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City of Westminster

Council Agenda

Title:	**Council Meeting**
Meeting Date:	**Wednesday 7th March, 2018**
Time:	**7.00 pm**
Venue:	**Westminster Council House, 97-113 Marylebone Road, London, NW1 5PT**
Members:	**All Councillors are hereby summoned to attend the Meeting for the transaction of the business set out.**

Admission to the public gallery is available from 6.30pm.

Please telephone if you are attending the meeting in a wheelchair or have difficulty walking up steps. There is wheelchair access via the Sammy Ofer Centre.

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.

Email: msteward@westminster.gov.uk Tel: 020 7641 3134
Corporate Website: www.westminster.gov.uk

1.	**APPOINTMENT OF RELIEF CHAIRMAN** To appoint a relief Chairman.	
2.	**MINUTES** To sign the Minutes of the Meeting of the Council meeting held on 24 January 2018.	**(Pages 1 - 6)**
3.	**LORD MAYOR'S COMMUNICATIONS (TO FOLLOW)**	
4.	**DECLARATIONS OF INTEREST** To receive any Declarations of Interest from Members and Officers of the Council.	
5.	**PETITIONS AND DEPUTATIONS, IF ANY** (a) Councillor Murad Gassanly to present a petition from residents of Churchill Gardens Estate to call on the Council to replace the derelict Balmoral Castle Public House with sheltered accommodation and community style housing. (b) Any other Petitions or Deputations.	
6.	**QUESTIONS** **Note by the Head of Committee and Governance Services** With the consent of the Chief Whips of both the Majority Party and the Minority Party it is intended that rather than produce an order of questions by draw these will be sought by the Lord Mayor from Members indicating at the meeting that they have a question. The Leader of the Opposition will be entitled to ask up to 3 questions during the 45 minutes set aside for questions.	
7.	**COUNCILLOR ISSUES** (a) Councillor Karen Scarborough: Westminster Residents and the London Economy (b) Councillor Peter Freeman: Education in Westminster	

8. STATEMENT ON URGENT MATTERS

With the approval of the Chairman of the meeting, the Leader of the Council may make a statement on an urgent matter and the Leader of the Opposition will have an equivalent right of reply.

9. REPORT OF THE CABINET - 19 FEBRUARY 2018

(Pages 7 - 288)

To consider the report of the Cabinet.

1. 2018-2019 Budget and Council Tax **(Appendix A)**

2. Capital Strategy 2018-2019 to 2022-2023: Forecast Position for 2017-2018 and Future Years Forecasts Summarised up to 2031-2032 **(Appendix B)**

3. Treasury Management Statement for 2018-2019 to 2022-2023 **(Appendix C)**

4. Housing Investment Strategy and Housing Revenue Account Business Plan 2018-2019 **(Appendix D)**

5. Integrated Investment Framework **(Appendix E)**

6. Council's Pay Policy **(Appendix F)**

10. FUTURE POLICY PLAN

(Pages 289 - 294)

To consider items chosen for debate from the attached Future Policy Plan.

11. COMMITTEE REPORTS

To receive, consider and debate, if chosen, the following reports which contain a recommendation to the Council for decision:

Committee	**Date of Meeting**
General Purposes (Members Allowances Scheme 2018-2019) (To Follow)	28 February 2018

12. NOTICE OF MOTION

To be moved by Councillor Tim Roca and seconded by Councillor Paul Dimoldenberg

"Westminster Council notes the deep resident concerns about the current performance of CityWest Homes, particularly following the closure of estate offices, the introduction of the new call centre and the transition to the Morgan Sindall repairs contract. It registers its concern about the Cabinet Member decisions to approve the transformation strategy and other changes that have led to the deterioration in service.

Westminster Council believes that CityWest should be put on final notice that if its performance does not rapidly improve it will be removed from managing Westminster's Council properties. The council believes that urgent action is required to end the repairs crisis and improve the way CityWest treats its residents.

Westminster Council resolves to undertake an urgent review of CityWest Homes operations and structures, including its funding. Such a review should also focus on how to strengthen the power of residents as part of the management of the Council's housing stock.

The council further resolves to re-establish a network of local estate offices where residents can speak with housing management staff and therefore give staff better access to local areas. This network would look to utilise previous estate office buildings, other public buildings and new local hubs of council services.

The Council also resolves that any decision on renewing the management agreement with CityWest Homes should be approved by a ballot of tenants and leaseholders.

5 Strand
London, WC2 5HR
23 February 2018

Chief Executive

CITY OF WESTMINSTER

MINUTES OF PROCEEDINGS

At the Meeting of the Council of the City of Westminster held at 7.00 pm on Wednesday 24th January, 2018 at Westminster Council House, 97-113 Marylebone Road, London, NW1 5PT.

PRESENT

The Lord Mayor, Councillor Ian Adams

COUNCILLORS

Heather Acton
Nickie Aiken
Julia Alexander
Barbara Arzymanow
Daniel Astaire
Richard Beddoe
Rita Begum
David Boothroyd
Iain Bott
Susie Burbridge
Ruth Bush
Melvyn Caplan
Danny Chalkley
Paul Church
Brian Connell
Baroness Philippa Couttie
Antonia Cox
Robert Davis, MBE, DL
Tony Devenish
Paul Dimoldenberg
Christabel Flight
Jean Paul Floru
Murad Gassanly
Jonathan Glanz
Barbara Grahame
Lindsey Hall
Angela Harvey
David Harvey
Richard Holloway
Adam Hug
Aicha Less
Patricia McAllister
Guthrie McKie
Tim Mitchell
Adnan Mohammed
Gotz Mohindra
Jan Prendergast
Papya Qureshi
Suhail Rahuja
Robert Rigby
Rachael Robathan
Glenys Roberts
Ian Rowley
Karen Scarborough
Andrew Smith
Steve Summers
Shamim Talukder
Barrie Taylor
Aziz Toki
Judith Warner
Jason Williams

2 MINUTES

The minutes of the proceedings at the Council meetings held on Wednesday 8 November 2017 were, with the assent of the Members present, signed by the Lord Mayor as a true record of proceedings.

3 LORD MAYOR'S COMMUNICATIONS

3.1 The Lord Mayor referred to these as set out on the agenda.

3.2 The Lord Mayor advised the Council of the deaths of two former Councillors, namely Isla Robertson and Manuela Sykes. The Council stood in their memory.

3.3 The Lord Mayor informed the Council of a charity concert on Saturday 23rd February 2018 in aid of his charity.

4 DECLARATIONS OF INTEREST

4.1 Councillor Ruth Bush declared that she was Trustee of the Westminster Tree Trust and would be speaking in the Air Quality Debate.

5 PETITIONS AND DEPUTATIONS

There were no Petitions or Deputations.

6 QUESTIONS

Procedural Motion

Moved by Councillor Tim Mitchell and seconded by Councillor Guthrie McKie and

Resolved:

That Standing Order 9 be suspended to the extent only to allow that rather than Members, entitled to do so, being selected by draw to ask Questions the Lord Mayor call Members entitled to ask a question who indicate when asked by the Lord Mayor by show of hands at the meeting a wish to do so. The Lord Mayor, when calling Members, may have regard to the proportionality of the political groups on the Council. The Leader of the Opposition shall still be entitled to ask up to 3 questions during question time which shall be for a maximum of 45 minutes.

The questions, supplementary questions and replies are included on the Council's website.

7 COUNCILLOR ISSUES

(a) Technology in Westminster

Councillor Gotz Mohindra spoke and Councillor Tim Mitchell replied.

(b) Arts and Culture in Westminster

Councillor Shamim Talukder spoke and Councillor Robert Davis replied.

8 STATEMENT ON AN URGENT MATTER PURSUANT TO STANDING ORDER 4 (3)

There were no urgent matters.

9 REPORT OF THE APPOINTMENTS SUB-COMMITTEE

9.1 The Majority Party has selected the report of the Appointments Sub-Committee: Appointment of the Chief Executive.

9.2 The Leader of the Council and the Leader of the Opposition both spoke in favour of the proposed appointment.

9.3 The Lord Mayor put the recommendation to the vote and on a show of hands declared the recommendation adopted.

Resolved: That Stuart Love be appointed Chief Executive and the Head of the Paid Service with immediate effect.

10 FUTURE POLICY PLAN

10.1 The meeting debated the items chosen for debate from the Future Policy Plan by the Majority Party:

Public Health

The Majority Party had selected item number 90 on the Future Policy Plan, Public Health. The debate will be referred to the relevant Executive Director for consideration when reporting on the subject.

Air Quality

The Majority Party had selected item number 6 on the Future Policy Plan, Air Quality. The debate will be referred to the relevant Executive Director for consideration when reporting on the subject.

11 NOTICE OF MOTION

11.1 The Minority Party had selected for debate the Notice of Motion as set out on the agenda. The Notice of Motion was moved by Councillor Adam Hug and seconded by Councillor Aicha Less.

11.2 Councillor Rachael Robathan moved and it was seconded by Councillor Murad Gassanly that the Notice of Motion be amended, as follows:

Delete first paragraph and second paragraph remains:

"The Council believes that the regeneration of Church Street is a strategic priority for Westminster and an important opportunity to improve the lives of residents. It believes the regeneration must prioritise the needs of existing local residents, while also focusing on providing new opportunities for Westminster residents in housing need and for local people and families on or below average incomes as desired by a majority of respondents to the Masterplan consultation".

Then delete subsequent paragraphs and add:

"The Council commends the high level of engagement undertaken by the Consultation Team at 99 Church Street with residents, businesses and other stakeholders. It notes the need for active ongoing consultation engagement, as set out in the Mayor's draft Regeneration guidelines. The wide ranging approach and well thought out consultation process was praised by the Housing and Finance Policy and Scrutiny Committee on 6th November and the Council welcomes this.

The Council notes that the masterplan sets out the framework for development in Church Street. It is not a final decision on any demolition proposal or new building locations or heights. The Council further notes that extensive analysis and consultation will be undertaken before the detail of the scale and scope of development proposals come forward.

The Council welcomes the increase in the proposed number of new homes from 776 in the 2012 Futures Plan to more than double (1750) in the current masterplan. This includes over 50% affordable housing to be offered as social rents, supporting the Mayor's draft good practice guide for regeneration as well as the Council's City for All vision. It also welcomes the other commitments in the masterplan, such as those around green space, health and well-being and community hubs.

The Council believes that it is a fundamental objective of the masterplan to address the current and future needs of the Church Street residents, this informed the brief to the masterplan team and will continue to be a fundamental objective and consideration as the detail plans progress".

Following debate, to which Councillor Adam Hug replied, the Lord Mayor put the amendment moved by Councillor Robathan and seconded by Councillor Gassanly to the vote and on a show of hands declared the amendment **CARRIED.**

The Lord Mayor then put the substantive motion to the vote and on a show of hands declared the substantive motion **CARRIED.**

Resolved:

The Council believes that the regeneration of Church Street is a strategic priority for Westminster and an important opportunity to improve the lives of our residents. It believes the regeneration must prioritise the needs of existing local residents, while also focusing on providing new opportunities for Westminster residents in housing need and for local people and families on or below average incomes as desired by a majority of respondents to the Masterplan consultation.

The Council commends the high level of engagement undertaken by the Consultation Team at 99 Church Street with residents, businesses and other stakeholders. It notes the need for active ongoing consultation engagement, as set out in the Mayor's draft Regeneration guidelines. The wide ranging approach and well thought out consultation process was praised by the Housing and Finance Policy and Scrutiny Committee on 6th November and the Council welcomes this.

The Council notes that the masterplan sets out the framework for development in Church Street, it is not a final decision on any demolition proposal or new building locations or heights. The Council further notes that extensive analysis and consultation will be undertaken before the detail of the scale and scope of development proposals come forward.

The Council welcomes the increase in the proposed number of new homes from 776 in the 2012 Futures Plan to more than double (1750) in the current masterplan. This includes over 50% affordable housing to be offered at social rents, supporting the Mayor's draft good practice guide for regeneration as well as the Council's City for All vision. It also welcomes the other commitments in the masterplan, such as those around green space, health and well-being and community hubs.

The Council believes that it is a fundamental objective of the masterplan to address the current and future needs of the Church Street residents, this informed the brief to the masterplan team and will continue to be a fundamental objective and consideration as the detail plans progress.

12 REPORT OF THE CABINET: 4 DECEMBER 2017

The Lord Mayor, at the conclusion of the time for debates, then put the recommendations in paragraph 1 of the Cabinet Report to the vote and on a show of hands declared the recommendations **ADOPTED.**

Resolved:

1. That the Council approve for the financial year 2018-2019.

   (i) That the Council Tax discount for second homes remains at 0%.

   (ii) That the Council Tax discounts for empty properties, including the discounts that replaced the previous Class A and C Council Tax exemptions remains at 0%.

   (iii) That a long term Empty Property Premium is introduced at the maximum percentage allowed for by the relevant legislation.

   (iv) That the Head of Revenues and Benefits determines any individual local discount applications from vulnerable Council Taxpayers received during the course of the 2018-2019 financial year which will include a 100% Council Tax discount for Care Leavers for a period of 3 years.

2. That the Council approve the same Council Tax Reduction Scheme for 2018-2019 as operated successfully since 2013-2014 which is based on the Default Scheme Regulations and that War Disabled Pensions, War Widow, Pensions and Armed Forces Compensation Scheme payments are disregarded in full when calculating a claimant's income.

3. That the Council resolve that the Council Tax Base for 2018-2019 for the whole city is 128,833.30 equivalent Band D properties for Montpelier Square alone 95.68 equivalent Band D properties and for Queen's Park 3,406.61 equivalent Band D properties.

13 REPORT OF THE GENERAL PURPOSES COMMITTEE: 10 JANUARY 2018

The Lord Mayor then put the recommendation in paragraph 1 of the General Purposes Committee to the vote and on a show of hands declared the recommendation **ADOPTED.**

Resolved:

That the Extraordinary Council meeting on 7 March 2017 be not held but that instead an Ordinary Council meeting be held at 7pm on Wednesday 7 March 2018 with provision on the agenda for all the business usually considered at an Ordinary Council meeting together with provision for a report from the Cabinet containing a recommendation to adopt a formal Council Tax resolution for 2018-2019.

The meeting ended at 10.01pm

CHAIRMAN: ________________________ **DATE:** _____________________

Report of the Cabinet meeting held on Monday 19 February 2018

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

1. 2018-2019 Budget and Council Tax

(a) Following consideration of our recommendations the Council on 8 November 2017 the Council agreed the financial strategy including the draft estimated cash limited budgets for each service. The Council also agreed to earmark £2.982m of projected underspend for "My Westminster" initiatives and projects.

(b) We have now considered a further report setting out final budget proposals for 2018-2019. The Budget and Council Tax report from the City Treasurer is attached as **Appendix A**. The budget will continue to fund the Council's City for All strategy which 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.

(c) The Council (8.11.17) endorsed the My Westminster Programme aimed at strengthening community identity by supporting projects which matter to residents. The programme consists of three strands: the My Westminster fund; The MyWestminster Projects and MyWestminster Club. All budget proposals have been carefully tested against the City for All priorities and to make sure they align to the MyWestminster Programme. In order to support the delivery of these priorities and the underpinning delivery the Council will continue to embed the PACE staff values. Our location presents some unique opportunities and challenges to service delivery. The challenging financial climate resulting from year-on-year funding reductions, increasing demands for services and wider uncertainty has continued to adversely impact the Council. Based on the settlement information from central Government and the Council's own modelling further savings are required in 2018-2019 and beyond, as detailed in the report **(Appendix A)** and reflected in the balanced budget being recommended.

(d) Since the 2018-2019 position was reported to Council (8.11.17) some changes have arisen. These developments have been closely monitored and along with the budget proposals have identified final gross savings required of £38.327m for 2018-2019. These have been drawn from measures which avoid service reductions but include additional income efficiencies and transformation means. We are able to recommend a balanced budget for 2018-2019 and confirm that the Council continues to be well placed to meet its future financial challenges. As detailed in the report of the City Treasurer the Council has examined every area of operation to identify opportunities to reduce costs and generate additional income.

(e) The Council is also investing through its capital programme (see paragraph 2 below) to ensure its property portfolio remains fit for purpose to deliver first class services and generate commercial income. The current budget climate will continue for the foreseeable future but the Council has a strong track record of continued leadership and management action to be able to deliver a balanced budget for 2018-2019 and beyond. An example of this leadership is our decision to recommend the introduction of the Westminster Community Contribution aimed at allowing the most expensive properties in the City to make a voluntary contribution towards supporting discretionary services that support the three priorities of youth services, helping rough sleepers off the streets at night and helping people who are lonely and isolated. We have asked the City of Westminster Charitable Trust to seek these contributions and allocate these to projects supporting the three priority areas. A report on the related governance will be considered by the Leader shortly.

(f) In considering the budget which we are recommending we have had regard to the views of the consultees and consultation approach, the views of the Budget Task Group and the Equality Impact Assessments. These are available online or available from the Member Services Manager.

(g) The formal Council Tax Resolution which is recommended for adoption is attached as Annex 1. The full detailed report and our recommendations to the full Council is attached as **Appendix A** and includes the updated budget we are commending to the Council.

Recommendations

1. That the Council be recommended to note that the local element of Council Tax for 2018-2019 will not increase.

2. That the Council be recommended to approve the following:

   (i) The 2018-2019 budget, as set out in the report, and recommended to the Council the Tax levels as set out in the Council Tax resolution at Annex C;

   (ii) That local element of Council Tax is increased by 2% in respect of the Adult Social Care Precept as permitted by Government and anticipated in their Core Spending Power assumptions;

   (iii) That as a consequence of no change in Council Tax and the 2% increase in the Adult Social Care precept the local element for Band D properties be confirmed for 2018-2019 as £416.27;

   (iv) That subject to their consideration of the previous recommendation, the Council Tax for the City of Westminster, excluding the Montpelier Square area and Queen's Park Community Council, for the year ending 31 March 2018, be as specified in the Council Tax Resolution in Annex C to the report **(Appendix A)** and Annex 1 to this report. That the Precepts and Special Expenses be as also specified in the Council Tax resolution for properties in the Montpelier Square and Queen's Park Community Council;

(v) That the Council Tax be levied accordingly and that officers be authorised to alter the Council Tax Resolution as necessary following the final announcement of the Greater London Authority precept;

(vi) That the Council approves the budget proposals presented to Council on 8th November 2017 which were approved in principle pending the completion of relevant external consultations as outlined in Section 18 of the report attached as **Appendix A.**

(vii) That the views of the Budget and Performance Task Group set out in Annex A of the report **(Appendix A)** be noted as considered by the Council

(viii) That the draft estimated cash limited budgets for each service with overall net expenditure for 2018-2019 of £186.163m (as set out in Schedule 3 of **Appendix A**) be noted;

(ix) That the City Treasurer be required to submit regular reports as necessary on the implementation of the savings proposals and on the realisation of pressures and mitigations as part of the regular budget monitoring reports;

(x) That the City Treasurer be delegated responsibility for any technical adjustments required to be made to the budget;

(xi) That the cost of inflation, pressures and contingency be issued to service budget if and when the need materialises, to the limits as contained within schedule 4 of the report, **Appendix A**);

(xii) The Council continues, as previously agreed, to make two further one off contributions into the Pension Fund of £10m per annum as well as a recurrent additional £4m contribution as part of the ongoing annual contributions as set out in paragraph 13.6 of the report **(Appendix A**);

(xiii) That the views of consultees and consultation approach, as set out in section 18 of **Appendix A** be noted as considered by Council;

(xiv) That the proposed use of new capital receipts be used under the freedoms of the Flexible Capital Receipts regulations be used to fund revenue expenditure on City Hall, Digital Programme and Pension Deficit Recovery programmes which lead to future ongoing savings (and subject to review at year-end to determine the actual costs, savings and financing by the City Treasurer) be approved;

(xv) That the proposed use of new capital receipts be used under the freedoms of the Flexible Capital Receipts regulations to finance future revenue expenditure on other relevant and applicable programmes which arise in the future during the duration of the regulations and which lead to ongoing savings (and subject to review at year-end to determine the actual costs, savings and financing by the City Treasurer).

(xvi) That the City Treasurer be delegated responsibility to transfer any potential surplus Business Rates revenue into a reserve to mitigate the potential impact of business rates volatility and to support future years' revenue budgets;

(xvii) That the Council carries forward any unspent contribution from Discretionary Housing Benefits (DHP) into 2018-2019 to support payments while options to absorb the expected reduction in DHP payments from government are considered;

(xviii) Following the consultation with Band H properties, the Council introduces the Westminster Community Contribution to allow the most expensive properties in the city to voluntary contribute towards supporting discretionary services that support the three priorities of youth services, helping rough sleepers off the streets at night and helping people who are lonely and isolated;

(xix) That the Equality Impact Assessments included in Annex B of the report **(Appendix A)** be received and noted as considered as part of the approval of the budget proposals.

2. Capital Strategy 2018-2019 to 2022-2023 Forecast Position for 2018-2019 and Future Years Forecast Summarised up to 2031-2032

(a) The report from the City Treasurer, we considered, which is attached as **Appendix B** outlined the City Council's Capital Strategy and proposed expenditure and income budgets from 2018-2019 to 2022-2023 and future years up to 2031-2032. In order to facilitate effective planning of both capital and the revenue implications the Cabinet in October and the Council in November endorsed the strategy. This report **(Appendix B)** updates that strategy with the latest forecasts and projections in the light of recent monitoring.

(b) The report sets outs 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. This will continue to evolve over the year to date particularly with the development of the programme management functions and initiatives set out in the report.

(c) The Council has a significant capital programme across both the General Fund and the Housing Revenue Account which supports the strategic aims of the Council as defined in the City for All programme. The General Fund programme covers three areas of expenditure: Development, Investment and Operational, as explained in section 7 of the report.

(b) The Housing Revenue Account (HRA) has a capital programme of £790m over the next five years. It should be noted that HRA resources can only be applied for that purpose. Details of the HRA programme are also fully set out in the report attached as **Appendix B**.

(c) The changes from the currently approved General Fund programme can be summarised, as follows:

(i) A reduction in gross expenditure of £2.508m as a result of the reduction in forecast for contingency budget as the need decreases throughout the financial year. However, it should be noted that this will be dependent upon any other calls on the contingency. Also underspends on existing projects which have been released from the programme. These are partially offset by additional purchases of temporary accommodation properties in addition to the budget and further investment on projects already within the programme. Also by the prudent forecasting into future years of the ICT scheme which is deemed to be recurring on the basis that ICT hardware and software will need to be refreshed as assets come to the end of their life cycle or new technology may need to be adopted to replace obsolete systems in the future which may form part of a wider transformation agenda for the Council.

(ii) A decrease in gross income of £18.367m due to a re-categorisation of £8.080m of external funding to capital receipts and other minor variances.

(iii) An increase in capital receipts of £12.305m due to some unbudgeted disposals and the funding for Sir Simon Milton University Technical College (£8.080m) being re-categorised as a capital receipt.

(iv) A re-profiling of projects already included in the programme across the financial years and other minor variances.

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.

(f) 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 13 **(Appendix B).** 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.

We recommend:

That the Council:

(i) Approve the capital strategy as set out in the report attached as **Appendix B**;

(ii) Approve the capital expenditure for the General Fund as set out in **Appendix A** of the report which is attached as **Appendix B** for 2018-2019 to 2021-2022 and future years to 2031-2032;

(iii) Approve the capital expenditure forecasts for the General Fund as set out in **Appendix A** of the report which is attached as **Appendix B** for 2018-2019;

(iv) Approve the expenditure forecast for 2018-2019 for the HRA as set out in **Appendix B** which is attached as **Appendix B** to this report;

(v) Note the capital expenditure for the HRA for 2018-2019 to 2022-2023 as in accordance with the 30 year HRA Business Plan and as included in **Appendix B** which is attached as **Appendix B** to this report;

(vi) Note the financial implications of the HRA capital programme including the references to the debt cap and the level of reserves as detailed in Sections 10.19 and 10.20 of the report which is attached as **Appendix B;**

(vii) 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;

(viii) Approve that all development and investment projects follow the previously approved business case governance process as set out in section 6.9 to 6.18 of the report attached as **Appendix B**;

(ix) Approve that no financing sources unless stipulated in regulations or necessary agreements are ring fenced;

(x) Approve that contingency in respect of major projects are held corporately with bids for access to those contingencies to be reported to the Capital Review Group in the event they are required to fund capital project costs, as detailed in Section 11.5 to 11.19 of the report attached as **Appendix B**. These total £594.505m from 2017-2018 to 2031-2032 but include a sum of £400m which is an allowance for general capital expenditure (eg highways improvements) in future years beyond 2021/2022;

(xi) Note as approved last year, the Council plans to use capital receipts to fund the revenue costs of three eligible proposals – the refurbishment of Westminster City Hall (£18m), the Digital Transformation Programme (£3m) and a contribution to the pension fund deficit (£30m) under the MHCLG Guidance on the Flexible Use of Capital Receipts if considered beneficial to the Council's finances by the City Treasurer at year end;

(xii) Approve the financing of the Capital Programme and revenue implications as set out in paragraph 13.22 of the report attached as **Appendix B**;

(xiii) Approve the financing of the Capital Programme been delegated to the City Treasurer at the year end and to provide sufficient flexibility to allow for the most effective use of Council resources.

