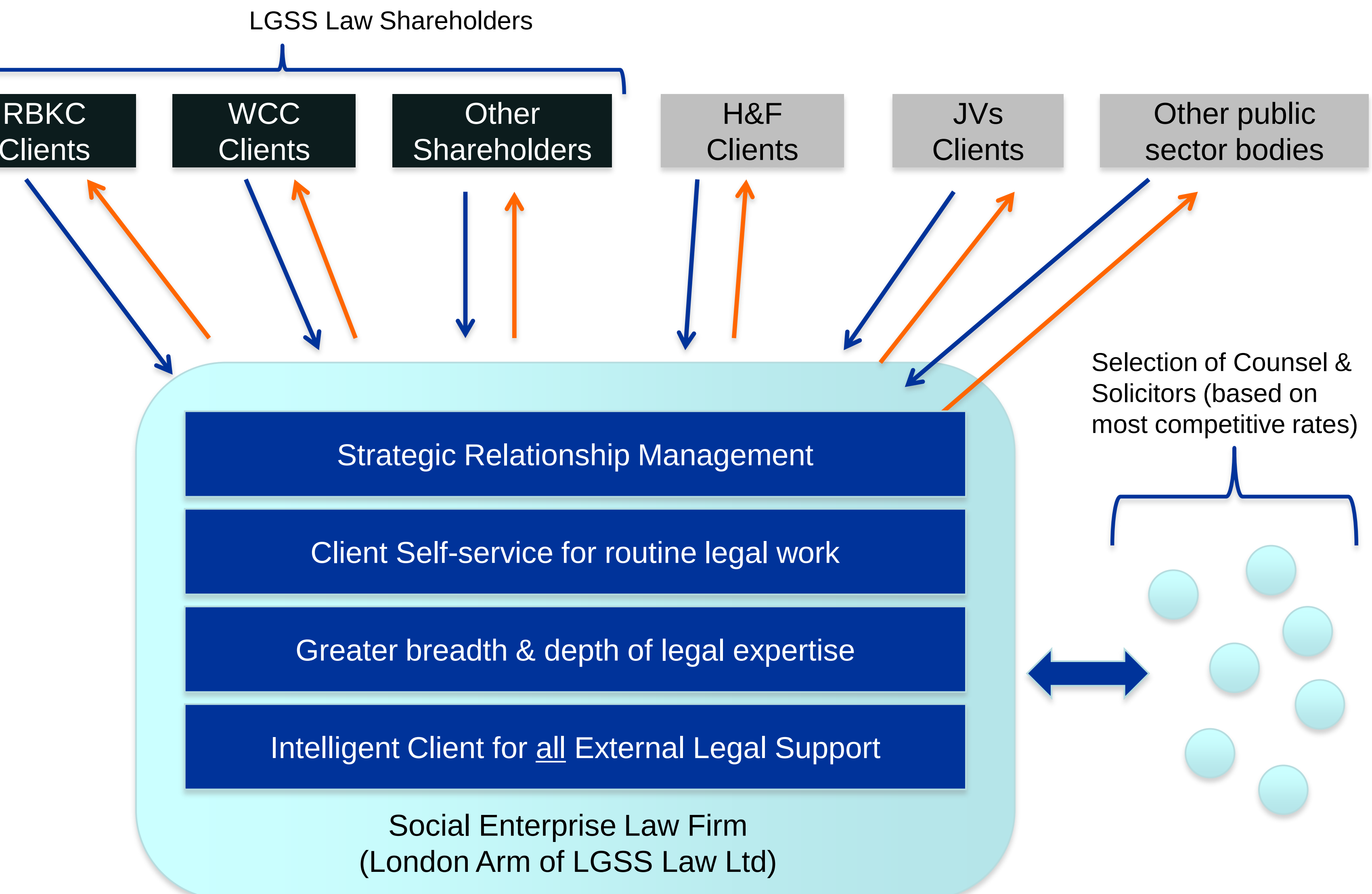
Infrastructure

Team members are fully equipped with the right facilities, systems and resources to deliver responsive and effective legal services from any location.

Systems comply with the high levels of security and performance demanded by the SRA.

* See slide 10 for an explanation of the proposed role of LGSS Law as an Intelligent Client (or gatekeeper) for shareholder Councils for all external legal procurement.

Target Operating Model Pictogram



Target Operating Model Description

Corporate Structure

•The newly expanded company will require a newly configured board and management teams.