3. Treasury Management Strategy Statement for 2018-2019 to 2022-2023

(a) 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 the report we considered which is attached as **Appendix C**.

(d) 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 the DCLG and must be agreed by the full Council.

(e) This report we considered which is attached as **Appendix C** sets out the Council's proposed Treasury Management Strategy Statement for the period 2018/19 to 2022/23, and Annual Investment Strategy (AIS) for the year ended 31 March 2019, together with supporting information.

We recommend:

That the Council approve:

(i) The Treasury Management Strategy Statement set out in sections 5 to 7 of the report **(Appendix C);**

(ii) The Prudential Indicators set out in section 8 of **Appendix C**;

(iii) The overall borrowing strategy and borrowing limits for 2018-2019 to 2022-2023 as detailed in Section 6 of the report **Appendix C**;

(iv) Investment strategy and approved investments set out in Appendix 1 of **Appendix C**;

(v) The Minimum Revenue Provision Policy set out in Appendix 2 of **Appendix C**.

4. Housing Investment Strategy and Housing Revenue Account Business Plan 2018-2019

(a) We reported to the Council (8.11.17) on the 30 year Housing Investment Strategy and the 30 year Housing Revenue Account Business Plan. We now submit these which have been updated, for approval. 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 land assets to bring forward investment in some of our poorer neighbourhoods.

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 £1.88bn. This increase of c. £240m is significantly driven by increases in Church Street (Phase 2) at £98m, Infill schemes increasing by £134m, Section 106 acquisitions of £25m and refinements on other schemes. This is offset by a £115m reduction in capital expenditure 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 of the report attached as **Appendix D** clarifies that a further £73m is explained as being driven by savings made through reprocurements.

The financing of this increase in expenditure has been achieved substantially through an increased use of the Affordable Housing Fund (up £226m), including future expected contributions to the fund and not solely the existing fund held.

Key elements of the HRA investment programmes included are:

- Continued investment in existing housing stock (£918.6m);
- Investment in the housing estate regeneration programme and other new supply schemes (£959.6m)
- Affordable Housing Fund (AHF) expenditure on new HRA supply over the 5 year period 2018/19 to 2022/23 (£179.8m)

(b) 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 2017/18 and 2022/23 it is anticipated that 2,034 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 2,034 units, the HRA is anticipated to deliver 904 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 289 affordable homes will be delivered on General Fund sites, of which 212 homes are partially funded by the AHF. The remaining 841 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. The scale of the Council’s regeneration plans has increased both within and outside of the HRA. The investment in the regeneration programme has increased in funding from £440m to £604m in this year’s 30 year plan. The notable increase is for Church Street Phase 2 which has been revised in light of the masterplan recently approved by Cabinet. 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.

(c) 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 £29.3m has been factored into the business plan.

(d) Neighbourhood planning work has enabled the Council to identify more opportunities to build affordable housing on our own land. The final number and tenure of these houses will depend upon the level of funding received from government. If the Council were to receive full funding from government these could be offered at social rents. There is a determination to build additional homes and further financial modelling is being carried out in relation to these opportunities. These can be incorporated into a future update to the business plan once the funding available has been clarified and confirmed.

We recommend:

That the Council:

(i) Approve the indicative HRA capital programme budgets for 2018-2019 to 2022-2023 attached to the report we considered;

(ii) Approve the proposed allocations from the Council’s Affordable Housing Fund to new supply programmes of £328m attached to the report we considered;

5. Integrated Investment Framework

(a) The Council gave approval (8.11.17) to the implementation of a comprehensive strategic integrated investment framework which brought together all of its investments. The Council holds £1.4bn of short term cash based investments (as at 12 January 2018), managed under the Treasury Management Strategy, which passes through Scrutiny, Cabinet and Full Council on an annual basis (see paragraph 3 of this report above). 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 Statement set by the Pension Fund Committee.

(b) In summary, the Council holds £1.4bn of treasury 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 liquid property investments, generating around 4.2%. Compared with the current inflation rate as measured by CPI of 3.0% (as at January 2018), treasury investments are depreciating in value. The £1.4bn treasury portfolio is 68% 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.

The report we considered (attached as **Appendix E**) sets out:

(i) the Council’s strategic objectives in respect of risk management, and its attitude towards investment risk;

(ii) current levels of investment activity;

(iii) proposals for an Integrated Investment Framework for the Council going forward which seeks to diversify the risk and thus future-proof the Council against possible future economic downturns;

(iv) actions to be taken in connection with implementing this Framework, if agreed.

We recommend:

That the Council:

(i) Approve and implement the Integrated Investment Framework set out in the report we considered **(Appendix E);**

(ii) Approve that the target for the overall return on Council investments should aspire to match inflation;

(iii) Approve that the benefits of investing in the Pension Fund should be used as a benchmark when evaluating other investments;

(iv) Adopt the asset allocation percentages set out in the Framework and work towards achieving these;

(v) Agree 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;

(vi) 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 eg place making) and in a diversified property fund. Individual decisions should be subject to Cabinet Member approval;

(vii) 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;

(viii) Approve the establishment of an Investment Executive, comprising the membership set out in paragraph 55 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.

6. Council's Pay Policy

(a) The Council is required to publish its Pay Policy by 31st March every year. It must be approved formally by full Council before publication. The Council is already transparent in its approach to senior pay and publishes detailed information about senior officer pay to meet its duties under the Local Government Transparency Code.

(b) The Council's Pay Policy meets the statutory requirements of the Localism Act 2011. It brings together all the Council's existing policies on pay, which have been subject to consultation. The Pay Policy must detail Chief Officer's remuneration, increases and additions to pay, bonuses, termination payments and remuneration on recruitment. It must also include information about the relationship between the remuneration of its highest paid officer (The Chief Executive) and the median total salary of all employees (the "pay multiple").

(c) The Pay Policy is attached to the report we considered which is **Appendix F** to this report and is recommended for approval.

We recommend:

That the Council’s Pay Policy for 2018-2019 be approved for publication.

Nickie Aiken, Leader of the Council

Background Papers

Reports and Minutes of Cabinet meeting: 19 February 2018

City of Westminster **Cabinet Report**

Decision Maker:	**Cabinet**
Date:	**19th February 2018**
Classification:	**General Release**
Title:	**2018/19 Budget and Council Tax Report**
Wards Affected:	**All**
Policy Context:	**To manage the Council's finances prudently and efficiently**
Finance Summary:	**This reports sets out the Council's 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 On 8 November 2017, Council endorsed the MyWestminster Programme to invest in community and voluntary groups across Westminster in order to strengthen community identity by supporting projects which matter to residents. The programme consists of three strands:

1. **The MyWestminster Fund** will provide grants of up to £10,000 to voluntary organisations, resident, faith and community groups for projects that will support Westminster.

2. **The MyWestminster Projects** will tackle issues relevant to communities in Westminster. These include the Housing Standards Task Force to tackle unlawful letting, the advice service for the 30,000 EU nationals living in Westminster, and the Integrated Streets Unit to tackle anti-social behaviour issues, such as drug abuse.

3. **The MyWestminster Club** will provide work experience in high profile city institutions, including the Ritz Hotel, and access to great activities, run by our cultural partners such as Somerset House for young people growing up in the city.

1.3 All budget proposals presented have been carefully tested against the City for All priorities and to make sure they align to the MyWestminster Programme.

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

- **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.

1.5 The location of the City of Westminster in the heart of England's capital city presents some unique opportunities and challenges to service delivery. Below are a selection of achievements and survey results relating to the past year.

Overall Council Services and Performance

- overall satisfaction with the Council remains high with 86% of residents being satisfied with the way the Council runs the City;
- the majority of residents speak positively of the Council (59%);
- seven in ten residents (71%) think the Council provides good value for money;

- a fifth of residents (22%) responded to say that services have improved over the last twelve months.

The Area

- satisfaction with Westminster as a place to live remains very high, with over nine in ten (93%) stating that they are satisfied with the area;

- residents generally continue to feel safe in Westminster;

- views of social cohesion have also improved with nearly nine in ten residents (87%) now feeling that people from different backgrounds get on well in their area.

Residents

- three quarters of residents, (75%) spend a great deal or fair amount of time in their local community;

- residents feel more optimistic about their financial situation than in 2016.

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 the settlement information from Central Government and the Council's internal modelling, further savings have been required in 2018/19 and will be required beyond this period.

1.7 In addition to the above, in 2020/21, funding for Local Government will transform as part of the next stage of Business Rates Retention as well as reflect the outcomes of the Government's Fair Funding review. It is anticipated that this review will update the formulae which in turn calculates the level of relative needs, assesses deprivation levels and takes into account population and other demographics for each local authority.

1.8 For 2018/19, the Council has continued to build on the time invested in the 2017/18 Medium Term Planning process and was in a position to put forward budget proposals for 2018/19 for consideration by Cabinet and Full Council in October and November 2017. This has provided a greater period of time for reviewing and planning of budget proposals which has allowed more time to be spent ensuring a smooth implementation and supporting the achievement of these budget changes.

1.9 Since the position on 2018/19 presented to Full Council in November 2017, some changes have arisen which include:

- final allocations for 2018/19 by Central Government to some of the Council's grants as announced in early February 2018 in the final 2018/19 settlement;

- additional pressures to budgets which could not have been reasonably foreseen earlier e.g. a potential increased pay award for 2018/19;

- other changes which are not finalised until the third quarter of the year e.g. the number of Band D equivalent dwellings in the 2018/19 Council Tax base;

- changes as a result of consideration of consultations or equality impact assessments.

1.10 These developments have been closely monitored and along with the development of the budget proposals which has again been a challenging process have identified final gross savings of £38.327m for 2018/19. As in previous years, the proposed savings are from measures which avoid service reductions e.g. additional income generation, efficiencies and other transformation means.

1.11 The Council's budget proposals will provide a 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.

1.12 As at period 8, service area revenue budgets are projected to underspend by £6.302m by year-end. All variances are subject to continued active management throughout the financial year and it is anticipated that a favourable variance will be delivered by year end in line with the Council's recent 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 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 General Fund budget of £2.594bn and is funded through the use of external funding, capital receipts and borrowing. The capital programme for the Housing Revenue Account (HRA) is updated annually as part of the HRA's 30 year Business Plan which is presented to Cabinet alongside this report.

1.14 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.

1.15 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 the Council has a strong track record of continued leadership and management action to be able to deliver a balanced budget for 2018/19 and beyond.

2 Recommendations

2.1 The Cabinet be recommended to note that the local element of Council Tax for 2018/19 will not increase.

2.2 That Cabinet be recommended to approve the following:

- the 2018/19 budget, as set out in this report, and recommend to the Council the Tax levels as set out in the Council Tax resolution at Annex C;
- that local element of Council Tax is increased by 2% in respect of the Adult Social Care Precept as permitted by Government and anticipated in their Core Spending Power assumptions;
- that as a consequence of no change in Council Tax and the 2% increase in the Adult Social Care precept the local element for Band D properties be confirmed for 2018/19 as £416.27;
- that subject to their consideration of the previous recommendation, the Council Tax for the City of Westminster, excluding the Montpelier Square area and Queen's Park Community Council, for the year ending 31 March 2018, be as specified in the Council Tax Resolution in Annex C (as may be amended). That the Precepts and Special Expenses be as also specified in Annex C for properties in the Montpelier Square and Queen's Park Community Council;
- that the Council Tax be levied accordingly and that officers be authorised to alter the Council Tax Resolution as necessary following the final announcement of the Greater London Authority precept;
- that the Council approves the budget proposals presented to Council on 8th November 2017 which were approved in principle pending the completion of relevant external consultations as outlined in Section 18;

- 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 £186.163m (as set out in Schedule 3) be noted;

- that the City Treasurer be required to submit regular reports as necessary on the implementation of the savings proposals and on the realisation of pressures and mitigations as part of the regular budget monitoring reports;

- that the City Treasurer be delegated responsibility for any technical adjustments required to be made to the budget;

- that the cost of inflation, pressures and contingency be issued to service budgets if and when the need materialises, to the limits as contained within schedule 4c;

- the Council continues as previously agreed to make two further one off contributions into the Pension Fund of £10m per annum as well as a recurrent additional £4m contribution as part of the on-going annual contributions as set out in paragraph 13.6;

- that the views of consultees and consultation approach, as set out in section 18, be considered by Council;

- that the proposed use of new capital receipts be used under the freedoms of the Flexible Capital Receipts regulations be used to fund revenue expenditure on City Hall, Digital Programme and Pension Deficit Recovery programmes which lead to future ongoing savings (and subject to review at year end to determine the actual costs, savings and financing by the City Treasurer) be recommended to Council for approval;

- that the proposed use of new capital receipts be used under the freedoms of the Flexible Capital Receipts regulations to finance future revenue expenditure on other relevant and applicable programmes which arise in the future during the duration of the regulations and which lead to ongoing savings (and subject to review at year end to determine the actual costs, savings and financing by the City Treasurer);

- that the City Treasurer be delegated responsibility to transfer any potential surplus Business Rates revenue into a reserve to mitigate the potential impact of business rates volatility and to support future years' revenue budgets;

- that the Council carries forward any unspent contribution from Discretionary Housing Benefits (DHP) into 2018/19 to support payments while options to absorb the expected reduction in DHP payments from government are considered;

- following the consultation with Band H properties, the council introduces the Westminster Community Contribution to allow the most expensive properties in the city to voluntarily contribute towards supporting discretionary services that support the three priorities of youth services, helping rough sleepers off the streets at night and helping people who are lonely and isolated;

- that the Equality Impact Assessments included in Annex B be received and noted to inform the consideration of the budget after approval; and

- that the Cabinet recommend that this report be submitted to the meeting of the Council on 7th March 2018.

3 Reasons for Decision

3.1 The preparation of the budget is the final stage of the annual business planning cycle leading to the approval of the Council Tax for the forthcoming financial year. There is a statutory requirement to set a balanced budget and submit budget returns to the Ministry of Housing, Communities and Local Government (MHCLG). Approval of the revenue estimates constitutes authority for the incurring of expenditure in accordance with approved policies.

3.2 It should be noted that the Council presented a set of budget proposals to Cabinet in October 2017 and Council in November 2017, this offered an early opportunity to note and approve budget changes for 2018/19. These proposals were assessed at the time as to whether they required consultations and equality impact assessments. Completed EIAs were made available to all members.

4. Financial Context

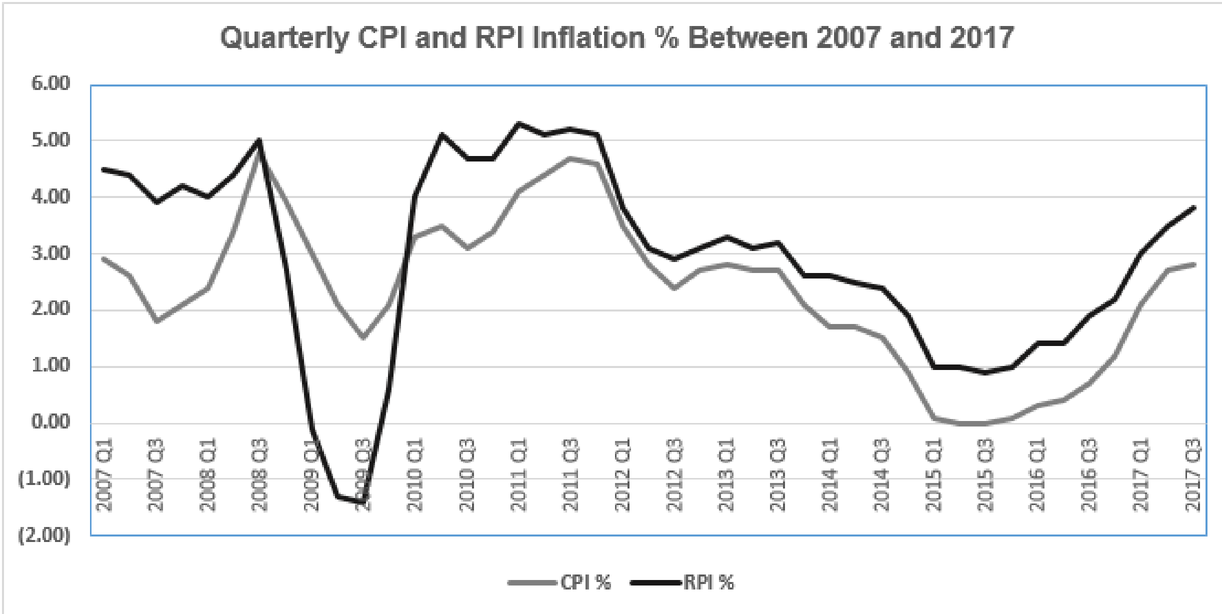
4.1 The Council faces an ever challenging and complex financial environment as exemplified by the issues which are summarised below.

Central Government: Funding Landscape and Westminster

4.2 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:

- ongoing 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.

4.3 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 inflation as recorded by the Office of National Statistics for the period between 2007 to Quarter 3 of 2017:



Source: Office for National Statistics

4.4 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.

4.5 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. The Government has now outlined plans for a 75% Business Rates Retention system nationwide along with a review of formulae funding (Fair Funding Review) to be implemented by 2020/21. Whilst the Fair Funding review provides an opportunity for improvements to how funding and need will be assessed, it also contains risks and uncertainties due to the complexity of the size and scope of the task. The Council will monitor and contribute at every opportunity into this review.

4.6 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 of this include:

- the introduction of the Business Rates Retention scheme and the safety net mechanism which means that should an authority's collection of Business Rates fall short of the calculated Baseline funding, the first 7.5% of this loss must be met by the authority itself. The projected national flat real growth in Business Rates poses a real risk to the adequacy of long term Local Government funding;

- the original funding of the New Homes Bonus grant through "top-slicing" the funding of Revenue Support Grant and the recent reductions to funding of New Homes Bonus by tapering allocations i.e. cutting off allocations awarded for earlier years;

- abolishing the Council Tax Benefit Subsidy and replacing this with locally designed Council Tax Discount Schemes. The initial financing for these schemes came from the funding for Council Tax Benefit Subsidy but was reduced by 10% nationally;

- substituting specific streams of funding from Central Government for national pressures such as Adult Social Care, Policing or the effects of higher than expected inflation with provisions to increase Council Tax. In effect, this results in greater burdens on residents.

Overview of Financial Context, Challenges and 2018/19 Local Government Finance Settlement

4.7 The Council accepted the Government's offer of a four-year funding allocation in 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 MHCLG that by accepting this four-year deal it will not be worse off than if it had not taken up the offer.

2018/19 Final Local Government Finance Settlement

4.8 The Secretary of State for Housing, Communities and Local Government released on 6th February 2018, the Final Local Government Finance Settlement for 2018/19 to 2019/20.

4.9 The 2018/19 settlement is the third of the four-year funding settlement confirmed in 2016/17. Whilst the multi-year settlement offer was welcomed by the Council, the certainty of this now erodes as the end of the offer period approaches and from 2020/21 a new funding regime commences.

4.10 Whilst the 2018/19 final settlement was largely in line with the provisional settlement from December 2017 as well as other indicative information, there was an unexpected announcement regarding Adult Social Care funding for 2018/19.

4.11 The keys points to note from the final 2018/19 settlement are:

- an additional grant, the Adult Social Care Support Grant which is over and above previous announcements on 2018/19 for £0.8m. At the time of writing this report, it is not clear if this a one-off grant, similar to that of the Adult Social Care Support grant from 2017/18;

- a further reduction of Revenue Support Grant of £8.1m which is rolled into Baseline funding for technical reasons for London Pooling. The reduction was as previously anticipated;

- the difference from the change in indexation from September 2017 RPI (3.9%) to CPI (3.0%) for Business Rates in terms of baseline funding for the Council will be met by a section 31 grant;

- a change in the referendum limit for the increase in Core Council Tax from 1.99% to 2.99% so it now possible for authorities to increase Council Tax by 2.99% without the need to hold a referendum. This is separate to the increase in Council Tax for the Adult Social Care Precept;

- the previous proposals to penalise authorities by reducing New Homes Bonus for the proportion of planning decisions subsequently made on appeal will not proceed for now. Based on the total 2018/19 allocation of New Homes Bonus grant, the Council is £1.1m better off than anticipated. This is as a result of the confirmation of the new year's allocation of the grant which is based on the number of Dwellings as per Council Tax Base form returns;

- confirmation that authorities would be able to increase planning fees by 20% on the condition that this is reinvested into planning services. The Council's Planning service analysed potential impact of this earlier in the year and concluded at that time that the additional income was estimated to be approximately £430k for the Council;

- reductions in other grants which includes:

1. a £130k reduction in Housing Benefit Administration grant;
2. a £300k reduction in Flexible Homeless Support;
3. a £40k reduction in Homelessness Reduction;

4. a £145k further grant reductions based on prior year outcomes e.g. Council Tax Administration Grant.

In addition to the above, there are further confirmed losses to:

5. the Public Health grant of £825k, however this is a ring-fenced grant to the Public Health service and so does not impact the General Fund;
6. a national reduction of £19m in funding for Unaccompanied Asylum Seeking Children (UASC). The actual reduction by individual authority is yet to be announced.

- confirmation that the Flexible Use of Capital Receipts on eligible revenue expenditure on projects will be extended for another three years. As before this provision applies to projects which will delivery ongoing revenue savings that has been incurred between 1st April 2016 to 1st April 2021;

4.12 The settlement also outlined proposals to implement by 2020/21:

- the next phase of Business Rates Retention with a 75% retention for Local Authorities (separate from the London Business Rates pooling pilot where London authorities can retain 100% of growth). This new system would see the roll in of Revenue Support Grant and the Public Health grant into the new baseline funding. It is unclear whether what if any new responsibilities will transfer across to Local Government;

- to coincide with the above, the Government has launched a Fair Funding review to consult on updating funding baselines for local authorities. These baselines will be updated for more up to date and accurate relative needs assessments and demographic data which have not been updated since 2013/14.

2018/19 Budget Gap

4.13 As a result of the challenges and financial climate above, for 2018/19 the Council will have to meet a total gross savings requirement of £38.327m. This encompasses savings required to meet reduced government grants and cross cutting pressures of £31.432m 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 4b to this report.

4.14 In addition to the points discussed above, some of the most significant strategic financial challenges that the Council will face in 2018/19 are set out below:

- on-going austerity and reductions to funding e.g. in 2018/19, the Council's Revenue Support grant will reduce by £8.1m (and for technical reasons is rolled into Baseline funding as per London Pooling). Further reductions to other grants have been confirmed in the Settlement;

- 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. MHCLG'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 MHCLG-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, as success and reduction rates in appeals against the 2010 List have begun to decline. 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 MHCLG) 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 2020/21;

- Brexit - the potential effects of Brexit are currently un-quantified but are explored from Section 4.64 to 4.69 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 8;

- 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.

Autumn Budget

4.15 On 22nd November 2017, the Chancellor of the Exchequer delivered his first Autumn Budget which is the first of the new fiscal cycle. This Budget announcement contained an update on economic forecasts and updates on policies, some of which relate to Local Government as a whole.

4.16 The key points in this Autumn Budget included:

4.17 Brexit - The Chancellor outlined a programme of implementation to provide clarity to businesses on the ongoing Brexit negotiations over the coming months. To date, £700m has been invested on Brexit and a further £3bn has been set aside over the next 2 years on the preparations for withdrawing from the European Union.

4.18 Economic Forecasts - The Office for Budget Responsibility (OBR) provided the following revised forecasts:

- a continued rise in employment levels since 2010 with unemployment rates at their lowest since 1975. However, growth remains a challenge. It is reported that although GDP growth was 0.3% in quarters 1 and 2 of 2017 and 0.4% at the end of quarter 3, it is slower than in 2016. The revised forecasts up to 2022 are lower than previous expectations;

- three out of four fiscal targets are expected to be achieved i.e. bringing the structural deficit below 2% in 2020/21 (‘fiscal target’), ensuring debt falls as a percentage of GDP by 2020/21 (‘supplementary target’) and keeping welfare spend below its cash limit (‘welfare cap’). The OBR expects though that the Government will not be able to balance the budget by the middle of the next decade (‘fiscal objective’);

- despite the continued actual increase in inflation, the target remains at 2.0%, with the revised forecasts as follows:

Year	CPI %
2017	2.70%
2018	2.40%
2019	1.90%
2020	2.00%
2021	2.00%
2022	2.00%

4.19 Universal Credit - The following details in relation to Universal Credit were announced:

- from January 2018, those in need of it (and eligible for welfare under Universal Credit) will be able to access a month's worth of support within five days of making a claim i.e. an interest free advance. The recovery period for this advance will also be extended from six to twelve months;

- from February 2018, the seven-day waiting period will be removed so entitlement to Universal Credit will begin from the first day of application;

- from April 2018 those already on Housing Benefit will continue to receive their award for the first two weeks of their Universal Credit claim;

- it will also be easier for claimants to have the housing element of their award paid directly to their landlord;

- it is currently scheduled that new claims for Westminster claimants will have transferred to Universal Credit by December 2018, with existing Housing Benefit claims transitioning to Universal Credit between 2019 and 2022. There are a number of types of claim that will remain on Housing Benefit and will not transition to Universal Credit, including pensioner claims and claims for temporary accommodation.

4.20 Council Tax - The intention was to enable authorities to increase the allowable premium on long term empty properties from 50% to 100%. However, this was on the provision that current legislation could be updated in time for 1st April 2018. At the time of writing this report, there are no further updates to this so this increase is unlikely to take effect in 2018/19.

4.21 Business Rates – several updates on Business Rates were made in the Budget:

- London Specific Announcements - The pilot for 100% Business Rates retention (separate from the announcement of the 75% retention proposal noted in Paragraph 4.5) was expected to continue as previously announced from April 2018 between the Greater London Authority and London Boroughs. In recognition of the ongoing need to develop infrastructure, the Government will continue to work with Transport for London to develop a fair and affordable plan for Crossrail 2.

- annual multiplier: It had previously been announced that the annual uplift in the business rates multiplier would move from the current RPI index to the (usually lower) CPI index in 2020/21. The Chancellor has announced that this change, will be brought forward to commence in 2018/19. With October 2017 RPI being 3.9% compared to the 3.0% for CPI. With the latest estimated net yield for Westminster businesses for the current year being around £2.08bn, the move from RPI to CPI would be likely to save Westminster businesses around £18m. This quantum would be subject to adjustment for any movements in the taxbase and the fall out of transitional relief. An additional s31 grant will compensate the Council for the lost revenues which would otherwise have accrued through the localised business rate retention scheme. Though, the Council will benefit from the reduction in uplift to the annual multiplier as it is itself a business rate payer on the properties it uses.

- revaluation cycle: Following the next scheduled Revaluation – currently envisaged in 2022, the Chancellor has announced that future revaluations will thereafter be undertaken on a three yearly cycle. Whilst revaluations are intended to be fiscally neutral across the whole country it introduces the prospect of areas such as London that see valuation growth seeing more frequent rises in the amount of rates payable and a shorter period of time over which transitional relief may be tapered.

- the “Mazars” or “staircase” rating case challenged the decision of the Valuation Office to not separately rate individual floors of office space occupied where they were connected by a communal staircase. Given that it was less likely that individual floors would be more likely to be eligible to small business rate relief than if combined, and meant that businesses were being charged more in Business Rates than if they had a connecting staircase that was wholly controlled by that occupier. The Chancellor’s announcement effectively over-rules the decision of the Supreme Court judgement and will allow businesses to again claim small business rate relief – back-dated to the start of 2017/18. It is unclear if this change will be matched by additional s31 funding to compensate Councils for the loss of locally retained business rates.

- small public houses: To support small pubs, a £1,000 discount was introduced for 2017/18 (for those public houses with a rateable value of less than £100,000 and subject to state aid regulations meaning only one application per owner could be submitted if more than one property was occupied). The Chancellor announced that this discount would also be extended by a further year to cover 2018/19. To date, out of the 171 eligible public houses in Westminster, 65 have applied and been granted this discount. Again, the cost to the Council of granting this discount will be covered by an additional s31 grant.

4.22 Housing - In recognition of the ongoing pressures on housing supply, the Government outlined the following:

- making £15.3bn available of new financial support for housing over the next five years, bringing total support for housing to at least £44 billion over this period for capital funding, loans and guarantees to support house buildings;

- introducing planning reforms that will ensure more land is available for housing and that better use is made of underused land;

- providing £204m of funding for innovation and skills in the construction sector, including to train a workforce to build new homes

- the borrowing cap on the Housing Revenue Account for authorities in areas of high affordability pressure will be lifted to enable more homes to be built. Local authorities will be invited to bid for increases in their caps from 2019/20, up to a total of £1 billion by the end of 2021/22. The Council's HRA borrowing cap is £334m. The Council welcomes this announcement but would like assurance from the Government that Westminster is considered to be an area of high affordability pressure. Detailed modelling on the financial implications of this is being completed in order to assess the number of additional homes that could potentially be built if this facility was granted and how they will be financed.

4.23 Planning, along with reforms to Housing to increase the number of homes created, the Government intends to support this objective with reforms to current planning laws. This includes:

- strengthening the Housing Delivery Test with tougher consequences where planned homes are not being built, by setting the threshold at which the presumption in favour of development applies at 75% of housing delivery by 2020;

- expecting local authorities to bring forward 20% of their housing supply as small sites. This will speed up the building of new homes and supports the government's wider ambition to increase competition in the house building market i.e. increased use of SME home builders rather than large corporations;

- speeding up the development process by removing the exemptions from the deemed discharge rules. This will get builders on site more quickly, ensuring that development is not held back by delays in discharging planning conditions

- review of build out – The government will set up a review panel, chaired by Sir Oliver Letwin, to explain the significant gap between housing completions and the amount of land allocated or permissioned, and make recommendations for closing it. The review will provide an interim report in time for Spring Statement 2018 and a full report at Budget 2018.

- register of planning permissions – The government will develop a central register of residential planning permissions from local authorities to improve information on where permissions are held and progress towards them being built out.

4.24 Omissions - the Budget announcement did not provide details on the following areas:

- Adult Social Care and the previously announced green paper. This has been delayed until the summer of 2018;

- Fire Safety, no firm commitments on funding for any additional fire safety costs has been made;

- Children's Services, no discussion on the growing funding concerns in this area.

4.25 The next major fiscal event will be the Chancellor's first Spring Statement expected in March 2018 but below is a summary of previous events.

Business Rates

4.26 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 MHCLG share.

4.27 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).

4.28 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 (44,177 by the end of October of which around 34% have been successful).

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

4.30 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.

4.31 The Council has agreed to enter a London Business Rates Pooling pilot with all 32 London boroughs plus the GLA. From 1st April 2018, the pilot will allow the Pool to retain 100% of their business rates income. However, the Pool will not retain all income it collects as it will continue to pay a tariff to MHCLG. The overall level of collected rates that will be retained is around 64% after the tariff is paid. The London pilot is outlined further in Paragraphs 14.23 to 14.26.

West End Partnership

4.32 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. Employing more than 650,000 people, the area generates the largest proportion of taxes with more than £17 billion of tax receipts per year.

4.33 The West End is primarily responsible for London's status as the world's most popular visitor destination with more than 19m international visitors spending over £12bn 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.

4.34 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.

Tri-Borough to Bi-Borough

4.35 In March 2017, Westminster City Council (WCC) and the Royal Borough of Chelsea and Kensington (RBKC) agreed to serve notice to the London Borough of Hammersmith and Fulham (LBHF) to end the current s113 agreements (i.e. under section 113 of the Local Government Act 1972) in place since 2012 to share Children's Services, Adult Social Care & Public Health.

4.36 The decision was endorsed by Cabinet and was initiated following intentions by LBHF to eventually withdraw from s113 agreements. This decision by WCC and RBKC sought to provide certainty to both the staff affected and on future service delivery. Both WCC and RBKC were keen to ensure that new arrangements would be implemented from April 2018.

4.37 Officers have worked to develop alternative structures that maintain the principles of the original Tri-Borough proposition of collaborative working and delivering efficiencies through scale, whilst retaining sovereignty. New s113 agreements has been established with RBKC, setting out the new sharing arrangements. A small number of services in both Adult Social Care and Children's Services will continue to be shared with both RBKC and LBHF.

4.38 The transition from Tri-Borough to Bi-Borough Services for the majority of services effected will take effect from 1st April 2018. Some services will be continued to be shared with LBHF and some services will transition to Bi-Borough Services by April 2019.

4.39 The new Bi-Borough structures will retain the principles that underpinned the original Tri-Borough agreement. These have been agreed with the relevant Cabinet Members and were approved by Cabinet in December 2017. The structures were also subject to consultation with the relevant staff.

4.40 Specifically,

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

- Public Health 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 funding is utilised to improve people's health and wellbeing;

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

4.41 The Bi-borough services will also establish joined-up commissioning across Adult Social Care, Public Health and Children's Services. This innovative move will enable the creation of more unified services, transforming the way that families and communities are served.

4.42 The financial implications from this change has been dealt with as part of the overall 2018/19 budget setting process.

Adult Social Care Precept

4.43 The offer by the Secretary of State for Housing, Communities and Local Government to Adult Social Care (ASC) 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.

4.44 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.

4.45 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.

4.46 As at December 2017, 5,106 packages of care were being provided across Adult Social Care (encompassing community based care and residential/nursing placements) an increase of 60 from March 2017 against a background of increasing complexity and hence unit cost of individual packages.

4.47 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 is included as a recommendation to this report. Those authorities which choose to apply 2% onto Council Tax bills for the ASC precept must complete a declaration to MHCLG within 21 days of their 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

4.48 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.

4.49 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 key driver for the NW London STP plan is to improve health and wellbeing, enhance clinical outcomes and achieve financial sustainability.

4.50 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 assessed as and when these come to light. 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.

Better Care Fund (BCF)

4.51 The Department of Health (DoH) and MHCLG 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.

4.52 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 MHCLG 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.

4.53 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.

4.54 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.

4.55 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.

4.56 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.

4.57 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.

4.58 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.

4.59 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.

Risk of iBCF Ceasing

4.60 In the 2017 Spring Budget the Treasury announced £2bn funding for local authorities in England to address the pressures in the Health and Social Care system over the next 3 years (2017/18 to 2019/20). This Spring Budget Funding has been merged with the previously announced Improved Better Care Fund (iBCF) and the total funding for Westminster is as follows:

- 2017/18 in £8.721m;
- 2018/19 an additional £3.596m = £12.317m cumulatively;
- 2019/20 an additional £3.490m = £15.807m cumulatively.

4.61 This funding is intended to be spent on the commissioning of new care packages and to help reduce delayed discharges from hospitals. A longer-term funding strategy for the care of older people will be revealed in a social care green paper which was due late in 2017 (and is still awaited) as the pumping of more short term money into the system is not a silver bullet solution and the Government's Green Paper is expected to examine how to place social care on a more sustainable footing over the long term.

4.62 The iBCF is being used to fund:

- the increased capacity required due to complexity and acuity growth in packages of care;
- contract inflation/market stabilisation;
- increased capacity in homecare and residential/nursing inflation pressures;
- demographic pressures and the financial impact of the living wage;
- a transformation pot to support integrated services and to develop future savings for both the LA and the NHS;
- an investment in DTOC High Impact Change Model.

4.63 If the above funding ceases with no alternative funding being offered, this will cause a budget pressure in ASC who will work to make efficiencies in all service areas as part of future budget rounds.

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

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

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

4.66 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:

1. Providing certainty and clarity
2. Taking control of our own laws
3. Strengthening the Union
4. Protecting our strong historic ties with Ireland and maintaining the Common Travel Area
5. Controlling immigration
6. Securing rights for EU nationals in the UK and UK nationals in the EU
7. Protecting workers' rights
8. Ensuring free trade with European markets
9. Securing new trade agreements with other countries
10. Ensuring the United Kingdom remains the best place for science and innovation
11. Cooperating in the fight against crime and terrorism
12. Delivering a smooth, orderly exit from the EU

4.67 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.

4.68 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

4.69 The Council's treasury advisors have previously speculated that "Brexit" could have implications on the Council and its investment counterparties. For instance,

- the Bank of England's previous decision to 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. However, this was subsequently increased to 0.5% in November 2017

- 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.

- 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

4.70 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.

Other Policy and Legislative Updates

4.71 In addition to the above, there are a number of financial uncertainties which could have material impacts on the Council's activities with potentially significant financial consequences have been identified as the result of legislative and policy changes. These are outlined below:

- London Plan - the Mayor published a new draft London Plan for consultation on 29th November. The Council will respond in full to the consultation by 2nd March 2018 deadline and is considering the implications for our developing City Plan;

- London health devolution - in November 2017 there was a further agreement between the Mayor of London, Secretary of State for Health Jeremy Hunt, London Councils and NHS, Public Health and wider health and care leader to give London government and health leaders more control over health and care in the capital, leading to more joined-up services for Londoners. The impacts of this are being monitored and considered in the context of the existing partnership work underway through the North West London Sustainability and Transformation Plan and local primary care and health and wellbeing strategies;

- Government reshuffle - in January 2018, the Prime Minister made a number of changes to ministerial positions within the Government. The Department for Communities and Local Government has been renamed as the Ministry of Housing, Communities and Local Government, reflecting the importance of housing at the centre of domestic policy. The Department of Health was also renamed the Department of Health and Social Care, underlining the Government's intention to join up health and social care. Both these decisions reflect changes to national policy that may create risks or opportunities for the Council and the city and the impacts will be closely monitored.

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 the 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's budget proposals will provide 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 8, service area revenue budgets are projected to underspend by £6.302m 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:

- (£4.141m) - City Management & Communities - Licensing £0.900 Highways £0.600m; Parking £2.226m; Waste & Parks £0.569m;
- (£0.920m) - PPC – Vacancies £0.720m; £0.200m supplies & services;
- (£1.990m) - City Treasurer – Revenues and Benefits £0.390m; interest earnings £1.600m;
- £0.970m - Growth, Planning & Housing – Property Investment & Estates;
- (£0.425m) - Corporate services – Information services £0.440m;
- £0.504m - Children's Services- Placement pressures £0.549m;
- (£0.300m) - Chief of Staff- Electoral services £0.100m; vacancies £0.087m.

6.3 The forecast outturn as at period 8 on the HRA is an adverse variance of £2.773m. This is largely due to:

- a projected shortfall in budgeted income of £4.291m which is mainly due to a shortfall in lessees' contribution to major works income;
- an overall overspend of £0.575m is projected in supplies and services and premises costs largely due to recharges;
- these are offset by a projected increase in other income of £1.136m e.g. from non-dwellings rent and lease extensions and a £0.957m underspend in other expenditure due to lower capital borrowing charges and depreciation costs.

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 robust 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 placing the engagement, well-being and development of our people 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 modelled on industry best practices;

- process reviews to reflect a best in class service;

- development and implementation of a workforce plan aligned to both current and future service needs;

- development and early stage implementation of a tailored productivity improvement programme;

- development and roll-out of a bespoke training course aimed at preparing team members for the digitally disrupted world of tomorrow;

- introduction and implementation of a rotation policy aimed at increasing team resilience and enhancing bench strength;

- implementation of a multi-channel Our Voice strategy aimed at improving the working environment and overall operational efficiency;

- introduction of initiatives aimed at reducing workplace stress in a high performing environment;

- 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 financial 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 £38.327m. This encompasses savings of £31.432m 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
Baseline Funding: Pooled Business Rates and Technical Adjustments	8.100
Core Funding Gain - Council Tax Base Growth	(0.331)
New Homes Bonus Loss	0.805
Inflation	7.643
Risks	3.000
Pension Fund Deficit Recovery	4.000
Pressures	4.915
Capital Programme	3.300
Total	**31.432**

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

MTP Budget Change Classification

Budget Change Category	2018/19 £'m	%
Financing	14.832	38.7%
Commercial	4.957	12.9%
Transformation	8.467	22.1%
Efficiency	10.07	26.3%
Total	**38.327**	**100.0%**

Approach to Meeting the Estimated Funding Gap in 2018/19

7.3 The process for identifying the 2018/19 savings proposals was 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 at officer level 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. A further update was provided in January 2018.

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 Members.

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) 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.

8.4 A summary of selected key, strategic risks / weaknesses and mitigating actions:

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 volatility from appeals and also the impact on collection rates as following the implementation of localising business rates, 75% 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 MHCLG, Valuation Office, London Councils, etc. 2) Leading on responses to consultations. 3) Lobbying "Central Government" (i.e. Valuation Office, MHCLG)	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 75% 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 MHCLG and the Valuation Office on measures to resolve outstanding appeals	All

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 national inflation rates. Inflation can affect agreed suppliers' 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

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 MHCLG.	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. Should the country return to a reducing interest rate situation then such a decrease in interest rates 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).	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. Children's Services have been rated as outstanding 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 **Financial Outlook 2018/19 to 2019/20**

9.1 The Council's financial modelling takes into account indicative government grant reductions, inflation (both pay and contract), pension costs, increasing capital financing pressures and national insurance changes as well as allowances for specific and general risks. The net budget gap is £31.432m in 2018/19 excluding direct service pressures and has been addressed as detailed in Schedule 4b 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 being finalised and will be tested and updating 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.

9.4 With regards to the 10 year plan, Council Tax and Business Rates will continue to be sources of income as central government grants reduce. Westminster, in 2017/18, had the lowest Council Tax Band D rate in England and this trend is anticipated to continue. From 2018/19, local authorities can now increase Council Tax by 2.99% without a local referendum. This is a new provision announced by the Government to assist local authorities with rising service pressures and inflation. Business Rates increases from 2018/19 have been limited to CPI (3% as at September 2017) which is an unexpected change from previous years.

9.5 For Business Rates in particular, whilst this is a positive outcome in terms of community affordability, there is a concern that the alignment of rate increases with the CPI could erode the Council's capacity to deliver quality services over time. This is due to CPI not necessarily being a good measure of cost change for the Council, particularly for construction costs or other large service contracts which are indexed by RPI or industry specific indices.

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 (£1.024bn);

- 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 (£1.482bn).

10.3 The General Fund’s Capital programme is fully funded via capital receipts, 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 £790m, 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.

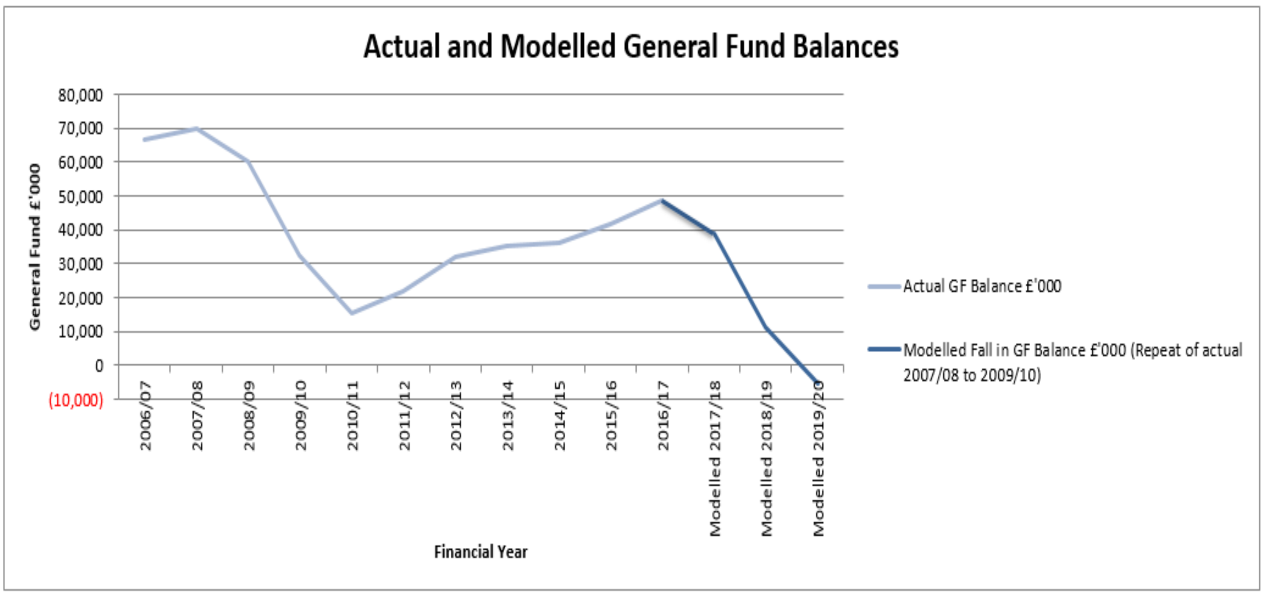
11.7 The table below details the movement for the Council's General Reserve balance since 2006/07. This can be considered a reasonable period of time over which to consider movements as the Council has faced a number of challenges during this time including significant turbulence in the wider economy.

Year	2006/07 £'000	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000
Closing Balance	66,864	69,930	60,090	32,396	15,578	22,054
Balance Movement	-	3,066	(9,840)	(27,694)	(16,818)	6,476

Year *(continued)*	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Closing Balance	32,027	35,295	36,035	41,576	48,777
Balance Movement	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 8.4 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 21 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 The 2018/19 TMSS does not forecast any additional external borrowing in 2018/19, but there is 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. Interest rates subsequently have risen back to 0.50% after the Bank of England voted to raise rates by 0.25% on 2 November 2017. The increase in rates is gradually feeding through to the Council's investments resulting in increasing returns.

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.

12.6 To support the Treasury Management Strategy Statement, the Council has devised a holistic strategic investment framework in order to manage its investment portfolio as one, across investment properties and treasury management.

12.7 The framework sets out in detail the longer term investment plan to manage investments in relation to long term capital spend and cash requirements, diversify to reduce risk and future-proof against possible economic downturns.

13 Pension Fund

13.1 The City of Westminster Pension Fund includes the City Council's pension obligations as well as those for a number of other admitted and scheduled bodies – for example City West Homes. The Council's attributable share of the Pension Fund assets total £800m.

Triennial Valuation

13.2 The triennial valuation of the Pension Fund was completed by the Council's actuary as at 31 March 2016. The latest actuarial report values the future liabilities of the Pension Fund and sets the employer's contribution rate for the three years 2017/18 to 2019/20.

13.3 The actuary reported that the employer's contribution rate was required to rise from 12.50% to around 15.70% in order to fully fund the cost of active members. The impact on the Council's ongoing revenue budget of this change cost an additional £2.5m over 2016/17 contribution rates.

13.4 As well as needing to make contributions into the Pension Fund for active members, the Council has to make contributions to address an historic funding deficit. The latest triennial valuation valued the Pension Fund deficit at £285m as at 31 March 2016 compared with £320m at 31 March 2013. Despite the reduction in the funding deficit, this positioned the Council as having one of lowest funded Local Government pension funds in the country.

13.5 While the Pension Fund is in deficit, it incurs an interest cost which it would not if it were fully funded. The cost of this interest increases the total contributions required to be made by the Council throughout the period until the deficit is repaid.

13.6 Options to reduce this deficit and the consequent interest costs were explored with the actuary in 2017. The second and third years of the strategy were agreed as:

- two one-off cash injections of £10.0m to be made over the period 2018/19 to 2019/20 (see paragraph 13.9);

- together with increases of £4.0m per annum in the ongoing annual contributions £10.5m to £18.5m over the period 2017/18 to 2019/20, followed by more measured increases thereafter to account for the impact of inflation.

13.7 This has allowed the deficit recovery period to fall to 17 years, delivering a significant reduction of £317m in the total interest to be paid over the 17-year period. This strategy provides an optimal mix of maintaining annual affordability whilst also offering the greatest saving in overall cost. This scenario is estimated to reduce the total repayments to £453m from £805m and achieve a fully funded position by 2033/34. It also enables the ongoing contribution rate in respect of existing employees to be increased to 15.70% as outlined above. As a result of this action, and with market increases in equity values, the latest funding update has shown that the deficit had fallen to £171m as at 30 September 2017.

13.8 This compares with a previous scenario whereby contributions increased at £1.5m per annum, no one-off contributions were made, and the repayment period extended to 2047/48. The revised deficit reduction strategy significantly improves the Pension Fund's position nationally as it moves the Fund towards a fully funded position earlier by 14 years to 2033/34.

13.9 The potential to make the three one-off contributions of £10m will be subject to the availability of either annual revenue resources (potentially from in-year underspends) or capital receipts under the Flexible Use of Capital Receipts guidance published by Ministry of Housing, Communities and Local Government. The City Treasurer will review the scope to use such resources as part of the year-end closure procedures. The performance of the scheme and deficit reduction strategy outlined above will be reviewed on a periodic basis to assess whether the strategy remains on track or whether further adjustments to payments or projections are required.