•The existing Director of Shared Legal Services will be invited to join the LGSS Law Board as a second Executive Director with primary responsibility for the London Arm.

•RBKC and WCC will be invited to nominate an officer to join the Board as a Non-Executive Director to represent their interests. The Board currently meets on a quarterly basis.

•Managing Director role – This is not a new post so will not incur any additional cost as the two Executive Directors will each have an additional responsibility to fulfill this role on a two year rotating basis. For the first two years the Managing Director role will be fulfilled by the Executive Director of the London Branch.

•Chief Operating Officer – This new post will be created to manage finance and operations across LGSS Law London and Outside London. This role will be equal in seniority to the two Executive Director roles and have an equal vote on the Operational Board.

•In terms of the Shareholders, each of the councils will hold shares and be entitled to nominate a Shareholder representative to attend General Meetings and to exercise their shareholder rights. This representative would be an elected Member nominated by each Council.

•The General Meeting currently meets on a 6th monthly basis and as necessary. Meetings may be virtual and written resolutions are permissible.

Executive Director Appointments

•The LGSS Law Board has responsibility for appointing Executive Directors but the WCC and RBKC Non-Executive Directors will have final say over appointments of the Executive Director of the London Arm.

Corporate Responsibilities

•Legal services support for corporate activities will continue as at present (e.g. corporate projects, support for elections).

Target Operating Model Description

Working with Members

•The Executive Director will attend all Council, Cabinet and Informal Cabinet meetings for WCC. The Chief Solicitor for Planning & Property will attend all Council & Cabinet meetings for RBKC if the Executive Director is unavailable.

•These three senior officers attend other Committees as required.

•The Executive Director will attend regular meetings with the Cabinet portfolio holder in RBKC and WCC (Policy Board in RBKC and the Cabinet Member for Finance, Resources and Customer Services in WCC).

•All senior staff will be involved in responding to Member queries and to provide briefings.

•Appropriately trained and specialist legal staff will attend various committee meetings (e.g. planning and licensing) advising members, as appropriate, on governance and legal processes.

Strategic Relationship Management

•A named Chief or Principal Solicitor will provide a single point of contact / liaison for each department, for example on a quarterly basis attending departmental management team meetings to support departments with horizon scanning and anticipating upcoming legal support needs.

Client Self-service

•Information will be made available on a self-service website for clients to access information and templates on dealing with routine matters and on how to provide effective and cost efficient instructions to LGSS Law.

Target Operating Model Description

Intelligent Client (Gatekeeper Role) for all External Legal Procurement

•LGSS Law will operate as the intelligent client for all external legal procurement on behalf of the shareholder councils to enable a single view of all legal spend. This will require Executive-level buy-in and be facilitated by effective strategic relationship management.

•In order to enable this, all requests for legal support will be managed by LGSS Law as a gatekeeper and a decision made in conjunction with the Council client (based on the requirement and business case) on whether legal support will be provided internally or by an external firm.

Process

•Commissioning of all legal support will be managed via a single streamlined finance process which will ensure that all work undertaken has a purchase order and is invoiced appropriately to ensure SRA (Solicitors Regulatory Authority) compliance and to provide clients with full transparency of their legal spend.

•A single case management system (DPS) and process will be used across LGSS Law to enable a standard way of working (ie. workflow) and to maximise efficiency, including shared working across LGSS Law.

•The single streamlined case management, finance process and system will enable effective monitoring of service performance through complete and transparent management reporting.

Financial Model

•LGSS Law will operate a single trading account with differential charging rates between shareholder clients and external clients. In addition to passing value back to the Councils through discounted rates, the single trading account will also increase efficiency by avoiding the current need to manage recharges between Councils for legal services provided (currently required to avoid any cross subsidisation between Councils).

•LGSS Law will be able to generate income through trading with external clients up to a maximum of 20% of turnover.

Target Operating Model Description

Business Development

•Business development will be facilitated through the strategic relationship management role, which will anticipate clients' upcoming legal support needs and LGSS Law's role as a gatekeeper for spend on legal support. All new instructions will come to LGSS Law as gatekeeper and a decision will be made on whether the work is done internally or externally based on a business case.

Accommodation

•LGSS London will have an office location at each borough but with a main site at Kensington Town Hall. Staff will work flexibly to meet the demands of the service but accommodation will be planned on the basis of approximately 80 staff being based at Kensington and 20 at Westminster.

Client / Contract Management

•The Bi-borough Executive Director of Corporate Services will have responsibility for monitoring the delivery of the contract at WCC and RBKC.