<u>Government Actuaries Department Review</u>

13.10 Under section 13 of the Public Service Pensions Act 2013, the Government Actuaries Department (GAD) is required to review all local government pension scheme valuations to ensure that all employers are "paying enough" to maintain the future solvency of each fund. GAD conducted a "dry-run" using the 2013 valuation in order to test its methodology and alert practitioners about what to expect. Although it did not publicly release the findings from this first review, the Council was given details of its "dry run" review, which found that, in terms of deficit position, the Westminster Fund was in the lowest (i.e. worst) decile across all schemes following the 2013 valuation.

13.11 GAD has recently completed its review of the 2016 valuation. The initial findings of the GAD review of the 2016 valuation are that contributions are now sufficient to meet statutory requirements for the future solvency of the pension fund. This affirms the strategy adopted to substantially increase contributions to the pension fund over the period 2017/18 to 2019/20 outlined in paragraphs 13.6 and 13.7 above to address the historic funding deficit and reduce the deficit recovery period substantially.

<u>Governance</u>

13.12 The Local Pension Board continues to operate alongside the Pension Fund Committee as a scrutiny function and reports on its activities to the Pension Fund Committee and Full Council. The Board, comprised of both employer and employee representatives, is required to assist the Council to ensure compliance with the regulations and other legislation relating to the management of the Pension Fund. The Pension Fund continues to work with the London Collective Investment Vehicle (LCIV). All local government pension schemes in England and Wales are required to form investment pools of at least £25bn with investment manager appointment and monitoring decisions undertaken at pool level. Westminster and all the other London Councils are members of the LCIV, set up to facilitate joint procurement of investment managers, with the objective of achieving significant savings. Two of the Westminster fund's existing investment mandates have been transferred to the LCIV and a third was subject to a London wide fee arrangement that substantially reduced manager fees. Another mandate continues to remain under review with a view to transfer in 2018. The Council is also working with the LCIV to help establish a new infrastructure mandate on the platform of which the Pension Fund has an allocation of 5% of total fund assets.

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

Council Tax

14.1 The Council Tax Base (the number of Band D equivalent properties estimated to be billable for the year 2018/19) was considered by Cabinet in December 2017 and approved by Full Council on the 24th January 2018. The yield derived from the Council's standard (Band D) charge is a multiple of the number of properties chargeable in each banding.

14.2 The Welfare Reform Act 2012 replaced the previous Council Tax Benefits scheme with a locally determined Council Tax Reduction scheme. In setting the taxbase for 2018/19, Council also approved the continuation of the existing Local Council Tax Reduction Scheme which ensures those eligible have their Council tax liability fully funded (the changes from 2013/14 allowed Councils to charge up to 10% of the Council Tax liability to benefit claimants).

14.3 The number of properties (and mix of properties within each banding) has increased over the current year's taxbase as the result of a combination of new properties being brought into use; alterations to existing properties changing their valuation, and changes to the numbers of residents entitled to funding via the Local Council Tax Reduction Scheme. The taxbase for the whole of the City of Westminster has increased from 126,975.59 to 128,833.30 Band D equivalent properties – an increase of 1,857.71 (a 1.46% increase).

14.4 As well as collecting Council Tax for the Council's own purposes, the Council is responsible for collecting it for both major and minor preceptors. The change in the taxbase for each body is set out in the table below:

Council Tax Base Analysis:

Financial Year	Queen's Park Community Council (No.)	Montpelier Square Garden Committee (No.)	Rest of the City of Westminster (No.)	Whole of the City of Westminster (No.)
2017/18	3,346.26	94.16	123,535.17	**126,975.59**
Change	60.35	1.52	1,795.84	**1,857.71**
2018/19	**3,406.61**	**95.68**	**125,331.01**	**128,833.30**

14.5 All other things being equal, the overall increase in the taxbase has the impact of yielding additional revenue receipts without any change in the headline Band D chargeable rate. Using the 2017/18 Band D amount of £408.12, the increase in the taxbase for 2018/19 would generate an additional £758k in the Council's own share of the Council Tax yield. As part of the MTP process for 2018/19, a saving of £475k within the City Treasurer's department was predicated on an estimated Council Tax base growth. The actual growth in taxbase achieved which was calculated in late Autumn 2017 at 1.46% or £758k over 2017/18.

14.6 The Local Government Finance Act (1992), as amended by the Localism Act (2011) requires local authorities to consider whether their relevant basic amount of Council tax (effectively the Band D amount) is excessive. The Secretary of State has, under regulations, determined that an increase of 3.00% or more would constitute an excessive increase for 2018/19. This is 1.00% higher than in previous years, the Secretary of State announced this change in the provisional finance settlement for 2018/19 and confirmed in the final settlement in February 2018.

14.7 Should a local authority wish to propose a budget that increases the Band D amount by more than this threshold, it is additionally required to prepare an alternate budget that does not breach that limit and to hold a referendum of its residents who would be able to determine which budget proposal they wished to be implemented. Such a referendum would involve considerable cost in holding.

14.8 Inflation has the impact of eroding the real purchasing power of the Council Tax yield. The latest ONS official annual inflation rates for November 2017 indicate CPI to have been 3.1% over the previous twelve months; CPIH 2.8%; and RPI 3.9%.

14.9 The maximum amount that the Council can increase on its own element without triggering a referendum is 2.99%. The table below sets out the additional income that would be generated by incremental increases up to the maximum level.

	Increase in Band D Amount						
	0.00% (£)	0.50% (£)	1.00% (£)	1.50% (£)	2.00% (£)	2.50% (£)	2.99% (£)
2017/18 Band D Amount	408.12	408.12	408.12	408.12	408.12	408.12	408.12
Percentage Change Increase	0.00	2.04	4.08	6.12	8.15	10.20	12.20
Band D Amount after Change	**408.12**	**410.16**	**412.20**	**414.24**	**416.27**	**418.32**	**420.32**
Weekly Cost of Change	**0.00**	**0.04**	**0.08**	**0.12**	**0.16**	**0.20**	**0.23**
	£'000						
Additional Yield from Change	**0**	**263**	**526**	**789**	**1,050**	**1,314**	**1,572**

14.10 The schedules throughout this report set out the financial implications on the Council's overall budget of not increasing the general Council Tax amount for 2018/19 over that of 2017/18 Band D general Council Tax. Cabinet is asked to consider this option to freeze general Council Tax.

14.11 The Greater London Authority is due to meet to formally consider the Mayor's proposed budget for the GLA on the 22nd February 2018. However, the Mayor's proposed budget recommends an increase to the 2018/19 Band D equivalent charge from £280.02 to £294.23. This consists of a £12.00 increase in the policing element and £2.21 (2.99%) increase in the non-police element of the precept. A verbal update will be provided at the meeting regarding the outcome of the London Assembly decision.

14.12 The Queen's Park Community Council has determined their basic tax amount for 2018/19 to remain unchanged for 2018/19 at £46.38.

14.13 The Montpelier Square Garden Committee has notified the Council of their intention to increase the amount they wish to raise from their special expense for residents in their area from £45,000 in 2017/18 to £47,000 in 2018/19 (an increase of 4.4%).

14.14 Local authorities have been granted additional powers from the Department for Government and Local Communities (MHCLG) to raise additional funding from Council Tax to support spending on Adults Social Care activities which would otherwise have been unaffordable. This Adults Social Care Precept was first introduced in 2016/17 and which the Council added an additional 2.00% in accordance with that year's recommendations.

14.15 The 2017/18 Local Government Finance Settlement extended this opportunity for the period 2017/18 to 2019/20. A limit of a maximum total 6.00% further increase for these three years applies, but allows some scope for the phasing of this additional charge to be applied (no more than 3.00% in either 2017/18 or 2018/19 and a maximum 2.00% in the final 2019/20 year). The Council applied a 2% increase in 2017/18.

14.16 The high and growing demographic and spending pressures, coupled with the particular vulnerability of this customer cohort are such that it is recommended that this additional funding opportunity is taken up. In order to keep the increases to the taxpayer manageable and affordable, the spreading of this additional charge to an equal 2.00% per annum is considered most appropriate in order to balance affordability to the taxpayer and the generation of much needed additional funding.

14.17 The additional revenues expected to be generated from the Adults Social Care Precept is as set out in the following table:

Band D (£) Breakdown:	2017/18	2018/19
Prior Year Band D Amount (£)	392.81	408.12
0.00% General Council Tax Increase (£)	7.46	0
2.00% Adult Social Care Precept (ASC) (£)*	7.85	8.15
Total Band D Rate (£)	**408.12**	**416.27**
No. Band D Equivalent Dwellings	**126,975.59**	**128,833.30**
Total Council Tax Income Raised in Year by ASC Precept (£)	**996,758**	**1,049,991**

14.18 The collective impact of the proposed changes to the Band D amounts for 2018/19 (as discussed in the paragraphs above) is summarised in the table below:

	Queen's Park Community Council	Montpelier Square Garden Committee	Rest of the City of Westminster	Whole of the City of Westminster
Breakdown of Band D Council Tax in the City of Westminster	**£**	**£**	**£**	**£**
Westminster City Council - Basic Element	408.12	408.12	408.12	
Westminster City Council - ASC Precept	8.15	8.15	8.15	
Sub-Total	**416.27**	**416.27**	**416.27**	
Greater London Authority Precept	294.23	294.23	294.23	
Queen's Park Community Council Precept	46.38	0.00	0.00	
Montpelier Square Special Expense	0.00	491.22	0.00	
Total Band D Amount in Area	**756.88**	**1,201.72**	**710.50**	
2018/19 Taxbase	**3,406.61**	**95.68**	**125,331.01**	**128,833.30**
Westminster City Council	1,418,070	39,829	52,171,540	**53,629,439**
Greater London Authority	1,002,327	28,152	36,876,143	**37,906,622**
Queen's Park Community Council	157,999	0	0	**157,999**
Montpelier Square	0	47,000	0	**47,000**
Total Council Tax Income in Area (£)	**2,578,396**	**114,981**	**89,047,683**	**91,741,060**

14.19 Between November and December 2017 the council consulted with all Band H properties on a proposal to introduce a voluntary Community Contribution for the most expensive properties in the city to support discretionary services that would otherwise not be funded without increasing the level of Council Tax for all residents. Residents of Band H properties were consulted and there was a strong showing of support for the scheme and the Council proposes to now proceed with the voluntary contribution scheme. The scheme will be entirely voluntary and there will be no obligation on anyone to pay.

The Collection Fund

14.20 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. The effect of these regulations are that for 2018/19 the above estimates will represent the amount of income credited to the revenue account for that year – regardless of actual achieved.

14.21 Any variance between budget and actual for 2017/18 will however impact on 2018/19. Growth in the taxbase throughout the year and successful collection rates being slightly higher than expected has led to a forecast 2017/18 position £690k above budget.

Business Rates (NNDR)

14.22 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 MHCLG 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 operated 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).

14.23 The 2018/19 Local Government Finance Settlement approved a pilot pooling arrangement for London boroughs and the GLA, which will see the Council retain 64% of the business rates collected, but will see no RSG payments – the overall position neutralised by a change in Tariff. The advantage of being in a pilot pooling arrangement is that London as a whole is expecting to retain the overall £240m Levy it would otherwise have paid over to MHCLG.

14.24 The 85% allocation for London boroughs and the GLA is based on a formula that allocates the £204.5m projected to be available on the basis of:

- 15% Growth Reward (for those boroughs above Baseline
- 35% Need – based on Settlement Funding Allocations
- 35% Population

14.25 The remaining 15% will be retained in a central Strategic Investment Pot which will be distributed for projects that contribute to sustainable growth of London's economy and will need to have broad support across London's authorities.

14.26 For Westminster a provisional allocation from pooling has been estimated at £3.8m. This quantum is subject to significant uncertainty as it will rely on updated data being submitted to the City of London Corporation and not currently collated / available), and ultimately on outturns which may not be definitively known until all appeals for 2018/19 materialise and are determined.

14.27 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.

14.28 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 in the first three years 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.

14.29 The implementation of the new Check-Challenge-Appeal process has seen a significant reduction in the number of appeals being recorded by the Valuation Office. Anecdotal evidence from various working groups attended by officers suggests that the industry is having difficulties using the new process and that the very small numbers of checks and challenges so far received is not an indication that the ultimate level of appeals will be significantly different to experience from the 2005 and 2010 Revaluations.

Discretionary Housing Payments

14.30 The Council's Discretionary Housing Payment (DHP) funding allocation from Central Government has significantly reduced in since 2014/15:

- 2014/15 - £4.8m;
- 2015/16 - £2.6m;
- 2016/17 - £2.7m;
- 2017/18 - £1.4m.

14.31 The extent of these ongoing funding reductions has resulted in the Council previously agreeing a revised DHP policy and contributions from reserves (most recently £1m) to support future DHP spend above the Government's funding allocation.

14.32 The allocations for 2018/19 are yet to be confirmed but based on previous year's trends is anticipated to reduce. In 2017/18, the majority of local authorities nationally saw increases in their DHP allocation. However, in London, authorities saw an overall reduction. The Council experienced a loss of circa £1.3m. This was as a result of national formulae changes which sought to be distribute the reduced funding for DHP more evenly throughout the country to the detriment of areas where private rents are high such as in Westminster.

14.33 The level of reduction in allocation for Westminster would be extremely difficult to manage in a normal year. However, should levels of DHP claims increase e.g. due previously reduced Benefit Cap thresholds under the Government's on-going Welfare Reform programme, the Council could be faced with financial risk if sufficient funds were not set aside to manage DHP claims.

14.34 A further £0.5m will be allocated to help residents meet the costs of their housing which has been separately agreed.

15 Schools

Dedicated Schools Grant

15.1 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 (NFF).

15.2 The DSG consists of four separate blocks: schools, the new central schools services, high needs and early years. The overall distribution of the DSG is ring-fenced; however, the four blocks that make up the DSG aren't separately ring-fenced so movement between blocks is possible subject to specific conditions and limits. The specific change for 2018/19 is that there is a 0.5% limit on transferring out of the schools block that can be made without reference to the Secretary of State.

15.3 Westminster City Council (WCC) is able to retain DSG funding to pay for the education of pupils who are the responsibility of 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.

15.4 Given the proposed changes to schools funding it is important to know that decisions will be taken at January and March 2018 Schools' Forum on how much will be allocated to each block and how much contingency to allocate because of the significant changes made to DSG for implementing National Funding Formula for the next 2 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 (NFF):

Schools and high needs block

15.5 The NFF is being 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, cash limited to 0.5% and national high needs budget information;
- this formula settlement to 2019/20 will provide at least £4,800 per pupil for every secondary school and £3,500 per pupil for primary schools.
- in 2018/19 and 2019/20, the NFF will set indicative budgets for each school, and the total schools funding received by each local authority will be allocated according to the national fair funding formula and transparently for the first time;
- local authorities will continue to set a local formula to distribute the same funding, and to determine individual schools' budgets in 2018/19 and 2019/20, in consultation with schools;
- 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.

15.6 The indicative figures show an overall increase of funding of 0.5% 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 in 2018/19 providing there is no decrease in pupil numbers. Reductions in any schools funding is limited by -1.5% Minimum Funding Guarantee (MFG) in their pupil budget.

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

15.8 The 2016/17 year-end closing position was a collective balance of £3.7m for the LA-maintained primary and secondary schools. For the 2017/18 financial year 4 schools are projecting a year end deficit, 2 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.

15.9 A pupil count was completed in October 2017. However, the number of children in secondary schools have increased to 8,433 (+155) but the number of children in primary schools has decreased to 10,153 (-234) and there is current capacity in the system of approximately 15%, an overall total fall of (-79). As school funding is pupil-based and the Education and Skills Funding Agency (ESFA) have set different primary and secondary units of funding this represents a further cost pressure for schools.

15.10 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

15.11 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.

15.12 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 settings. 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

15.13 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.

15.14 The only increase is for the Pupil Premium Plus, for each pupil identified in the spring school census as having left local authority care because of adoption, a special guardianship order, a child arrangement order or a residence order, schools will receive £2,300 per eligible pupil (£1,900 in 2017/18).

15.15 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 and have to report on use each September on their individual school's website.

Education Services Grant (ESG) and CSSB

15.16 The 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.

15.17 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.

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

15.19 The retained duties allocation for 2018/19 has changed because of the drop in pupil numbers and now forms part of the newly created central services block of the DSG of £1.120m.

Academies and Free Schools

15.20 Westminster schools that convert to academy status or newly established free schools obtain their funding directly from the Education Funding Agency (EFA). These schools receive a school budget share equivalent to what they would have received if they were a Westminster school. This is funded in most cases by an adjustment to the DSG received by the council and applied to the schools block.

16 Housing Revenue Account (HRA)

16.1 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.

16.2 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.

16.3 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.

16.4 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 £1.420bn over 30 years.

16.5 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.

16.6 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.

16.7 The Housing Investment Strategy and HRA 30-year Business Plan report are being presented to Cabinet alongside this report 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.

17 Levies and Special Charges

17.1 Three bodies recover their net cost by way of a levy on local authorities – this charge is thus separately identified within the Council Tax charged by those local authorities. The three bodies are:

- Environment Agency – recover the cost of flood defence works across the Thames region;
- Lee Valley Regional Park Authority – recover the cost of running the Lee Valley park facilities to the North West of London; and
- London Pensions Fund Authority – recover the pension costs arising from the abolition of the Greater London Authority.

17.2 At the time of writing this report, the Council is awaiting notifications from these three bodies to confirm the 2018/19 levies. Therefore, the 2017/18 levy charges are included in the budget options being recommended in this report. Should these organisations provide the notifications to the Council for the 2018/19 levy charges after the dispatch of this agenda item and before the meeting itself, a verbal update will be provided.

18 **2018/19 Proposals Requiring Consultations**

External consultations

18.1 The budget proposals for 2018/19 presented to Full Council in November 2017 contained 10 savings proposals totalling £5.360m which had been identified as requiring external consultation. As at January 2018, the following is the update to the November 2017 position:

Directorate	Description	2018/19 Amount £'m	Consultations and Outcomes
Adults	Alternative delivery models including Commercial Trading	**0.100**	Following further exploratory work, no significant changes to front-line service offer result from this saving, no consultation required
Adults	Review care pathways and re-commission key services	**0.630**	Following further exploratory work, no significant changes to front-line service offer result from this saving, no consultation required
Adults	Asset Based Commissioning of prevention services	**0.100**	Following further exploratory work, no significant changes to front-line service offer result from this saving, no consultation required
Adults	Remodel In-House service Portfolio	**0.150**	Following further exploratory work, no significant changes to front-line service offer result from this saving, no consultation required
Children's	Income Generation Traded Services and Education	**1.055**	Following further exploratory work, no significant changes to front-line service offer result from this saving, no consultation required
Children's	Commissioning Contracts	**0.467**	Extensive consultation undertaken with parents, providers and practitioners. Savings guided by results enabling changes to SEN travel arrangements as well as reduction in unnecessary contract items.

GPH	Corporate Property Strategy	**0.476**	Following further exploratory work, no significant changes to front-line service offer result from this saving, no consultation required.
GPH	Property Rationalisation and Asset Management	**2.007**	Following further exploratory work, no significant changes to front-line service offer result from this saving, no consultation required
GPH	Electronic Consultation	**0.100**	Consultation completed. Following feedback from stakeholders the adoption of electronic only consultations in respect of planning application will not be pursued at this time.
GPH	Planning Performance Agreements	**0.275**	Westminster Property Association (who represent over 250 developers and property owners) are currently still discussing proposed changes to PPA. Savings are expected to be achieved due to increased service demand, therefore with no changes to the front-line service offer, no consultation is required
Total		**5.360**	

The Scrutiny Process

18.2 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.”

18.3 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.

18.4 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.

18.5 A Budget and Performance Task Group was scheduled for February 2018 to further discuss any developments in the savings proposals. However, in place of this a report was supplied to Members of the final changes and it was agreed that a further tranche of meetings was not necessary.

19 Legal implications

19.1 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.

19.2 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.

19.3 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.

19.4 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 Section 8 above 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.

19.5 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.

19.6 Apart from statutory duties relating to specific proposals the Council must consider its obligations under the Equality Act 2010. This is addressed in Section 22 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.

19.7 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.

19.8 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.

19.9 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.

Implications by Rhian Davies, Chief Solicitor (Litigation and Social Care)

20 People's Services Comments

20.1 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.

20.2 A consultation was scheduled to commence at the end of January 2018 on the review of Highways services including Roads Management. The new structure will be implemented from July 2018 and it is estimated that it may result in up to 10 redundancies.

20.3 A consultation was scheduled to commence at the end of January 2018 on the Effective Neighbourhood Working Programme. The new structure will be implemented from July 2018 and it is estimated that this has the potential for up to 12 redundancies. However, given current vacancies the actual number is expected to be significantly less.

20.4 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 6 redundancies

21 Equalities Implications

21.1 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.

21.2 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.

21.3 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 2017/18 to 2018/19

2 Gross Expenditure 2017/18 to 2018/19

3 Net Budget 2017/18 to 2018/19

4a 2018/19 Service Budget Changes by Cabinet Member and Executive Management Team

4b Detail of 2018/19 Service Budget Changes

4c Detail of 2018/19 Budget Changes

5 Subjective Analysis by Income and Expenditure

6 General Fund Balance and Reserves

7 Levies, Special Expenses and Precepts

8 Localised Business Rates, Settlement Funding Assessment and Council Tax

9 General Fund Services per Band Dwelling

10 Housing Revenue Account

Annexes

A Budget and Performance Task Group Meeting Notes

B Equalities Impact Assessments

C Council Tax Resolution

Background Papers

2018/19 Budget Proposals Report

2017/18 Budget and Council Tax Report and Medium Term Plan - Council Meeting 8 November 2017

Treasury Management Strategy Statement for 2017-2018 to 2021/22 - Council Meeting 8 November 2017

Capital Strategy 2017/18 to 2021/22, Forecast Position for 2016/17 and Future Years Forecasts Summarised up to 2030/31 - Council Meeting 8 November 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

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	**(1,656)**	0	**(1,656)**
Deputy Leader and Business, Culture and Heritage	**(22,069)**	(265)	**(22,334)**
Adult Social Services and Public Health	**(87,203)**	(1,776)	**(88,979)**
City Highways	**(104,450)**	(187)	**(104,637)**
Children, Families and Young People	**(109,247)**	(1,558)	**(110,805)**
Environment, Sports and Community	**(24,696)**	(983)	**(25,679)**
Finance, Property and Corporate Services	**(275,390)**	(946)	**(276,337)**
Planning and Public Realm	**(7,490)**	(487)	**(7,977)**
Housing	**(44,806)**	(1,901)	**(46,708)**
Sub-Total Gross Income	**(677,007)**	**(8,104)**	**(685,111)**
Core Funding:			
Council Tax Income	**(52,022)**	(331)	**(52,353)**
Business Rates (Net of Tariff)	**(78,080)**	(55,730)	**(133,810)**
Revenue Support Grant	**(46,161)**	46,161	**0**
Sub-Total Core Funding	**(176,263)**	**(9,900)**	**(186,163)**
Total Income	**(853,270)**	**(18,004)**	**(871,274)**
Executive Management Team:	**2017/18 Revised Budget £'000**	**Budget Change £'000**	**2018/19 Draft Budget £'000**
Chief of Staff	**(2,681)**	2,681	**0**
City Treasurer	**(33,638)**	(1,930)	**(35,568)**
Director of Policy, Performance and Communications	**(7,908)**	0	**(7,907)**
Executive Director Adult Services	**(87,203)**	(1,776)	**(88,979)**
Executive Director of Childrens Services	**(109,247)**	(1,558)	**(110,805)**
Executive Director of City Management and Communities	**(135,043)**	(1,220)	**(136,262)**
Executive Director of Corporate Services	**(8,122)**	(3,177)	**(11,299)**
Executive Director of Growth, Housing and Planning	**(293,167)**	(1,123)	**(294,290)**
Sub-Total Gross Income	**(677,007)**	**(8,104)**	**(685,111)**
Core Funding:			
Council Tax Income	**(52,022)**	(331)	**(52,353)**
Business Rates (Net of Tariff)	**(78,080)**	(55,730)	**(133,810)**
Revenue Support Grant	**(46,161)**	46,161	**0**
Sub-Total Core Funding	**(176,263)**	**(9,900)**	**(186,163)**
Total Income	**(853,270)**	**(18,004)**	**(871,274)**

*Revenue Support Grant has been rolled into Business Rates

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	**9,205**	(101)	**9,104**
Deputy Leader and Business, Culture and Heritage	**18,542**	(601)	**17,942**
Adult Social Services and Public Health	**146,157**	(2,186)	**143,971**
City Highways	**61,222**	(3,619)	**57,602**
Children, Families and Young People	**140,663**	(1,399)	**139,264**
Environment, Sports and Community	**75,228**	(351)	**74,877**
Finance, Property and Corporate Services	**321,785**	27,486	**349,271**
Planning and Public Realm	**9,501**	104	**9,605**
Housing	**70,967**	(1,329)	**69,638**
Sub-Total Gross Expenditure	**853,270**	**18,004**	**871,274**
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**