LGSS London Service Offers

Function	Service Offers	Key Activities
Contracts & Employment Team	• Drafting and preparation of bespoke contract terms for a range of commercial agreements and tender documents • Specialist advice on contract law, procurement law, State aid public law vires, corporate law etc • Preparation and negotiation of employment settlement agreements • Representation at Employment Tribunal • Advice on employment law, TUPE, pensions • Training for clients • Over the telephone advice • Team working - we work as part of clients' team	• Advice on contract law & interpretation of terms • Advice on commercial law • Advice on procurement law strategy and transaction structure • Advice on State aid • Training for client departments • Advice on public law vires etc. • Drafting contract documents tender documents and amending /updating standard form contacts • Drafting and Preparation and negotiation of employment settlement agreements • Representation at Employment Tribunals • Advice on employment law, TUPE, pensions
Planning, Highways and Licensing	• Acting as the Legal Adviser at the Planning and Licensing Committees • Advising on and clearing reports and key decisions in relation to Highways, Licensing and Planning matters • Providing advice on all planning, highways and licensing law matters to Officers and Members of the Councils • Drafting, negotiating and completing S106 planning obligations and highway agreements • Dealing with and advising in connection with planning inquiries and planning appeals, • planning judicial reviews • Undertaking licensing appeals including providing advocacy at Case Management Hearings and negotiating and drafting settlement orders • Training Members and Officers in relation to licensing matters	• Providing specialist advice on planning, highways and licensing legislation • Providing training for client depts and Members • Drafting and negotiating S106 planning obligations and highways agreements • Advising on committee reports and key decisions and government consultation responses • Arranging representation and co-ordinating public planning enquires, appeals and judicial reviews • Providing advocacy at Case Management Hearings on licensing matters and negotiating and drafting settlement orders in licensing appeals • Drafting licensing Committee decisions • Drafting model licensing conditions and bespoke licensing conditions • Providing advice on tables and chairs applications • Advice on assets of community value