Executive Management Team:	2017/18 Revised Budget £'000	Budget Change £'000	2018/19 Draft Budget £'000
Chief of Staff	**5,518**	(5,518)	**0**
City Treasurer	**66,049**	30,323	**96,371**
Director of Policy, Performance and Communications	**15,572**	203	**15,775**
Executive Director Adult Services	**146,157**	(2,186)	**143,971**
Executive Director of Childrens Services	**140,663**	(1,399)	**139,264**
Executive Director of City Management and Communities	**137,373**	(4,226)	**133,147**
Executive Director of Corporate Services	**20,894**	4,214	**25,109**
Executive Director of Growth, Housing and Planning	**321,044**	(3,407)	**317,637**
Sub-Total Gross Expenditure	**853,270**	**18,004**	**871,274**
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**

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	**7,549**	(101)	**7,449**
Deputy Leader and Business, Culture and Heritage	**(3,527)**	(866)	**(4,393)**
Adult Social Services and Public Health	**58,954**	(3,962)	**54,992**
City Highways	**(43,228)**	(3,806)	**(47,034)**
Children, Families and Young People	**31,416**	(2,957)	**28,459**
Environment, Sports and Community	**50,532**	(1,334)	**49,198**
Finance, Property and Corporate Services	**46,395**	26,540	**72,935**
Planning and Public Realm	**2,011**	(383)	**1,628**
Housing	**26,161**	(3,231)	**22,930**
Sub-Total Gross Expenditure	**176,263**	**9,900**	**186,163**
Core Funding:			
Council Tax Income	**(52,022)**	(331)	**(52,353)**
Business Rates (Net of Tariff)	**(78,080)**	(55,730)	**(133,810)**
Revenue Support Grant	**(46,161)**	46,161	**0**
Sub-Total Core Funding	**(176,263)**	**(9,900)**	**(186,163)**
Executive Management Team:	**2017/18 Revised Budget £'000**	**Budget Change £'000**	**2018/19 Draft Budget £'000**
Chief of Staff	**2,838**	(2,838)	**0**
City Treasurer	**32,411**	28,392	**60,803**
Director of Policy, Performance and Communications	**7,664**	204	**7,868**
Executive Director Adult Services	**58,954**	(3,962)	**54,992**
Executive Director of Childrens Services	**31,416**	(2,957)	**28,459**
Executive Director of City Management and Communities	**2,330**	(5,445)	**(3,115)**
Executive Director of Corporate Services	**12,772**	1,037	**13,810**
Executive Director of Growth, Housing and Planning	**27,878**	(4,531)	**23,347**
Sub-Total Gross Expenditure	**176,263**	**9,900**	**186,163**
Core Funding:			
Council Tax Income	**(52,022)**	(331)	**(52,353)**
Business Rates (Net of Tariff)	**(78,080)**	(55,730)	**(133,810)**
Revenue Support Grant	**(46,161)**	46,161	**0**
Sub-Total Core Funding	**(176,263)**	**(9,900)**	**(186,163)**
*Revenue Support Grant has been rolled into Business Rates			

Schedule 4a - 2018/19 Total Service Budget Changes by Cabinet Member and Executive Management Team

Cabinet / EMT	City Treasurer	Director of Policy, Performance and Communications	Executive Director Adult Services	Executive Director of Childrens Services	Executive Director of City Management and Communities	Executive Director of Corporate Services	Executive Director of Growth, Housing and Planning	Total
Leader of the Council	(2)	(96)	0	0	0	(2)	0	**(101)**
Deputy Leader and Business, Culture and Heritage	0	(17)	0	0	(178)	0	(343)	**(538)**
Adult Social Services and Public Health	0	0	(7,948)	0	0	0	0	**(7,948)**
City Highways	0	0	0	0	(4,248)	0	0	**(4,248)**
Children, Families and Young People	0	0	0	(3,080)	0	0	0	**(3,080)**
Environment, Sports and Community	0	(200)	0	0	(1,749)	0	0	**(1,949)**
Finance, Property and Corporate Services	(13,197)	(3)	0	0	0	(1,019)	(2,630)	**(16,848)**
Planning and Public Realm	0	0	0	0	0	0	(933)	**(933)**
Housing	0	0	0	0	0	0	(2,681)	**(2,681)**
Sub-Total Savings	**(13,199)**	**(316)**	**(7,948)**	**(3,080)**	**(6,175)**	**(1,022)**	**(6,587)**	**(38,327)**
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**
Housing	0	0	0	0	0	0	0	**0**
Sub-Total Growth for Pressures	**0**	**0**	**3,986**	**123**	**730**	**0**	**2,056**	**6,895**
Total Net Savings	**(13,199)**	**(316)**	**(3,962)**	**(2,957)**	**(5,445)**	**(1,022)**	**(4,531)**	**(31,432)**

**Outside of the budget changes due to MTP Savings and Growths shown above, services within Cabinet Member portfolios have processed routine "net-nil" adjustments between income and expenditure that are reflected in Schedules 1, 2 and 3.*

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Schedule 4b - Detail of 2018/19 Service Budget Changes

	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)**
Vacancy Factor	(51)	0	**(51)**
Sub-Total Savings	**(101)**	**0**	**(101)**
Total Leader of the Council	**(101)**	**0**	**(101)**
City Management and Communities Controllable Spend Review	(111)	0	**(111)**
Licensing pre-application advice service	0	(50)	**(50)**
External Income - Economy	0	(200)	**(200)**
Place Shaping income	0	(100)	**(100)**
Vacancy Factor	(78)	0	**(78)**
Sub-Total Savings	**(189)**	**(350)**	**(539)**
Total Deputy Leader and Business, Culture and Heritage	**(189)**	**(350)**	**(539)**
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)**
Vacancy Factor	(145)	36	**(109)**
Sub-Total Savings	**(4,038)**	**(3,910)**	**(7,948)**
Total Adult Social Services and Public Health	**(1,381)**	**(2,581)**	**(3,962)**

Schedule 4b Continued - Detail of 2018/19 Service Budget Changes

	Budget Change Type £'000		
Schedule 4 - Detail of 2018/19 Budget Changes	**Expenditure**	**Income**	**Net Change**
Abnormal Loads cost recovery	(100)	0	**(100)**
Bay suspensions relocation service	0	(250)	**(250)**
Better working in our neighbourhoods	(900)	0	**(900)**
Charging for revisits - food team	0	(20)	**(20)**
City Management and Communities Controllable Spend Review	(273)	0	**(273)**
Compliance and Audit Contract – contract efficiencies	(50)	0	**(50)**
Digital transformation further City Management and Communities savings	(152)	0	**(152)**
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)**
Public Protection And Licensing Additional Income	0	(200)	**(200)**
Review of Highways services including Road Management	(750)	0	**(750)**
Temporary structures charging review	0	(150)	**(150)**
Vacancy Factor	(73)	0	**(73)**
Sub-Total Savings	**(3,198)**	**(1,050)**	**(4,248)**
Total City Highways	**(3,198)**	**(1,050)**	**(4,248)**
Revised figure based on change in inflation expectation and minimum wage changes, plus 2% volume changes	123	0	**123**
Sub-Total Growth for Pressures	**123**	**0**	**123**
Children's Transformation – Commissioning contracts	(467)	0	**(467)**
Children's - Reshape 0-19 service model	0	(450)	**(450)**
Children's Transformation - Education and Disability	(130)	(925)	**(1,055)**
Children's Transformation - Other family services savings	(215)	(200)	**(415)**
Children's Transformation - Resources and Management	(550)	0	**(550)**
Vacancy Factor	(160)	17	**(143)**
Sub-Total Savings	**(1,522)**	**(1,558)**	**(3,080)**
Total Children, Families and Young People	**(1,399)**	**(1,558)**	**(2,957)**
Waste Disposal Costs	730	0	**730**
Sub-Total Growth for Pressures	**730**	**0**	**730**
Additional commercial activity in libraries	0	(50)	**(50)**
Cemeteries Increased Capacity	0	0	**0**
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)**
Vacancy Factor	(117)	9	**(108)**
Voluntary sector support	(200)	0	**(200)**
Sub-Total Savings	**(1,133)**	**(811)**	**(1,944)**
Total Environment, Sports and Community Total	**(403)**	**(811)**	**(1,214)**

Schedule 4b Continued - Detail of 2018/19 Service Budget Changes

	Budget Change Type £'000		
Schedule 4 - Detail of 2018/19 Budget Changes	**Expenditure**	**Income**	**Net Change**
Major Projects	0	1,477	**1,477**
Corporate Property Strategy	0	579	**579**
Sub-Total Growth for Pressures	**0**	**2,056**	**2,056**
Budget cleanse	(6,000)	0	**(6,000)**
Business rates	(2,908)	0	**(2,908)**
City Treasurers - Treasury Management and review of non-pay budgets	0	(1,412)	**(1,412)**
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)**
Vacancy Factor	(164)	0	**(164)**
Wireless and small Cell concessions	0	(800)	**(800)**
Sub-Total Savings	**(13,041)**	**(3,813)**	**(16,854)**
Total Finance, Property and Corporate Services	**(13,041)**	**(1,757)**	**(14,798)**
Development Planning Income	0	(450)	**(450)**
Planning Performance Agreements	0	(275)	**(275)**
Proceeds of Crime Act - Planning Enforcement	0	(150)	**(150)**
Vacancy Factor	(58)	0	**(58)**
Sub-Total Savings	**(58)**	**(875)**	**(933)**
Total Planning and Public Realm	**(58)**	**(875)**	**(933)**
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)**
Vacancy Factor	(14)	0	**(14)**
Sub-Total Savings	**(2,104)**	**(577)**	**(2,681)**
Total Housing	**(2,104)**	**(577)**	**(2,681)**
Service Summary:			
Sub-Total Growth for Pressures	3,510	3,385	**6,895**
Sub-Total Savings	(25,382)	(12,945)	**(38,327)**
Net Total Savings	**(21,872)**	**(9,560)**	**(31,432)**

**Outside of the budget changes due to MTP Savings and Growths shown above, services within Cabinet Member portfolios have processed routine "net-nil" adjustments between income and expenditure that are reflected in Schedules 1, 2 and 3.*

Schedule 4c - Detail of 2018/19 Budget Changes

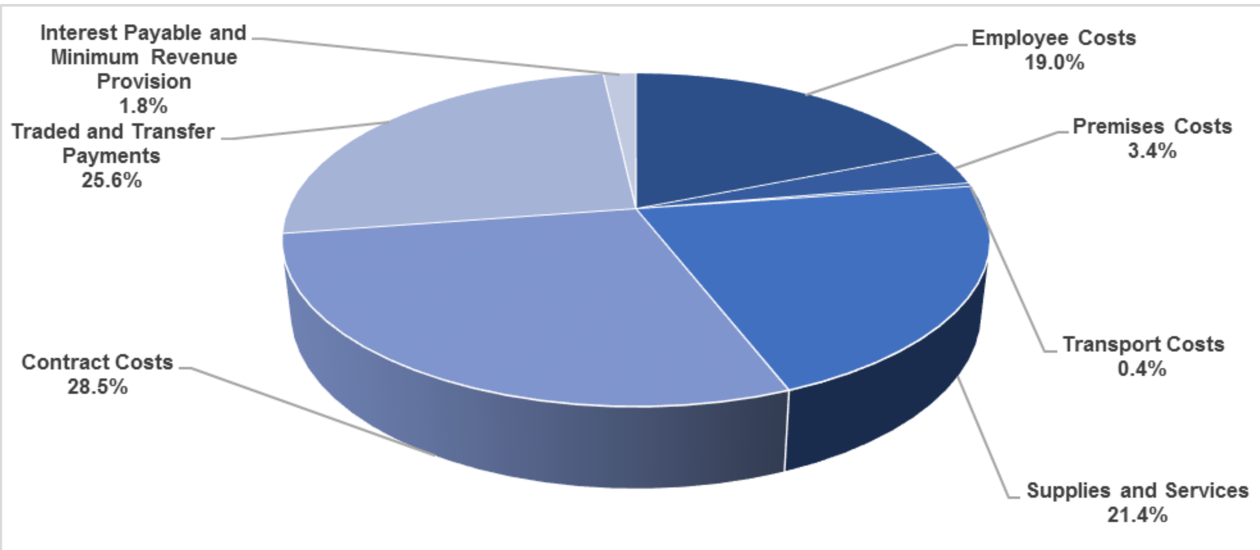
	2018/19 £'000
Total Service Budget Changes	**(31,432)**

Financed by Budget Changes:	
Council Tax:	
Council Tax Changes	(331)
Sub-Total Council Tax Changes	**(331)**
Business Rates Budgeted Technical Reserves Appropriations:	
Baseline Funding: Pooled Business Rates and Technical Adjustments	8,100
Sub-Total Business Rates Changes	**8,100**
Non-Core Funding Changes:	
New Homes Bonus Loss	805
Inflation	7,643
Risks	3,000
Pension Fund Deficit Recovery	4,000
Pressures	4,915
Capital Programme	3,300
Sub-Total Non-Core Funding Changes	**23,663**
Total Financed by Budget Changes	**31,432**

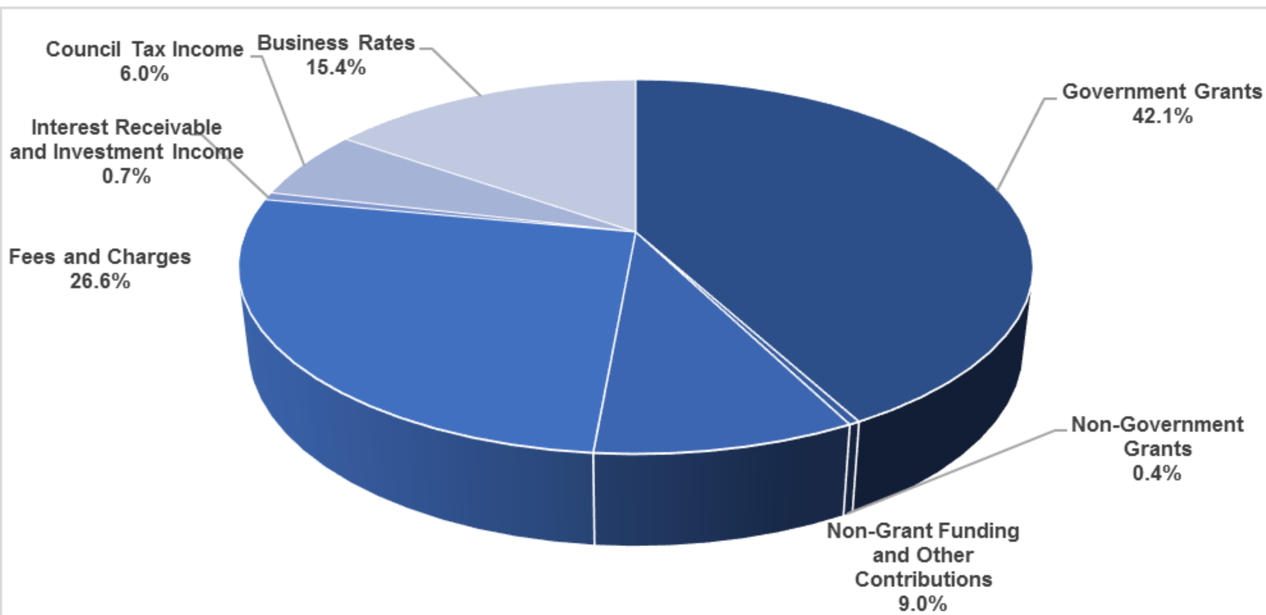
Schedule 5 – Subjective Analysis

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

Schedule 5 - Subjective Analysis - Expenditure			
Subjective Analysis	**2017/18 Revised Budget £'000**	**Budget Change £'000**	**2018/19 Draft Budget £'000**
Employee Costs	**166,178**	(1,056)	**165,122**
Premises Costs	**31,917**	(2,113)	**29,804**
Transport Costs	**3,093**	(31)	**3,062**
Supplies and Services	**163,178**	22,888	**186,066**
Contract Costs	**252,665**	(4,117)	**248,548**
Traded and Transfer Payments	**224,021**	(867)	**223,154**
Interest Payable and Minimum Revenue Provision	**12,217**	3,300	**15,517**
Sub-Total Expenditure	**853,270**	**18,004**	**871,274**



Schedule 5 - Subjective Analysis - Income			
Subjective Analysis	**2017/18 Revised Budget £'000**	**Budget Change £'000**	**2018/19 Draft Budget £'000**
Government Grants	**(365,141)**	(1,378)	**(366,519)**
Non-Government Grants	**(2,488)**	(790)	**(3,278)**
Non-Grant Funding and Other Contributions	**(76,690)**	(1,461)	**(78,150)**
Fees and Charges	**(228,313)**	(3,063)	**(231,376)**
Interest Receivable and Investment Income	**(4,375)**	(1,412)	**(5,787)**
Sub-Total Income	**(677,007)**	**(8,104)**	**(685,111)**
Core Funding:			
Council Tax Income	**(52,022)**	(331)	**(52,353)**
Business Rates (Net of Tariff)	**(78,080)**	(55,730)	**(133,810)**
Revenue Support Grant	**(46,161)**	46,161	**0**
Sub-Total Core Funding	**(176,263)**	**(9,900)**	**(186,163)**
Total Income	**(853,270)**	**(18,004)**	**(871,274)**



Schedule 6 - General Fund Balance and Reserves

The following movements have been projected as at Period 8:

General Fund Balance and Earmarked Reserve	2017/18 Opening Balance £'000	Projected In-Year Movement	2017/18 Projected Closing Balance £'000
General Fund Balance	**48,777**	6,302	**55,079**
General Fund Earmarked Reserves	**110,298**	6,002	**116,300**
Ring-fenced Earmarked Reserves	**14,747**	3,011	**17,758**
Receipts in Advance Reserves	**19,836**	0	**19,836**
Total General Fund Earmarked Reserves	**144,881**	9,013	**153,894**

Schedule 7 – Levies, Special Expenses and Precepts

Levies

The Council is required to raise levies from its taxpayer on behalf of three separate bodies. The levies are as follows:

Levying Body	2017/18 Budget £'000	Budget Change £'000	2018/19 Draft Budget £'000
London Pension Fund Authority *	1,967	TBC	1,967
Lee Valley Regional Park Authority *	358	TBC	358
Environment Agency*	288	TBC	288
Total	**2,613**	**0**	**2,613**

*Details of the 2018/19 Levy from these bodies have yet to be received.
Any details that are received subsequent to despatch of this report will be verbally reported at the meeting

Special Expenses

The Montpelier Square Garden Committee raise a charge (Special Expense) against the local residents who have access to this private garden. This charge is recovered as part of the Council Tax bill for those relevant residents as a specific and separate additional charge.

The Garden Square Committee have notified the Council of their desire to increase the annual charge to relevant residents from £45,000 to £47,000 for 2018/19 - a 4% increase. The Committee is not subject to the same rules regarding the need to hold a referendum as is the Council.

	2017/18 Budget £'000	Budget Change £'000	2018/19 Draft Budget £'000
Montpelier Square Garden Committee	**45,000**	**2,000**	**47,000**

Precepts

The Council, as the "Billing Authority", is responsible for billing for major or minor preceptors on behalf of the following organisations:

a) Greater London Authority

The GLA make a Council Tax charge to residents across all 32 London Boroughs (plus the City of London at a reduced rate which pays for its own policing). This charge is used to fund a number of subsidiary components within the overall GLA group. The average Band D charge across all 32 boroughs has been recommended to rise from £280.02 to £294.23 (This consists of an increase of £12.00 in the policing element and £2.21 (2.99%) increase in the non-police element of the precept). Details of the charge are set out below:

Breakdown of GLA Budget Funded by Precept	2017/18 Budget £'000	Budget Change £'000	2018/19 Draft Budget £'000
GLA (Mayor)	63,200	4,200	67,400
GLA (Assembly)	2,600	0	2,600
Mayor's Office for Policing And Crime (MOPAC)	592,000	47,000	639,000
London Fire and Emergency Planning Authority (LFEPA)	138,200	9,300	147,500
Transport for London (TfL)	6,000	0	6,000
Greater London Authority Group	**802,000**	**60,500**	**862,500**

GLA Precept Amount (Band D Equivalent)	2017/18 £	Change £	2018/19 £
Band D Amount - 32 Borough's	280.02	14.21	294.23
Band D Amount - Common Council City of London	73.89	2.21	76.10

Schedule 7 – Levies, Special Expenses and Precepts Continued

b) <u>Queen's Park Community Council</u>

The Queen's Park Community Council is the only Parish Council in London and was established in April 2014. Queen's Park propose not to increase their precept for 2018/19.

	2017/18 £	Change £	2018/19 £
Queen's Park Precept (Band D Equivalent)	**46.38**	**0**	**46.38**

Schedule 8 – Localised Business Rates, Settlement Funding Assessment and Council Tax
Settlement Funding Assessment:

Breakdown	2017/18 £'000	Change £'000	2018/19 £'000
Business Rates (Net of Tariff)	**(78,080)**	(55,730)	**(133,810)**
Revenue Support Grant	**(46,161)**	46,161	**0**
Settlement Funding Assessment	**(124,241)**	(9,569)	**(137,110)**

Council Tax

The taxbase across the constituent parts of the Council area has changed due to organic growth in the taxbase and changes to the level of taxpayers eligible for the Council Tax Reduction scheme

Breakdown of Taxbase	2017/18	Change	2018/19
Queen's Park Community Council (No.)	3,346.26	60.35	3,406.61
Montpelier Square Garden Committee (No.)	94.16	1.52	95.68
Rest of the City of Westminster (No.)	123,535.17	1,795.84	125,331.01
Total Taxbase	**126,975.59**	**1,857.71**	**128,833.30**

The Council and other precepting bodies (including for Special Expense) have indicated their Band D Council Tax amounts for the forthcoming year will be as per the table below:

Breakdown of Band D £	2017/18 £	Change £	2018/19 £
Westminster City Council	408.12	8.15	416.27
Greater London Authority Precept	280.02	14.21	294.23
Queen's Park Community Council Precept	46.38	0.00	46.38
Montpelier Square Special Expense	477.91	13.31	491.22

As a consequence of changes to the taxbase and Band D amounts, the total expected to be raised from Council Tax for each organisation is as shown below:

Total Council Tax Yield	2017/18 Revised Budget £'000	Budget Change £'000	2018/19 Draft Budget £'000
Westminster City Council	51,821	1,808	53,629
Greater London Authority	35,556	2,351	37,907
Queen's Park Community Council	155	3	158
Montpelier Square	45	2	47

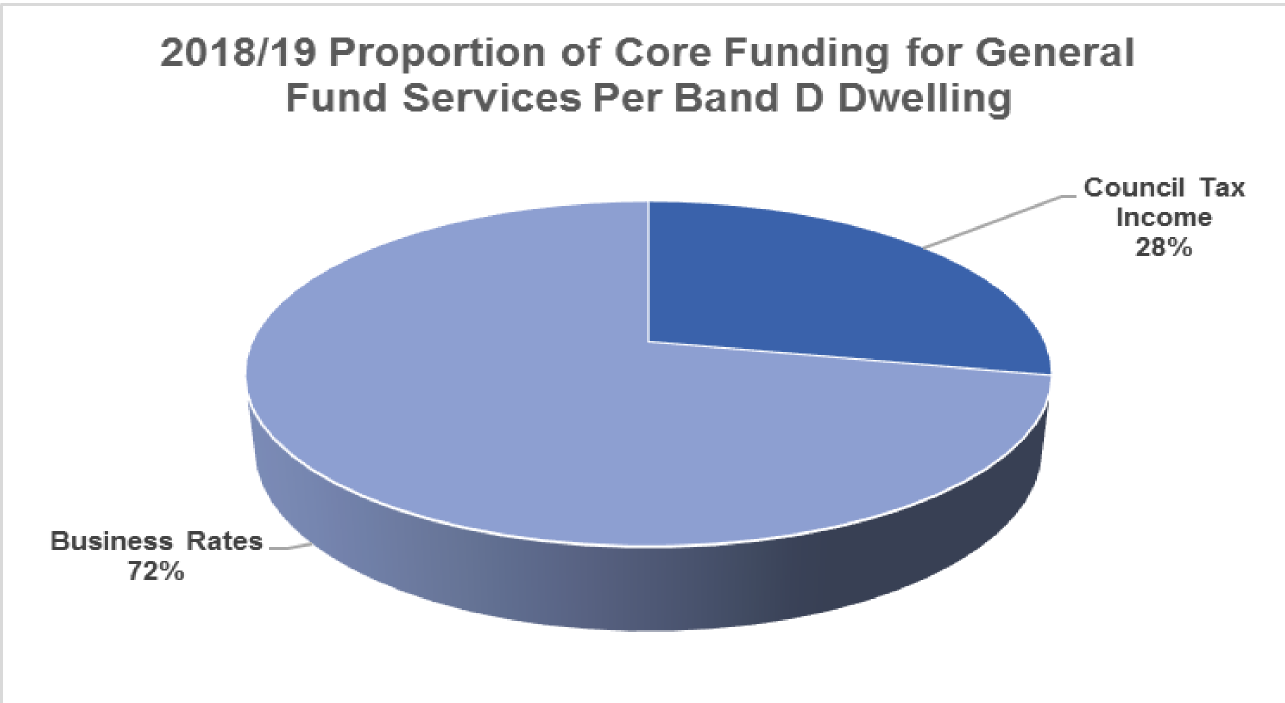
DCLG has allowed upper-tier authorities with Adults Social Care responsibilities to increase their council tax by up to an additional 2% in 2016/17 and a maximum of 6% between 2017/18 to 2019/20. The Council took advantage of this additional income source in 2016/17 and 2017/18 by increasing Council Tax by 2% in both years and recommendations elsewhere in this report propose 2% is added to the 2018/19 charge

Schedule 9 General Fund Services per Band D Dwelling

The cost of delivering services to residents and visitors equates to £1,444.99 for every Band D equivalent household in the borough, this equates to £27.79 per week.