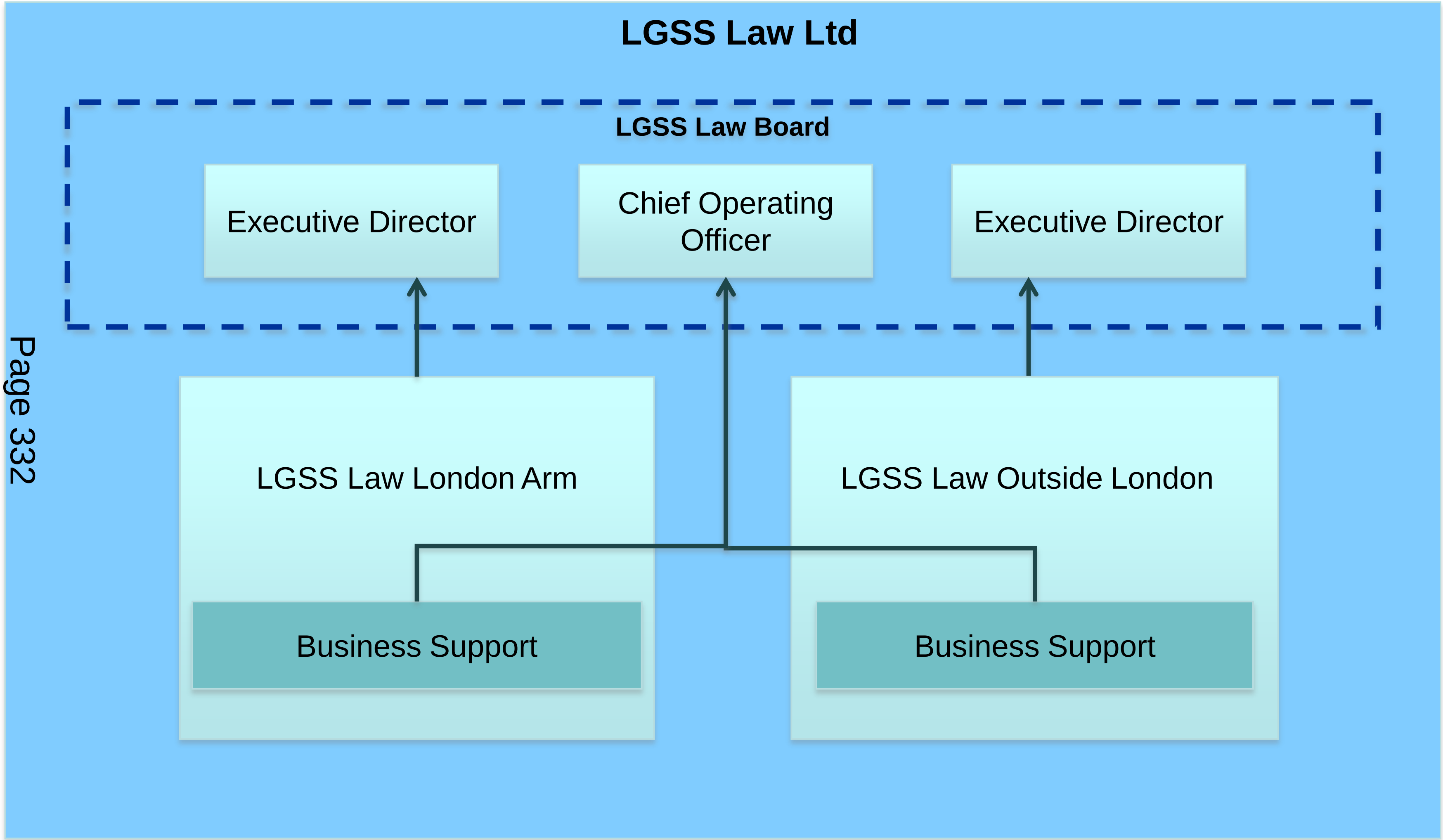
LGSS London Service Offers

Function	Service Offers	Key Activities
Property Commercial Corporate Housing & Regen.	• The carrying out of all legal property work on behalf of the Councils • Maintaining an archive of Council deed and property records • Housing or Corporate Property Development work retained in house including CPO, Appropriations, Rights of Light, Leaseholder, Tenant Policies, Temporary Accommodation advice or any governance issues related to this work • Housing or Corporate Property Cabinet or Cabinet Member Reports, Delegated Reports or briefing notes to Members and to approve all reports going to Westminster's HRP (Housing Regeneration Property) Board. • To always attend HRP Board at Westminster City Council which is not quorate without Legal attendance • To advise on Property Procedural Rules • To advise on PDHU (Pimlico District Heating Scheme)	• The drafting of documents and negotiating with other parties • Giving an active understanding of client needs • Maintaining an up-to-date collection of precedents • Where necessary instructing external lawyers to assist in transactions
Housing and Litigation Teams (x2) Housing Litigation Litigation	• Prosecuting on behalf of the Councils • Issuing possession claims on behalf of the Councils • Dealing with ASB – injunctions and ASBOs • Dealing with claims against the Councils (including Judicial reviews and appeals) • Providing advice on all aspects of litigation and council policies and procedures	• Drafting court pleadings • Advising on evidence in both civil and criminal proceedings • Updating clients on changes in the law • Understanding client needs