The GF is financed by locally retained, pooled Business Rate income and locally raised Council Tax income.

Taking the cost of providing GF services per Band Dwelling of £1,444.99, the chart below illustrates as a proportion how the different sources of Core Funding contributes towards this.



Schedule 10 Housing Revenue Account

Cabinet Member:	2017/18 Revised Budget £'000	Budget Change £'000	2018/19 Draft Budget £'000
Business Income			
Rent Income – Dwellings	**(74,474)**	10	**(74,464)**
Rent Income – Sheds and Garages	**(1,058)**	(191)	**(1,248)**
Service Charges – Tenant	**(2,996)**	(50)	**(3,046)**
Service Charges – Lessee	**(11,188)**	(437)	**(11,625)**
Heating and Hot Water	**(4,501)**	(729)	**(5,230)**
Sub-Total Business Income	**(94,216)**	**(1,396)**	**(95,612)**
Other Income			
Corporate Property Income	**(7,625)**	(275)	**(7,900)**
Major Works Lessee Income	**(9,792)**	1,596	**(8,196)**
Miscellaneous Income	**(1,392)**	(1,207)	(2,599)
Interest on Balances	**(652)**	327	**(325)**
Sub-Total Other Income	**(19,462)**	**442**	**(19,020)**
Total Income	**(113,678)**	**(955)**	**(114,632)**

Management Costs			
Housing Management Fee	**22,726**	2,361	**25,087**
Business Transformation	**4,200**	(3,700)	**500**
TMO Fees	**1,442**	31	**1,473**
Legal Costs	**1,326**	(187)	**1,139**
Other Management Costs	**1,954**	(41)	**1,914**
IT Services	**1,130**	563	**1,693**
Sub-Total Management Costs	**32,779**	**(973)**	**31,806**
Total Special Services	**8,278**	**1,045**	**9,323**

Repairs			
Planned Maintenance	**5,107**	(789)	**4,318**
Void Repairs	**1,000**	-	**1,000**
Responsive Repairs	**9,679**	3,303	**12,982**
Corporate Property Repairs	**2,646**	187	**2,833**
Total Repairs and Maintenance	**18,432**	**2,701**	**21,133**
Total Directly Managed Costs	**59,489**	**2,773**	**62,262**

Central Support Service Overheads and Recharges	**8,900**	1,309	**10,209**
Miscellaneous Expenditure/Income	**36,872**	(1,705)	**35,167**
Total Expenditure	**105,260**	2,377	**107,638**
Net In year deficit / (surplus)	**(8,417)**	**1,423**	**(6,994)**

HRA Reserves			
Opening HRA Balance Brought Forward	**(43,484)**	28,895	**(14,589)**
Budgeted Net In year deficit / (surplus)	**(8,417)**	1,523	**(6,894)**
Budget Capital expenditure funded from balances	**37,312**	(26,312)	**11,000**
Projected HRA Balance Carried Forward	**(14,589)**	**4,106**	**(10,484)**

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.

<u>Key Initiatives</u>

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 MHCLG 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

Equalities Impact Assessments

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.

Additionally, two lever arch files 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 7th March 2018.

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
	Finance, Property & Corporate Services (Councillor Mitchell)			
1.16a	Reduced spend on Legal Services	Corporate Services (John Quinn)	100	Part 1 Only
1.18	Increase in Council Tax Base	City Treasurer's (Steve Mair)	475	Part 1 Only
1.20	Revenue & Benefits – contract re-procurement	City Treasurer's (Steve Mair)	1,320	Part 1 Only
1.24	Commercial operating model for procurement	Corporate Services (John Quinn)	150	Part 1 Only
1.25	Corporate Property Strategy	Growth, Planning & Housing (Barbara Brownlee)	476	Part 1 Only
1.37	Transition to new communication contract/model	Corporate Services (John Quinn)	240	Part 1 Only
1.40	Property rationalisation and asset management	Growth, Planning & Housing (Barbara Brownlee)	2,007	Part 1 Only
1.44	Recharging of Matrix contract	Corporate Services (John Quinn)	50	Part 1 Only
1.52	Treasury Management and review of non-pay budgets	City Treasurer's (Steve Mair)	1,412	Part 1 Only
1.54	Review of ICT budgets	Corporate Services (John Quinn)	200	Part 1 Only
1.55	Legal joint venture	Corporate Services (John Quinn)	200	Part 1 Only
1.57	Commercialisation of financial expertise	City Treasurer's (Steve Mair)	50	Part 1 Only
1.58	Wireless and small cell concessions	City Treasurer's (Steve Mair)	800	Part 1 Only
1.61	Review of Insurance	City Treasurer's (Steve Mair)	180	Part 1 Only
1.62	Business rates	City Treasurer's (Steve Mair)	2,908	Part 1 Only
1.63	Property - sustainable green energy	Growth, Planning & Housing (Barbara Brownlee)	122	Part 1 Only
1.65	Other Policy, Performance and Communications savings	Policy, Performance & Communications (Julia Corkey)	50	Part 1 Only
1.66	Accounts and Budget Cleanse	City Treasurer's (Steve Mair)	6,000	Part 1 Only
1.68	Additional Vacancy Factor	VARIOUS - Apportioned	796	Part 1 Only
1.69	Voluntary Westminster Community Contribution	City Treasurer's (Steve Mair)	nil	Part 1 Only
	Business, Culture & Heritage (Councillor Davis)			
2.7	Economy Income	Growth, Planning & Housing (Barbara Brownlee)	200	Part 1 Only
2.8	Place Shaping Income	Growth, Planning & Housing (Barbara Brownlee)	100	Part 1 Only
6.9	Licensing pre-application advice service	City Management & Communities (Stuart Love)	50	Part 1 Only
6.10	Charging for revisits - food team	City Management & Communities (Stuart Love)	20	Part 1 Only
	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
3.17	Commissioning Strategy Programme: Alternative delivery vehicles including commercial trading	Adult Services (Sue Redmond)	100	Part 1 Only
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
3.20	Commissioning Strategy Programme: Review care pathways and re-commission key services	Adult Services (Sue Redmond)	630	Part 1 Only
3.21	Commissioning Strategy Programme: Improved transition and promoting independence	Adult Services (Sue Redmond)	200	Part 1 Only
3.22	Whole Systems Integration Programme: Joint Commissioning, capitated budgets & accountable care partnerships	Adult Services (Sue Redmond)	200	Part 1 Only
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
3.26	Front Door and Demand Management Programme: Asset Based Commissioning of prevention services	Adult Services (Sue Redmond)	100	Part 1 Only
3.27	Commissioning Strategy Programme: Remodel In-House service Portfolio	Adult Services (Sue Redmond)	150	Part 1 Only
3.28	Commissioning Strategy Programme: Direct Payments as first choice	Adult Services (Sue Redmond)	100	Part 1 Only
3.29	Commissioning Strategy Programme: Forensic needs and payments analysis	Adult Services (Sue Redmond)	100	Part 1 Only
3.30	Commissioning Strategy Programme: E-Market dynamic purchasing system	Adult Services (Sue Redmond)	50	Part 1 Only
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
3.32	Whole Systems Integration Programme: Integrated back office functions with Public Health and Health	Adult Services (Sue Redmond)	250	Part 1 Only
3.33	Commissioning Strategy Programme: Review of workforce costs	Adult Services (Sue Redmond)	150	Part 1 Only
3.35	Adult Social Care Levy	Adult Services (Sue Redmond)	1,003	Part 1 Only
3.36	Commissioning Strategy Programme: Delivery of Differential Charging Priorities	Adult Services (Sue Redmond)	250	Part 1 Only
3.37	Whole Systems Integration Programme: Increase in IBCF grant	Adult Services (Sue Redmond)	3,596	Part 1 Only
3.38	Public Health Contract Savings	Adult Services (Sue Redmond)	5,484	Part 1 Only

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
	Housing (Councillor Robathan)			
4.13	Rough Sleeping and Supported Housing	Growth, Planning & Housing (Barbara Brownlee)	2,000	Part 1 Only
4.16	Spot purchases of housing for intermediate affordable housing	Growth, Planning & Housing (Barbara Brownlee)	577	Part 1 Only
4.17	CityWest Homes property fee income	Growth, Planning & Housing (Barbara Brownlee)	90	Part 1 Only
	City Highways (Councillor Chalkley)			
1.3	Digital transformation - further City Management and Communities savings	City Management & Communities (Stuart Love)	152	Part 1 Only
5.10	Compliance and Audit Contract – contract efficiencies	City Management & Communities (Stuart Love)	50	Part 1 Only
5.13	Highways - Expenditure Review	City Management & Communities (Stuart Love)	100	Part 1 Only
5.14	Review of Highways service including Road Management	City Management & Communities (Stuart Love)	750	Part 1 Only
5.15	Provision of electric vehicle charging points	City Management & Communities (Stuart Love)	130	Part 1 Only
5.16	Flexible car sharing operators	City Management & Communities (Stuart Love)	300	Part 1 Only
5.17	Direct deployment of Parking Marshals	City Management & Communities (Stuart Love)	500	Part 1 Only
5.18	Parking: Business Processing and Technology Contract Review	City Management & Communities (Stuart Love)	550	Part 1 Only
5.19	Pay to Park Benchmarking	City Management & Communities (Stuart Love)	300	Part 1 Only
5.20	Bay suspensions relocation service	City Management & Communities (Stuart Love)	250	Part 1 Only
5.21	Temporary structures charging review	City Management & Communities (Stuart Love)	150	Part 1 Only
5.22	Abnormal loads cost recovery	City Management & Communities (Stuart Love)	100	Part 1 Only
6.11	Better working in our neighbourhoods	City Management & Communities (Stuart Love)	900	Part 1 Only
6.12	Additional income from Waste Enforcement following an increase in the statutory fees payable.	City Management & Communities (Stuart Love)	200	Part 1 Only
	Environment, Sports & Community (Councillor Harvey)			
7.12	Sports and leisure savings Phase 2	City Management & Communities (Stuart Love)	670	Part 1 Only
7.15	Libraries & Archives – stock efficiencies	City Management & Communities (Stuart Love)	100	Part 1 Only
7.16	Libraries & Archives – additional commercial activity	City Management & Communities (Stuart Love)	50	Part 1 Only
7.18	Leisure additional income	City Management & Communities (Stuart Love)	100	Part 1 Only
7.21	City Management and Communities controllable spend review	City Management & Communities (Stuart Love)	550	Part 1 Only
7.23	Voluntary sector support	Policy, Performance & Communications (Julia Corkey)	200	Part 1 Only
	Children, Families & Young People (Councillor Holloway)			
8.1A	Specialist Intervention - Perfect Pathways	Children's Services (Melissa Caslake)	205	Part 1 Only
8.1B	Children's Commissioning Directorate Restructure	Children's Services (Melissa Caslake)	120	Part 1 Only
8.1C	Tracking and Survey Re-commissioning	Children's Services (Melissa Caslake)	142	Part 1 Only
8.5A	Review of Dedicated Schools Grant	Children's Services (Melissa Caslake)	575	Part 1 Only
8.5B	Development of Traded Offer	Children's Services (Melissa Caslake)	350	Part 1 Only
8.5C	Asset Strategy - Feasibility Budget	Children's Services (Melissa Caslake)	10	Part 1 Only
8.5D	Schools Standards Service Staffing Efficiencies	Children's Services (Melissa Caslake)	20	Part 1 Only
8.5E	Impact of proposed reduction in staffing budget Westminster Disabled Children Team 2018-19	Children's Services (Melissa Caslake)	50	Part 1 Only
8.5F	An improved offer of independent travel training	Children's Services (Melissa Caslake)	50	Part 1 Only
8.6A	Release Uncommitted Finance and Resources Budget	Children's Services (Melissa Caslake)	375	Part 1 Only
8.6B	Post Tri-Borough to Bi-Borough Staffing Reviews - Management Savings	Children's Services (Melissa Caslake)	175	Part 1 Only
8.9A	Placement Cost Reduction and Third Party Contributions	Children's Services (Melissa Caslake)	240	Part 1 Only
8.9B	Service Reviews - Restructures	Children's Services (Melissa Caslake)	175	Part 1 Only
8.22	Health Visiting Services Contract Savings in Westminster - 0-19 Service Savings	Children's Services (Melissa Caslake)	450	Part 1 Only
	Planning & Public Realm (Councillor Astaire)			
9.8	Development Planning Income	Growth, Planning & Housing (Barbara Brownlee)	450	Part 1 Only
9.10	Planning Performance Agreements	Growth, Planning & Housing (Barbara Brownlee)	275	Part 1 Only
9.11	Proceeds of Crime Act - Planning Enforcement	Growth, Planning & Housing (Barbara Brownlee)	150	Part 1 Only

Annex C - Council Tax Resolution

That the Council be recommended to resolve as follows:

1. It be noted that on the 24th of January 2018, the Council calculated the Council Tax Base for 2018/19:

    a) For the whole Council area as **128,833.30** [Item T in the formula in Section 31B of the Local Government Finance Act 1992, as amended (the "Act"]; and

    b) For dwellings in the Montpelier Square area as **95.68**

    c) For dwellings in the Queen's Park Community Council area as **3,406.61**

2. Calculate that the Council Tax Requirement for the Council's own purposes for 2018/19 (excluding Special Expenses) is **£53,629,439**

3. That the following amounts be calculated for the year 2018/19 in accordance with Sections 31 to 36 of the Act:

    a) **£854,521,051** being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act taking into account all precepts issued to it.

    b) **£800,844,612** being the aggregate amounts which the Council estimates for items set out in Section 31A(3) of the Act.

    c) **£53,676,439** being the amount by which the aggregate at 3(a) above exceeds the aggregate at 3(b) above, calculated by the Council in accordance with Section 31A(4) of the Act as its Council Tax Requirement for the year *(Item R in the formula in Section 31B of the Act).*

    d) **£416.63** being the amount at 3(c) above (Item R) all divided by Item T (1(a) above), calculated by the Council in accordance with Section 31B of the Act, as the Basic Amount of its Council Tax for the year (<u>including Special Amounts</u>)

    e) **£47,000** being the amount of the Montpelier Square Garden Committee special item referred to in Section 34(1) of the Act.

f) **£416.27** being the amount at 3(d) above less the result given by dividing the amount at 3(e) above by Item T (1(a) above), calculated by the Council, in accordance with Section 34(2) of the Act, as the basic amount of the Council Tax for the year for those dwellings in those parts of the area to which no special item relates.

4. To note that the Greater London Authority have issued a precept to the Council in accordance with Section 40 of the Local Government Finance Act 1992 for each category of dwelling in the Council's area as indicated in the table below:

Ratio	Band	Greater London Authority
6	A	196.15
7	B	228.85
8	C	261.54
9	D	**294.23**
11	E	359.61
13	F	425.00
15	G	490.38
18	H	588.46

5. To note that the Queen's Park Community Council have issued a precept to the Council in accordance with Section 40 of the Local Government Finance Act 1992 for each category of dwelling in the Queen's Park Community Council area as indicated in the table below:

Ratio	Band	Queen's Park Community Council
6	A	30.92
7	B	36.07
8	C	41.23
9	D	**46.38**
11	E	56.69
13	F	66.99
15	G	77.30
18	H	92.76

6. To note that the Montpelier Square Garden Committee Special Expense for each category of dwelling as indicated in the table below:

Ratio	Band	Montpelier Square Garden Committee
6	A	327.48
7	B	382.06
8	C	436.64
9	D	**491.22**
11	E	600.38
13	F	709.54
15	G	818.70
18	H	982.44

7. That the Council, in accordance with Sections 30 and 36 of the Local Government Finance Act 1992 hereby sets the aggregate amounts shown in the tables below as the amounts of Council Tax for 2018/19 for each part of its area and for each category of dwellings:

Westminster Council Requirement & Special Expenses

Ratio	Band	Queen's Park Community Council	Montpelier Square Garden Committee	All Other Parts of Westminster City Council
6	A	308.43	604.99	277.51
7	B	359.84	705.83	323.77
8	C	411.25	806.66	370.02
9	D	**462.65**	**907.49**	**416.27**
11	E	565.46	1,109.15	508.77
13	F	668.27	1,310.82	601.28
15	G	771.08	1,512.48	693.78
18	H	925.30	1,814.98	832.54

Westminster Council Requirement, Special Expenses and Precepts

Ratio	Band	Queen's Park Community Council	Montpelier Square Garden Committee	All Other Parts of Westminster City Council
6	A	504.58	801.14	473.66
7	B	588.69	934.68	552.62
8	C	672.79	1,068.20	631.56
9	**D**	**756.88**	**1,201.72**	**710.50**
11	E	925.07	1,468.76	868.38
13	F	1,093.27	1,735.82	1,026.28
15	G	1,261.46	2,002.86	1,184.16
18	H	1,513.76	2,403.44	1,421.00

8. That the City Treasurer be authorised to collect (and disperse from the relevant accounts) the Council Tax and the National Non-Domestic Rate and that whenever the office of the City Treasurer is vacant or the holder thereof is for any reason unable to act, the Chief Executive or such other authorised post-holder be authorised to act as before said in his stead.

9. That notice of amounts of Council Tax be published.

10. That the Council does not adopt a special instalment scheme for Council tenants.

11. That the Council offers as standard the following patterns for Council Tax and National Non-Domestic Rate: payment by 1, 2, 4, 10 or 12 instalments and that delegated officers have discretion to enter into other agreements that facilitate the collection of Council Tax and National Non-Domestic Rate.

12. That the Council does not offer payment discounts to Council Taxpayers.

13. That the Council resolve to charge owners for Council Tax in all classes of chargeable dwellings prescribed for the purposes of Section 8 of the Act.

City of Westminster

Cabinet

Decision Maker:	**Cabinet**
Date	**19 February 2018**
Classification:	**For General Release**
Title:	**Capital Strategy 2018/19 to 2022/23, forecast position for 2017/18 and future years forecasts summarised up to 2031/32.**
Wards Affected:	**All**
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 £2.594bn expenditure budget, funded by £785.8m external funding, £438.6m capital receipts with a £1.369bn 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 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.

1.2. To facilitate effective planning of both capital and revenue budget, the capital strategy was considered by Cabinet at its October meeting. This report updates that strategy with the latest forecasts and projections over future years in light of monitoring undertaken in the intervening weeks. Forecasts are based on information received from individual project managers up to the 9th January 2018.

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 Sections 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 (£1.024bn).

- 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 (£1.482bn).

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.

- 2,034 new and replacement affordable homes to be completed by 2022/23, with 529 of these homes currently under construction.

- 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 environments to accommodate safe and efficient travel in the City.

- well-maintained and 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 recently approved in October 2017, 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 £790m 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.

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

- A reduction in gross expenditure of £2.508m as a result of the reduction in forecast for contingency budget as the need decreases throughout the financial year. However, it should be noted that this will be dependent upon any other calls on the contingency. Also underspends on existing projects which have been released from the programme. These are partially offset by additional purchases of temporary accommodation properties in addition to the budget and further investment on projects already within the programme. Also by the prudent forecasting into future years of the ICT scheme which is deemed to be recurring on the basis that ICT hardware and software will need to be refreshed as assets come to the end of their life cycle or new technology may need to adopted to replace obsolete systems in the future which may form part of a wider transformation agenda for the Council.

- A decrease in gross income of £18.367m due to a re-categorisation of £8.080m of external funding to capital receipts and other minor variances.

- An increase in capital receipts of £12.305m due to some unbudgeted disposals and the funding for Sir Simon Milton University Technical College (£8.080m) being re-categorised as a capital receipt.

- A re-profiling of projects already included in the programme across the financial years and other minor variances.

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 13. 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 Cabinet recommend the Council:

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 2021/22 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 approve 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 Sections 10.19 and 10.20.

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 section 6.9 to 6.18 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 are held corporately with bids for access to those contingencies to be approved by the Capital Review Group (CRG) in the event they are required to fund capital project costs, as detailed in Section 11.15 to 11.19. These total £594.505m from 2017/18 to 2031/32 but include a sum of £400m 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 to fund the revenue costs of three eligible proposals – the refurbishment of Westminster City Hall (£18m), the Digital Transformation programme (£3m) and a contribution to the pension fund deficit (£30m) under the MHCLG Guidance on the Flexible Use of Capital Receipts if considered beneficial to the Council’s finances by the City Treasurer at year end.

2.12. To approve the financing of the capital programme and revenue implications as set out in paragraph 13.22 of this report.

2.13. To approve the financing of the capital programme been delegated to the City Treasurer at the year end and 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:

- 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 £2.594bn in a number of developments throughout the City. 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. Capital investment will contribute to the key strategic aims of City for All and this is demonstrated by the below examples which show that:

- 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.

- 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 a substantial 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. Business cases were submitted to government to request funding for WEP's priority projects including the £430m transformation of Oxford Street District, the £29m redevelopment of The Strand / Aldwych and the West End Jobs programme. The three identified priority projects had a funding gap of £320m. A decision on funding the WEP investment bid was not included in the Chancellor's autumn budget and informal feedback from the treasury has suggested that it will not be considered again in that form until the next budget cycle in autumn 2018. While this does not preclude further approaches to the Treasury and other parts of Government before then, the WEP team are considering other funding options for the WEP investment bid and the scale and nature of the projects themselves. 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 2,034 new and replacement affordable homes, with 529 under construction. 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 on 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 STP 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

Capital Review Group

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

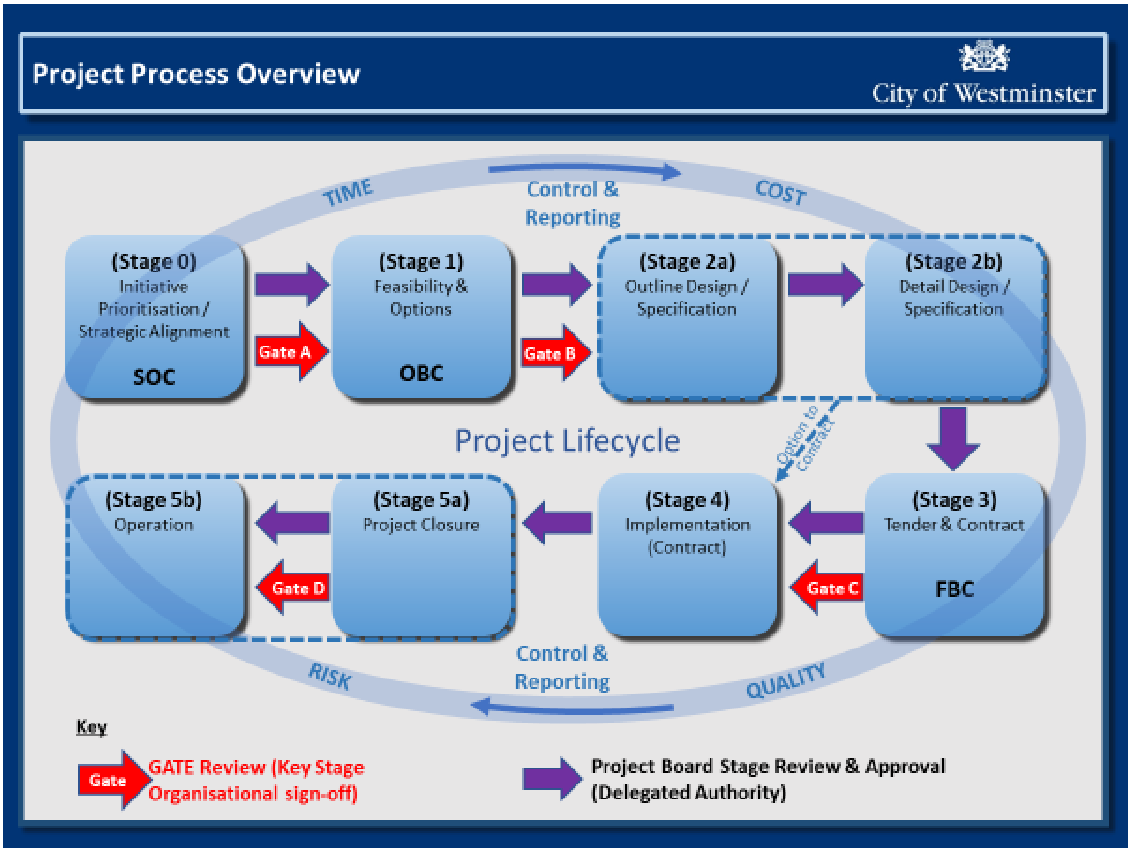
5.2. The Council is currently in the process of setting up a programme management office (PMO). The project management handbook has now been created and covers everything from the principals of good project management, what is a project vs. a programme, project governance, project lifecycles and templates. The key point about the handbook is that it will require a cultural change in the way the council works.

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

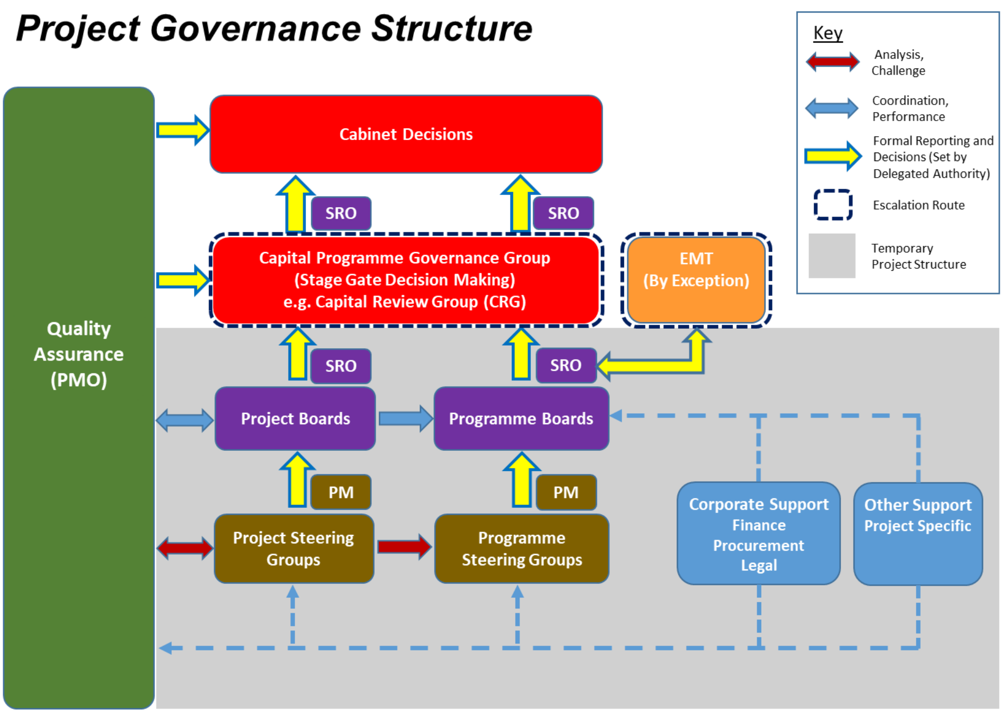
5.4. The key objectives of the PMO are to:

- 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).
- undertake the 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.
- provide 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 in early 2018/19, following approval by senior officers and members. A transitional strategy has been put together and the overall strategy is being developed. The draft Project Process Overview and Governance Structure are detailed below:



**high level project processes – there is more detail behind each stage.*



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 prioritisation framework and the CPSR forms are fully included in the project management handbook. However, the weightings for the different criteria within the framework still needs to be decided.

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

6.5. 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:

- strategic fit - how the project aligns with the Council's objectives and priorities and what it is trying to achieve.
- financial – what are the financial circumstances for the project, e.g. is funding readily available and is it affordable?
- legislation and compliance – is the project needed to meet statutory/legislative requirements.
- indirect need – is the project needed because of another scheme or development.
- risk – is the success of the project dependent on mitigating high associated risks.

6.6. 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.

6.7. 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.

6.8. 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

6.9. Governance of project business cases will vary depending on the type of work that is being carried out. This 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.

6.10. These large, long term schemes are important to reach good business decisions. The development branch governance centres on the five case model which is based on HM Treasury Green Book Guidance on Better Business Cases, but adapted for the Council. The Council, through CRG will assess the prioritisation of assets and decide on which assets need developing in order to aid the Council in meeting its strategic objectives.

<u>Stage 1 - Scoping the Scheme and Preparing the Strategic Outline Case (SOC)</u>
The purpose of this stage is to confirm the strategic context, and provide a robust case for change. This stage includes an options appraisal with a long list of options including indicative costs and benefits and a financial appraisal will be carried out based on a methodology such as the Net Present Value (NPV); as a result of this a preferred way forward is identified and feasibility funding will be approved.

<u>Stage 2 - Planning the Scheme & Preparing the Outline Business Case (OBC)</u>
The purpose of this stage is to revisit the earlier SOC assumptions and analysis in order to identify a preferred option which optimises value for money (VfM), following more detailed design work. It also sets out its affordability, and details the supporting procurement strategy, together with management arrangements for the successful delivery of the project.

<u>Stage 3 - Procuring the Solution and Preparing the Full Business Case (FBC)</u>
The purpose of the FBC is to revisit and where required rework the OBC analysis and assumptions, taking account of the formal procurement. The FBC will recommend the most economically advantageous offer, documenting the contractual arrangements, confirm funding and affordability and set out the detailed management arrangements and plans for successful delivery and post evaluation.

All three business cases stages will be reviewed by CRG, and recommended for approval, should the group accept them.

Stage 4 - Implementation

The business case should be used during the implementation stage as a reference point for monitoring implementation and for logging any material changes that the Council are required to make. The management tools developed in accordance with the development framework for the business case – the implementation plan, benefits register and risk register etc. – will be used in delivering the scheme and provide the basis for reporting back regularly to CRG.

Stage 5 - Evaluation

The business case and its supporting documentation should be used as the starting point for post implementation evaluation, both in terms of how well the project was delivered (project evaluation review) and whether it has delivered its projected benefits as planned (post implementation review) to the Council, in meeting strategic aims.

At all stages of the five case model, the business cases must include the following sections:

i. The Strategic Case
ii. The Economic Case
iii. The Commercial Case
iv. The Financial Case
v. The Management Case

Assessing all these areas within the business case will ensure that all aspects of a potential development scheme are analysed and the impact on all stakeholders identified. Therefore, the Council will be able to gain a full understanding on how a specific scheme will impact on the overall strategy, the local economy, officers and resources of the Council.

Capital Programme Governance

6.11. 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.

6.12. 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.

6.13. 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.

6.14. 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.

6.15. 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.

6.16. There are a number of circumstances where concerns could be raised about a project in the capital programme. These include 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.

6.17. 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.

6.18. 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.

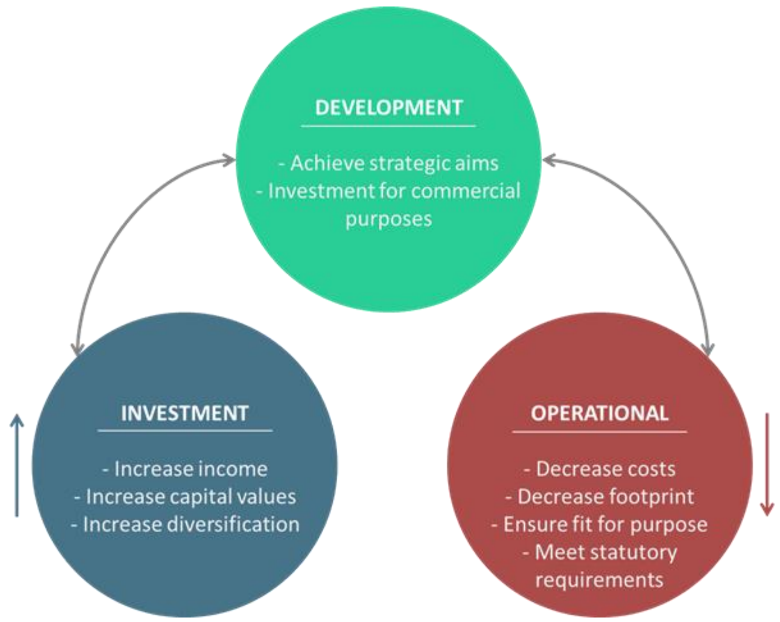
- **risk management** – this function is co-ordinated by CRG, which takes an overview of identifying and mitigating risk across the programme and further developments are planned in this area during 2017/18. More detail on the mechanisms the Council has in place to effectively manage and identify risk 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. Overview of Capital Programme and Delivery Strategies

7.1. The Council's capital programme is prioritised into three key areas; Development, Investment and Operational.

7.2. The diagram below provides an overview of these areas.



Development

7.3. 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.

7.4. 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 17% 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.

7.5. 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.

7.6. Development schemes make up a significant portion of the gross capital budget at £1.024bn and of the capital receipts in the programme at £338.473m, 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 10.5 to 10.9.

Investment

7.7. 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.

7.8. 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.

7.9. Each investment will be subject to a detailed assessment report setting out a business case, full investment appraisal and value for money assessment.

Operational

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

7.11. 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.

7.12. 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.

7.13. Operational schemes in the five-year capital programme have a total expenditure of £1.482bn. 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 and consists of:

- HRA major works on the council’s stock.
- regeneration and renewal spend.
- other investment plans.

9. Summary Capital Programme

Table 1: Current approved capital programme 2017/18 – 2031/32 at Period 4

	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								
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**

9.1. 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 2: Proposed capital programme 2017/18 – 2031/32 as at Period 9

	Forecast	Five Year Plan					Future Years to 2030/31	Total
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	£000	£000
Expenditure								
Adult Services	446	1,059	400	200	-	-		**2,105**
Children's Services	10,856	13,343	250	250	250	250		**25,199**
City Management & Communities	55,163	99,140	46,287	30,151	22,398	21,201	990	**275,330**
City Treasurer	33,500	38,849	26,040	18,681	17,898	21,486	486,051	**642,505**
Corporate Services	3,073	5,459	975	1,125	525	2,250	9,200	**22,607**
Growth, Planning & Housing	169,731	239,479	203,209	129,054	95,296	35,528	331,880	**1,204,177**
WEP	3,832	22,475	146,715	117,787	71,915	41,671	17,254	**421,649**
Policy, Performance & Communications		50		-	-	-	-	**50**
Total Expenditure	**276,601**	**419,854**	**423,876**	**297,248**	**208,282**	**122,386**	**845,375**	**2,593,622**
Funding								-
External Funding	(105,119)	(168,083)	(199,375)	(135,037)	(83,255)	(51,143)	(43,754)	**(785,766)**
Capital Receipts	(92,055)	-	(21,964)	(20,535)	(57,425)	(72,476)	(174,153)	**(438,608)**
Total Funding	(197,174)	**(168,083)**	**(221,339)**	**(155,572)**	**(140,680)**	**(123,619)**	**(217,907)**	**(1,224,374)**
Net Funding Requirement	**79,427**	**251,771**	**202,537**	**141,676**	**67,602**	**(1,233)**	**627,468**	**1,369,247**

9.2. The high-level changes from the currently approved capital programme are:

- a reduction in gross expenditure of £2.508m as a result of the reduction in forecast for contingency budget as the need decreases throughout the financial year, but will be dependent upon any other calls on the contingency. Also underspends on existing projects which have been released from the programme. These are partially offset by additional purchases of temporary accommodation properties in addition to the budget and further investment on projects already within the programme.

Also by the prudent forecasting into future years of the ICT scheme which is deemed to be recurring on the basis that ICT hardware and software will need to be refreshed as assets come to the end of their life cycle or new technology may need to adopted to replace obsolete systems in the future which may form part of a wider transformation agenda for the Council.

- a decrease in gross income of £18.367m due to a re-categorisation of £8.080m of external funding to capital receipts and other minor variances.

- an increase in capital receipts of £12.305m due to some unbudgeted disposals and the funding for Sir Simon Milton University Technical College (£8.080m) being re-categorised as a capital receipt.

- a re-profiling of projects already included in the programme across the financial years and other minor variances.

9.3. 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.

9.4. In addition, an assumption of £400m annual expenditure on operational schemes has been included within contingencies. This ensures that development and investment schemes are affordable in addition to the annual operational capital expenditure programme.

9.5. 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 £400m 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. The gross expenditure budget for GPH up to 2030/31 is £1.204bn and forecast external funding is anticipated to be £214m.

10.4. On a net basis this is a proposed budget of £990m for GPH, which excludes capital receipts, and this is shown in the table below:

	Forecast	Five Year Plan					Future Years	
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	to 2030/31 £000	Total £000
Expenditure	169,731	239,479	203,209	129,054	95,296	35,528	331,880	**1,204,177**
External Funding	(59,888)	(66,750)	(36,573)	(10,775)	(6,275)	(6,275)	(27,525)	**(214,061)**
Net Funding Requirement	**109,843**	**172,729**	**166,636**	**118,279**	**89,021**	**29,253**	**304,355**	**990,116**

General Fund Major Projects

10.5. The capital programme presented within this report forecasts a gross capital expenditure budget of approximately £926m for General Fund Major Projects (both live and potential future projects). As well as producing capital receipts, many of these projects will also generate on-going revenue streams.

10.6. 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.

10.7. 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.

10.8. 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 year and next on Huguenot House, Lisson Grove Programme, Carlton Dene and Westmead are progressing.

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

<u>Dudley House</u>
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.

<u>Huguenot House</u>
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 addition to this the 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.

<u>Sir Simon Milton UTC</u>
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.

<u>Seymour Leisure Centre</u>
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.

Strategic Acquisitions - Development
Potential acquisitions to facilitate future development opportunities that may arise in the future.

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 is will be developed and is expected to be presented to members in 2017/18.

Moberly and 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)
The Full Business case has now been approved and the project is on course to be completed by December 2019 and within budget. This development 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 now received agreement from the Cabinet Member as to a preferred 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.

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 £76m (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 £115m. In addition to investment acquisitions of circa £87m, this also contains on-going building improvement works of £13.6m on the Forward Management Plan and Landlord Responsibilities. The balance of the budget is made up of individual projects such as £0.3m for ensuring properties within the investment portfolio are up to Minimum Energy Efficiency Standards (MEEs).

10.11. The Council have purchased one commercial property this year, 14-20 Orange Street, which will generate an on-going revenue stream for the Council.

10.12. The property team are actively reviewing the market for appropriate opportunities that will provide a good return whilst diversifying the property portfolio.

General Fund Housing

10.13. 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 £155m largely offset by external income.

10.14. 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.

Other Schemes

10.15. The remainder of the GPH capital budget of circa £7m made up of smaller schemes in Placeshaping, Planning and the Economy team.

Housing Revenue Account

10.16. The HRA capital investment requirement over the next 30 years is £1.878bn, and over the first five years from 2018/19 is £790m. 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 that the HRA can reasonably deliver within the context of its 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	270,938
Right To Buy	29,189
Grants	25,968
Affordable Housing Fund (AHF)	179,786
Revenue Contribution to Capital Outlay	130,021
Major Repairs Reserve (MRA)	116,655
Borrowing	37,650
Total Funding	**790,206**

10.18. Key changes between the October 2018/19 proposed and 2018/19 revised HRA five-year capital programme budgets are:

- gross expenditure – overall reduction of £4m consisting of:
  - Church Street Phase 2 – reduction in spend of £21m during the five year period as the expenditure profile for the project has been revised into future years in line with the masterplan document.

    an additional £3m on fire precautions to reflect the latest projections.

  - an additional £8m of spend on the infill schemes.
  - refinements on other schemes.

10.19. HRA reserves – an increase of £82m contribution from the HRA I&E over the period. The HRA reserves will contribute £130m (16%) of the £790m 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 2034/35 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 almost all of the headroom (borrowing limit) and financial capacity within the HRA in the period up to 2023/24. This will result in the HRA reaching a peak debt balance of £330m compared to the current statutory limit on indebtedness of £334m.Minimum levels (£11m) of HRA reserves until 2034/35.

10.21. The HRA business plan currently projects that HRA debt will fall progressively in the latter part of the programme and at 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 gross budget for the West End Partnership programme of works of £421.6m. The majority of this relates to the Oxford Street District at £342.0m.

10.24. A decision on funding the WEP investment bid was not included in the Chancellor's autumn budget and informal feedback from the treasury has suggested that it will not be considered again in that form until the next budget cycle in autumn 2018. While this does not preclude further approaches to the Treasury and other parts of Government before then, the WEP team are considering other funding options for the WEP investment bid and the scale and nature of the projects themselves.

10.25. A summary of the WEP budgets is included below:

	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 2030/31 £000	£000
Expenditure	3,832	22,475	146,715	117,787	71,915	41,671	17,254	**421,649**
External Funding	(1,563)	(19,703)	(137,336)	(113,117)	(67,345)	(35,046)	(16,004)	**(390,114)**
Net Funding Requirement	**2,269**	**2,772**	**9,379**	**4,670**	**4,570**	**6,625**	**1,250**	**31,535**

10.26. Further projects include Strand/Aldwych and the cross cutting themes such as Broadband and Freight.

10.27. The overall net budget for WEP is £31.5m (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

10.28. 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.

10.29. As a directorate, this has a significant capital programme. Including 2017/18, gross expenditure within the capital programme totals £275.3m, with external income of £156.3m 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 2030/31 £000	£000
Expenditure	55,163	99,140	46,287	30,151	22,398	21,201	990	**275,330**
External Funding	(33,173)	(67,478)	(25,066)	(10,945)	(9,635)	(9,822)	(225)	**(156,344)**
Net Funding Requirement	**21,990**	**31,662**	**21,221**	**19,206**	**12,763**	**11,379**	**765**	**118,986**

10.30. The majority of this expenditure comes within Highways Infrastructure and Public Realm, which can be split across (gross expenditure budget in brackets):

- planned preventative maintenance and named structural projects within Highways (£86.3m) – all but £2.4m is funded by the Council
- public realm externally funded (£140.6m) – £127.5m is funded by contributions from third parties
- transport schemes - (£20.1m) - £17.1m externally funded, largely Transport for London

10.31. Of the remainder of the programme, the main areas of expenditure are:

- cemeteries and parks (£2.5m) - £0.6m is funded through CIL contributions
- libraries (£3.3m)

- sports and leisure (£8.2m) - £1.0m is funded by external parties

- public protection and licensing (£10.6m) - £7.8m is funded by grant contributions

- waste (£3.1m)

10.32. The gross expenditure and income contained within the new capital programme is consistent with the capital programme approved in October 2017, which contained £279.7m gross expenditure and £158.2m income from 2017/18 onwards. Overall there is a small net decrease (of £2.5m) in the programme which is due to the application of CIL funding against certain capital projects (e.g. Hanover Square, Queensway Streetscape).

Adult Social Care

10.33. 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 and one at Carlton Gate, Barnard and Florey Lodges. 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					Future Years	
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	to 2030/31 £000	Total £000
Expenditure	446	1,059	400	200	-	-		2,105
External Funding	(446)	(1,059)	(400)	(200)	-	-		(2,105)
Net Funding Requirement	-	-	-	-	-	-	-	-

10.34. 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) was due to complete in 2017/18, and owing to later lease agreements this has been re-profiled to complete in 2018/19. 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

10.35. From 2017/18 to 2022/23, the Children's Services capital programme plans to deliver £25.2m of works.

	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 2030/31 £000	£000
Expenditure	10,856	13,343	250	250	250	250		**25,199**
External Funding	(10,049)	(13,093)	-	-	-	-		**(23,142)**
Net Funding Requirement	**807**	**250**	**250**	**250**	**250**	**250**	**-**	**2,057**

10.36. These can be broadly categorised as (gross expenditure budget in brackets):

- non-schools estate rolling programme: planned and reactive building works to non-schools sites (£2.1m)
- schools estate rolling programme: planned and reactive building works to schools sites (£2.0m)
- primary and secondary school expansion projects: expansion projects to increase pupil places (£20.2m)

10.37. 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 £20.6m.

10.38. In comparison to the five-year budget set in advance of the 2017/18 financial year and the capital programme approved in October 2017, there have been only minor changes to the programme. There is just a £73k increase which is matched by an increase in the external income budget because the related expenditure is funded from council borrowing.

Corporate Services and Policy, Performance and Communications

	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 2030/31 £000	£000
Expenditure	3,073	5,509	975	1,125	525	2,250	9,200	**22,657**
External Funding	-	-	-	-	-	-	-	**-**
Net Funding Requirement	**3,073**	**5,509**	**975**	**1,125**	**525**	**2,250**	**9,200**	**22,657**

10.39. The proposed gross expenditure budget is £22.657m.

10.40. The latest capital strategy report reflects an increase in capital funding which is mainly due to the inclusion of future year's capital budget for ICT schemes. In Corporate Services, the ICT scheme are deemed to be recurring on the basis that ICT hardware and software will need to be refreshed as assets come to the end of their life cycle or new technology may need to adopted to replace obsolete systems in the future which may form part of a wider transformation agenda for the Council.

City Treasurer

	Forecast	Five Year Plan					Future Years to 2030/31	Total
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	£000	£000
Expenditure	33,500	38,849	26,040	18,681	17,898	21,486	486,051	**642,505**
External Funding	-	-	-	-	-	-	-	-
Net Funding Requirement	**33,500**	**38,849**	**26,040**	**18,681**	**17,898**	**21,486**	**486,051**	**642,505**

10.41. The City Treasurer's capital budget holds the Contingency Provision totalling £594.505m. It also holds the majority of the revenue expenditure to be funded by the Flexible Use of Capital Receipts which is in region of £18m for the refurbishment of Westminster City Hall and a £30m contribution to the pension fund deficit and the Digital Transformation programme (£3m). Further detail can be found in paragraphs 13.12 and 13.13

10.42. There has been no change to the City Treasurer's net capital budget, except for the 2017/18 Contingency Provision forecast reduction by £9m, out of an annual budget of £13.5m, as the year has progressed and the degree of certainty has increased.

10.43. In line with current financial regulations, no expenditure on projects will be incurred without appropriate Cabinet Member or Delegated Authority approval. Every scheme would 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 £499.9m as set out in this Capital Strategy over the next five years. Interest rates are variable and an increase 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 interest cost to the Council would increase for all borrowing not yet entered into (we would typically borrow on fixed rate terms). A rise of an extra 1% would cost an extra £5.0m per annum on the full £499.9m borrowed by the end of 2022/23 – rising to £8.2m 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 £26m. 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 and may be retrospective in their nature. 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 which experience financial instability post 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 types of business cases required for larger projects are:

- 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 is managed through careful consideration and approval of all expenditure potentially at risk of revenue wrote off.

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 progressed the unknown factors become clearer and project managers focus on managing these in the most effective way possible, utilizing contingencies to do so as needed.

11.17. It is recommended that a decision is 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 (in no particular order):

- 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.

- 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 re-profile 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.

- 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.

- 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 £40m 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 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.

- dispose of HRA assets. Similar to the above, but without reinvesting the cash generated. Achieved through identifying surplus assets or selling additional HRA properties.

- 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.

- 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.

- re-profile, extend or delay regeneration capital expenditure:

    - re-profile the regeneration spend so that schemes run sequentially rather in parallel, or delay some projects until the peak borrowing period has passed.

    - re-profile 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.

    - 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.

- reduce major works expenditure. This amounts to £206m over the next 5 years, £919m 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.

- 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.

- 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.

- 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 £29.3m; 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.

- 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.

12. Brexit

12.1. 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.