LGSS London Service Offers

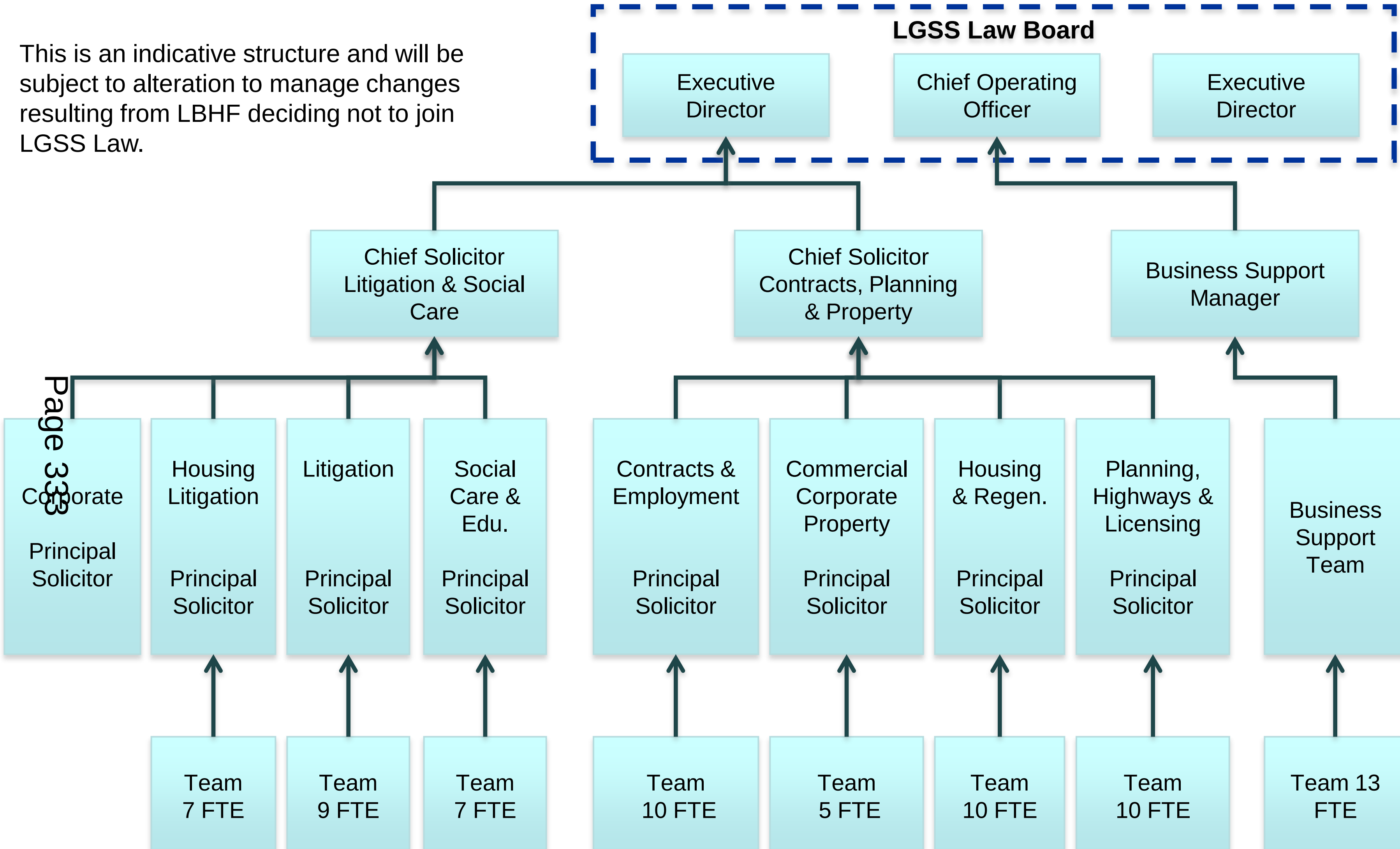
Function	Service Offers	Key Activities
Social Care & Education	• Providing advice and advocacy on the Children Act and other relevant childcare legislation • Providing advice and advocacy on Special Educational Needs (SEN) • Providing advice on Adult Social Care and Public Health matters • Providing advice to local authority and schools on Education related matters	• Attending Legal Planning Meetings and other client led childcare meetings • Attending client led meetings on Adult Social Care matters • Attending client led meetings on Special Educational Needs (SEN) matters • Drafting of legal documents for care proceedings, s7 and s37, Judicial Review challenges, Court of Protection, SEN cases • Acting as Legal Adviser on Adoption Panel • Undertaking some advocacy in the Family Court
Monitoring Officer	• Duties of the statutory post • Advising on and interpreting the Constitution • Ensuring the Constitution is up to date and given full effect • Providing advice on Freedom of Information, Data Protection and Corporate governance matter	• Register of interests • Code of conduct advice and complaints • FoI qualified person • Advice to support lawful decision making
Business Support	• Provision of support services to fee-earning team • Support for service improvement initiatives (e.g. business analysis, case management)	• Financial, IT, Administrative, Secretarial and other strategic and operational business support services • Performance management including definition and monitoring of KPIs.

Organisation



Organisation – London Arm (WCC & RBKC)

This is an indicative structure and will be subject to alteration to manage changes resulting from LBHF deciding not to join LGSS Law.



Establishment (WCC & RBKC)

Team	Role	FTE
Senior Management Team	Executive Director	1
	Chief Solicitors	2
	Business Support Manager	1
Contract & Employment	Principal Solicitor & Fee Earners	11
Commercial Corporate Property	Principal Solicitor & Fee Earners	6
Housing & Regeneration	Principal Solicitor & Fee Earners	11
Planning, Highways & Licensing	Principal Solicitors (x2) & Fee Earners	12
Housing Litigation	Principal Solicitor & Fee Earners	8
Litigation	Principal Solicitor & Fee Earners	10
Social Care & Education	Principal Solicitor & Fee Earners	8
Corporate	Principal Solicitor	1
Business Support Team	All	13
Total FTE		**84**