13. Financial Implications

13.1. The Council has proposed a gross General Fund capital programme of £2.594bn. This has to be financed from three key funding sources which are:

- external funding (e.g. grants and contributions)
- internal funding (e.g. capital receipts)
- borrowing

Funding

13.2. 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
	£m	£m	£m	£m	£m	£m	£m	£m
DfE Basic Needs Grant	8.5	9.0	0.0	0.0	0.0	0.0	0.0	**17.5**
DfE Schools Condition Allocation	1.5	1.5	0.0	0.0	0.0	0.0	0.0	**3.0**
DCLG Disabled Facilities Grant	0.0	1.3	1.3	1.3	1.3	1.3	0.0	**6.5**
DCLG Other Grant (WEP)	0.0	18.4	123.5	101.5	56.6	26.0	4.5	**330.5**
GLA Other Loan	1.3	0.7	0.0	0.0	0.0	0.0	0.0	**2.0**
Transport for London (TfL) Grant	13.1	15.4	8.7	1.7	0.0	0.0	0.0	**39.0**
Education Funding Agency (EFA) Grant	17.6	28.2	2.6	0.0	0.0	0.0	0.0	**48.4**
DoH Community Capacity Grant	1.7	1.1	0.5	0.2	0.0	0.0	0.0	**3.5**
European Regional Develoment Fund	0.2	0.8	0.3	0.0	0.0	0.0	0.0	**1.3**
Other Grants and Contribution	2.2	10.8	14.7	11.9	10.7	9.3	11.7	**71.2**
Sport England Grant	1.0	0.0	0.1	0.0	0.1	0.1	0.0	**1.3**
Section 106 Contributions	11.2	22.6	9.2	6.3	8.4	8.3	0.0	**65.9**
Section 278 Contributions	8.0	19.0	4.8	1.4	0.0	0.0	0.0	**33.2**
Community Infrastructure Levy (CIL)	0.0	4.6	0.0	0.0	0.0	0.0	0.0	**4.6**
Affordable Housing Fund Contributions	38.6	34.6	33.0	10.8	6.3	6.3	27.5	**157.0**
Revenue Reserve	0.0	0.1	0.8	0.0	0.0	0.0	0.0	**0.9**
Sub Total	**105.1**	**168.1**	**199.4**	**135.0**	**83.3**	**51.1**	**43.8**	**785.8**
Capital Receipts	92.1	0.0	22.0	20.5	57.4	72.5	174.2	**438.6**
Borrowing	79.4	251.8	202.5	141.7	67.60	-1.2	627.5	**1,369.2**
Total	**276.6**	**419.9**	**423.9**	**297.2**	**208.3**	**122.4**	**801.6**	**2,593.6**

13.3. 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.

13.4. 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.

13.5. 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.

13.6. 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.

13.7. The main sources of internal funding are from capital receipts or revenue in the form of reserves or in-year underspends.

13.8. 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 it 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.

13.9. It is estimated that the proposed capital programme will be funded via £438.6m 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.

13.10. 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.

13.11. 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.

13.12. In March 2016, the MHCLG 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 covered the period 1 April 2016 to 31 March 2019, and applies only to capital receipts generated during this period. The authority has identified three capital projects, Westminster City Hall refurbishment, contribution to the pension fund deficit and Digital Transformation, which have significant revenue spend and is seeking approval to part-fund these from capital receipts. In the Provisional Local Government Finance Settlement in December 2018 it was announced that this would be extended for a further three years.

13.13. It is planned to use in the region of £18m of capital receipts for the revenue costs associated with the refurbishment of Westminster City Hall, £30m pension cost liability, 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

13.14. 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 Years	Total
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	to 2030/31	
	£000	£000	£000	£000	£000	£000	£000	£000
Borrowing Requirement	79,427	251,771	202,537	141,676	67,602	(1,233)	627,468	**1,369,247**

13.15. 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.

13.16. 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.

13.17. 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.

13.18. An alternative source of debt finance is to borrow via a bond issued by the Municipal Bonds Agency. The agency is an independent body with its own governance structure, accountable to its local authority shareholders and the LGA. It raises money on the capital markets by issuing bonds to financial institutions which are then lent on to participating local authorities. The Council has been actively working with the MBA to enable it to deliver its first bond issuance and realise its potential as a mainstream lender to local authorities. Typically, the MBA will issue bonds to institutions such as insurers and pension funds who tend to want to prioritise secure income streams over interest, compared with more traditional borrowing from banks. It is expected the bond will be issued at a rate substantially lower than PWLB rates and is expected to provide a viable alternative to the PWLB.

13.19. 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 higher profile form of funding with local authorities, for example the London Borough of Croydon recently borrowed from the EIB.

13.20. 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.

13.21. 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 53%. Internal funding from capital receipts make up a further 17%. 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 Years	
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	to 2030/31 £000	Total £000
External Funding	105,119	168,083	199,375	135,037	83,255	51,143	43,754	**785,766**
Capital Receipts	92,055	-	21,964	20,535	57,425	72,476	174,153	**438,608**
Borrowing	79,427	251,771	202,537	141,676	67,602	(1,233)	627,468	**1,369,247**
Total	276,601	419,854	423,876	297,248	208,282	122,386	845,375	**2,593,622**

Revenue Implications

13.22. The financing costs in the table below 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 £456.0m by the end of 2031/32.

	Forecast	Five Year Plan					Future	
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Years to	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Expenditure	276,601	419,854	423,876	297,248	208,282	122,386	845,375	2,593,622
External Funding	(105,119)	(168,083)	(199,375)	(135,037)	(83,255)	(51,143)	(43,754)	(785,766)
Capital Receipts	(92,055)	-	(21,964)	(20,535)	(57,425)	(72,476)	(174,153)	(438,608)
Borrowing Requirement	**79,427**	**251,771**	**202,537**	**141,676**	**67,602**	**(1,233)**	**627,468**	**1,369,247**
Revenue Impacts:								
Capital Financing Cost	7,841	7,192	11,370	22,943	31,072	33,853	557,548	671,821
Financed By:								
Commercial Income	(512)	(2,022)	(3,381)	(2,812)	(4,040)	(5,488)	(197,541)	(215,795)
Net Revenue Position	7,330	5,170	7,989	20,132	27,032	28,365	360,007	456,025
Sinking Fund Adjusted Balance	1,738	7,198	4,379	(4,561)	(7,815)	(5,594)	4,654	-
MTP Budget Assumptions	**9,068**	**12,368**	**12,368**	**15,571**	**19,218**	**22,771**	**377,067**	**468,431**

13.23. 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 £2.594bn gross General Fund capital expenditure, it is anticipated that £829.5m will ultimately need to be borrowed externally.

13.24. 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 4.7% by 2026/27 and remain at this rate. Every 1% increase in the interest rate will result in an additional £8.3m of revenue cost by 2031/32.

13.25. 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.

13.26. 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.

13.27. 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.

13.28. 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.

13.29. 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.

13.30. 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.

13.31. The current MTP assumed a circa £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 budget spend of £468.4m to fund the capital programme

13.32. 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

13.33. The HRA capital investment requirement over the next 30 years is £1.878bn, and over the first five years £790m. The HRA is subject to a different business planning process that is linked to modelling of the HRA business plan over 30 years. 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.

13.34. The Council's latest HRA 30-year business plan focuses upon delivering three key programmes. These are:

- investment to maintain and improve existing council-owned homes
- delivery of new affordable homes
- implementation of the housing regeneration programme

13.35. 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.

13.36. 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.

13.37. Gross HRA capital expenditure of £790m over the next five years is required to deliver the plans within this investment strategy, including: £206m on works to existing stock; £412m on housing estate regeneration; and £173m on other investment opportunities. This will be funded from £130m of HRA revenue resources, £300m from capital receipts and right to buy sales, £180m from the Councils AHF together with £38m of new borrowing and a capital grant of £26m.

HRA FIVE YEAR CAPITAL PROGRAMME								
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Total	Total
Schemes	**Forecast £'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**30yr Plan £m**
Major Works								
OT Adaptation	1,197	1,200	1,200	1,200	1,200	1,200	**6,000**	**31,197**
Electrical Works & Laterals	4,957	7,139	5,729	6,012	6,499	5,383	**30,762**	**286,357**
External Repairs & Decorations	8,245	27,747	24,301	19,095	15,363	21,305	**107,812**	**378,842**
Fire Precautions	4,161	13,378	11,418	4,111	2,120	2,200	**33,227**	**61,388**
General	2,511	680	50	0	0	500	**1,230**	**8,941**
Kitchen & Bathroom	930	750	750	700	700	700	**3,600**	**26,780**
Lifts	2,698	2,389	2,000	2,000	2,000	2,000	**10,389**	**49,087**
Major Voids	3,500	2,500	2,500	2,500	2,500	2,500	**12,500**	**76,000**
Total Major Works	**28,199**	**55,783**	**47,948**	**35,618**	**30,382**	**35,788**	**205,519**	**918,592**
Regeneration								
Cosway Street	623	6,545	18,638	5,856	657	0	**31,696**	**32,319**
Lisson Arches	1,985	8,319	17,101	1,708	331	0	**27,460**	**29,445**
Luton Street	246	2,135	6,392	5,770	0	0	**14,296**	**14,542**
Parsons North	621	8,666	15,786	2,434	299	0	**27,185**	**27,806**
Ashbridge	519	5,266	7,805	181	0	0	**13,252**	**13,771**
Church Street Phase Two	695	5,312	4,595	64,891	40,494	64,306	**179,598**	**309,918**
Tollgate Gardens	7,257	10,005	0	0	0	0	**10,005**	**17,262**
Other Estates Regeneration	10,975	17,274	32,876	28,481	14,153	15,424	**108,208**	**159,216**
Total Regeneration	**22,922**	**63,523**	**103,193**	**109,321**	**55,934**	**79,729**	**411,700**	**604,279**
Other Schemes								
District Heating Network Scheme	726	1,854	1,920	5,898	413	0	**10,085**	**17,713**
Edgware Rd	2,003	37	6,564	300	0	0	**6,901**	**8,904**
Infill Schemes	3,767	12,716	17,934	15,015	10,961	15,411	**72,037**	**152,858**
Self Financing	22,000	10,000	0	10,000	10,000	10,000	**40,000**	**124,800**
Section 106 Acquisitions	0	0	12,428	10	10	12,428	**24,876**	**24,876**
Kemp House/Berwick Street	10	734	24	0	0	0	**758**	**768**
Ashmill	70	269	621	10	0	0	**900**	**969**
Central Contingency	0	5,429	6,305	2,317	1,983	1,397	**17,430**	**24,414**
Total Other Schemes	**28,575**	**31,039**	**45,795**	**33,550**	**23,367**	**39,236**	**172,987**	**355,302**
Total Capital Expenditure	**79,697**	**150,345**	**196,937**	**178,489**	**109,682**	**154,753**	**790,206**	**1,878,173**
Financed By:								
Capital Receipts	15,424	45,605	63,862	68,653	28,911	63,906	**270,938**	**416,830**
Right To Buy	17,476	8,643	5,730	1,593	8,708	4,515	**29,189**	**92,408**
Grants	245	5,905	4,563	12,000	3,500	0	**25,968**	**26,213**
AHF	15,220	18,431	25,385	66,020	21,875	48,075	**179,786**	**328,306**
RCCO	8,001	46,430	38,416	6,892	23,358	14,926	**130,021**	**226,771**
MRA	23,331	23,331	23,331	23,331	23,331	23,331	**116,655**	**699,930**
Borrowing	0	2,000	35,650	0	0	0	**37,650**	**87,715**
Total Financing	**79,697**	**150,345**	**196,937**	**178,489**	**109,682**	**154,753**	**790,206**	**1,878,173**

** Forecast is based upon P9 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

MRA is the HRA proxy for depreciation and is available to fund new capital spend

14. Legal Implications

14.1. 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.

15. **Staffing Implications**

15.1. None specifically in relation to this report

16. **Consultation**

16.1. 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 7641 2904*

BACKGROUND PAPERS:

Capital Strategy Report 2018-2019 – Cabinet 30th October 2017

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

HRA FIVE YEAR CAPITAL PROGRAMME						
Schemes	**2018-19 £'000**	**2019-20 £'000**	**2020-21 £'000**	**2021-22 £'000**	**2022-23 £'000**	**Total £'000**
Major Works						
OT Adaptation	1,200	1,200	1,200	1,200	1,200	**6,000**
Electrical Works & Laterals	7,139	5,729	6,012	6,499	5,383	**30,762**
External Repairs & Decorations	27,747	24,301	19,095	15,363	21,305	**107,812**
Fire Precautions	13,378	11,418	4,111	2,120	2,200	**33,227**
General	680	50	0	0	500	**1,230**
Kitchen & Bathroom	750	750	700	700	700	**3,600**
Lifts	2,389	2,000	2,000	2,000	2,000	**10,389**
Major Voids	2,500	2,500	2,500	2,500	2,500	**12,500**
Total Major Works	**55,783**	**47,948**	**35,618**	**30,382**	**35,788**	**205,519**
Regeneration						
Cosway Street	6,545	18,638	5,856	657	0	**31,696**
Lisson Arches	8,319	17,101	1,708	331	0	**27,460**
Luton Street	2,135	6,392	5,770	0	0	**14,296**
Parsons North	8,666	15,786	2,434	299	0	**27,185**
Ashbridge	5,266	7,805	181	0	0	**13,252**
Church Street Phase Two	5,312	4,595	64,891	40,494	64,306	**179,598**
Tollgate Gardens	10,005	0	0	0	0	**10,005**
Other Estates Regeneration	17,274	32,876	28,481	14,153	15,424	**108,208**
Total Regeneration	**63,523**	**103,193**	**109,321**	**55,934**	**79,729**	**411,700**
Other Schemes						
District Heating Network Scheme	1,854	1,920	5,898	413	0	**10,085**
Edgware Rd	37	6,564	300	0	0	**6,901**
Infill Schemes	12,716	17,934	15,015	10,961	15,411	**72,037**
Self Financing	10,000	0	10,000	10,000	10,000	**40,000**
Section 106 Acquisitions	0	12,428	10	10	12,428	**24,876**
Kemp House/Berwick Street	734	24	0	0	0	**758**
Ashmill	269	621	10	0	0	**900**
Central Contingency	5,429	6,305	2,317	1,983	1,397	**17,430**
Total Other Schemes	**31,039**	**45,795**	**33,550**	**23,367**	**39,236**	**172,987**
Total Capital Expenditure	**150,345**	**196,937**	**178,489**	**109,682**	**154,753**	**790,206**
Financed By:						
Capital Receipts	45,605	63,862	68,653	28,911	63,906	**270,938**
Right To Buy	8,643	5,730	1,593	8,708	4,515	**29,189**
Grants	5,905	4,563	12,000	3,500	0	**25,968**
AHF	18,431	25,385	66,020	21,875	48,075	**179,786**
RCCO	46,430	38,416	6,892	23,358	14,926	**130,021**
MRA	23,331	23,331	23,331	23,331	23,331	**116,655**
Borrowing	2,000	35,650	0	0	0	**37,650**
Total Financing	**150,345**	**196,937**	**178,489**	**109,682**	**154,753**	**790,206**

Cabinet

Decision Maker	**Cabinet**
Date:	**19 February 2018**
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:** **a. Its capital investment plans are prudent, affordable and sustainable;** **b. The financing the Council's capital programme and ensuring that cash flow is properly planned** **c. Cash balances are appropriately invested to generate optimum returns having regard to security and liquidity of capital.**
Report of:	**Steven Mair, City Treasurer** **smair@westminster.gov.uk** **020 7641 2904**

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 the DCLG 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 to recommend to the Council that they 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;
- the Investment strategy and approved investments set out in Appendix 1;
- the Minimum Revenue Provision Policy set out in Appendix 2.
- the adoption of the CIPFA treasury management code of practice revised December 2017 update (appendix 3)

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
- Capital Finance Requirement (CFR)
- 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
- Forward Borrowing
- 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
- Improving investment returns

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 finalisation of 2018/19 budget plans.

TREASURY MANAGEMENT STRATEGY STATEMENT

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 £89m in 2016/17 to 2017/18 and there remains an element of further slippage in future years. 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	277	420	424	297	208	122	1,748
58	HRA	80	150	197	178	110	155	870
176	**TOTAL**	**357**	**570**	**621**	**475**	**318**	**277**	**2,618**
	Funding							
	General Fund							
(60)	Grants & Contributions	(105)	(168)	(199)	(135)	(83)	(51)	(741)
(4)	Capital Receipts Applied	(92)	0	(22)	(21)	(57)	(72)	(264)
	HRA							
(8)	Grants & Contributions	(1)	(6)	(5)	(12)	(4)	0	(28)
(15)	Capital Receipts Applied	(48)	(73)	(95)	(136)	(59)	(117)	(528)
(23)	Major Repairs Reserve	(23)	(23)	(23)	(23)	(23)	(23)	(138)
(1)	Revenue Financing	(8)	(46)	(38)	(7)	(24)	(15)	(138)
(111)	**TOTAL**	**(277)**	**(316)**	**(382)**	**(334)**	**(250)**	**(278)**	**(1,837)**
65	**Net financing need for the year**	**80**	**254**	**239**	**141**	**68**	**(1)**	**781**

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's 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 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
	CFR as at 31 March							
260	General Fund		340	592	795	936	1,004	1,003
261	HRA		261	263	299	299	299	299
521		**TOTAL**	**601**	**855**	**1,094**	**1,235**	**1,303**	**1,302**
	Annual Charge							
51	General Fund		80	252	203	141	68	(1)
11	HRA		0	2	36	0	0	0
62		**TOTAL**	**80**	**254**	**239**	**141**	**68**	**(1)**
	Reason for Change							
65	Net financing		84	260	250	159	86	17
(3)	Less MRP		(4)	(6)	(11)	(18)	(18)	(18)
62		**TOTAL**	**80**	**254**	**239**	**141**	**68**	**(1)**

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 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
251	Gross Projected Debt	251	221	291	516	677	685
521	Capital Financing Requirement	601	855	1,094	1,235	1,303	1,302
270	**Under / (over) borrowing**	**350**	**634**	**803**	**719**	**626**	**617**

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 Actual %		2017/18 Forecast %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %
0.32	General Fund	0.68	(1.28)	2.05	9.77	13.53	14.17
31.25	HRA	30.11	28.68	29.87	31.17	30.50	29.68

5.11 For the next two years, gross capital financing charges (loan interest, MRP and finance and service concession 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	7.95	(17.65)	28.41	135.08	187.09	195.91
(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 tax base. The decrease in 2018/19 of £17.65 per Band D council tax, reflects the reduction in capital financing costs over the next year, 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

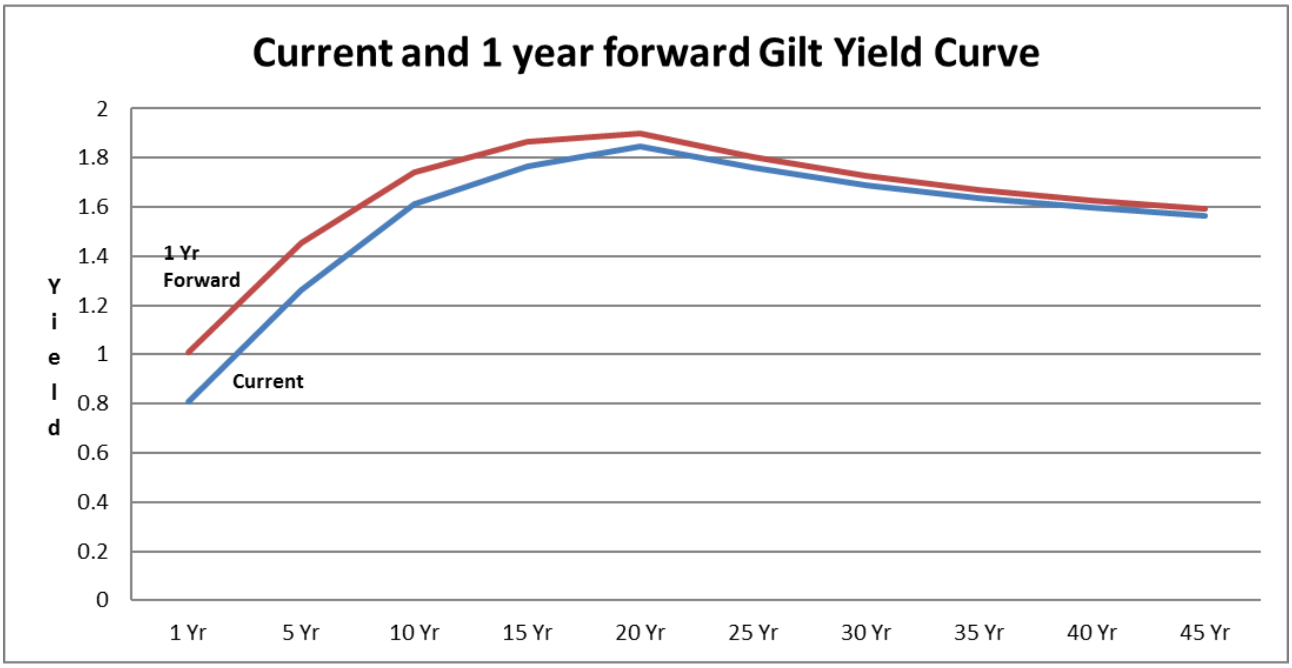
6.1 The Council's main objective when borrowing money is to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required. Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the long-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 borrowing decisions. 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 period of 2020/21 – 2021/22 would cost an additional £4.9m in interest payments per annum from 2022/23.

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	601	855	1,094	1,235	1,303	1,302
	Operational Boundary for:						
270	Borrowing	276	243	320	568	745	754
12	Other long term liabilities	11	10	9	8	7	6
282	**Total**	**287**	**253**	**329**	**576**	**752**	**760**

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 Actual £		2017/18 Forecast £	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £	2021/22 Estimate £	2022/23 Estimate £
334	HRA Debt Limit	334	334	334	334	334	334
261	HRA CFR	261	263	299	299	299	299
73	**Headroom**	**73**	**71**	**35**	**35**	**35**	**35**

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.

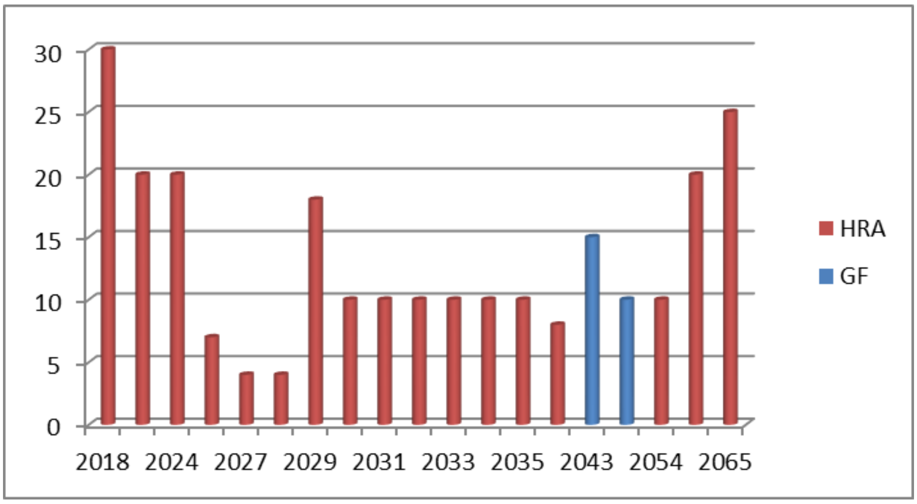
Maturity structure of borrowing (Prudential Indicator 10)

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 31 Dec 2017		Upper Limit	Lower Limit
12	Under 12 months	40	0
0	12 Months and within 24 Months	35	0
8	24 Months and within 5 years	35	0
12	5 Years and Within 10 Years	50	0
68	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.

Forward Borrowing

6.15 The Council has the ability to borrow at a future date for an agreed price now. This is appropriate for when the Council knows that it will be required to borrow in the future and wishes to lock in certainty of interest rate cost. The reason for doing this is that the cost of borrowing can fluctuate and may increase for the Council over a period of time. This does mean that the interest rate may be higher than what can be agreed for drawdown today.

6.16 The Council incorporates this option as part of a wider borrowing strategy, and will elect to forward borrow when it deems it to be a value for money option.

Debt Rescheduling

6.17 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).

6.18 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.

6.19 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.

6.20 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 £382m in the past nine months which is mainly due to income such as council tax, business rates and grants received in advance. This is expected to be closer to £800m by year end.

Table 9 Cash position at 31 December 2017

As at 31 March 2017			As at 31 December 2017	
Principal	Average Rate		Principal	Average Rate
£m	%		£m	%
		Investments		
884	0.54	Specified	1,219	0.47
25	1.52	Non-Specified	74	0.42
909	**2**	**Total**	**1,293**	
		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 cash flow position with an average cash position fluctuating around £500m for the medium-term. The reason for the high cash balance is largely due to business rates and the amount held pending rating appeals of which are uncertain, and have been excluded from the table below.

Table 10 Medium-term cashflow forecast

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Forecast	Estimate	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
Balance at 1 April	**909**	**863**	**698**	**582**	**586**	**628**
Movement in Cash						
Capital Receipt	140	73	117	157	116	189
Grants & Contributions	106	174	204	147	87	51
Revenue Financing / MRR	31	69	61	30	47	38
Cash In	**277**	**316**	**382**	**334**	**250**	**278**
Other Cash movements	43	(46)	(31)	(76)	(10)	(70)
HRA cash movements	(9)	(1)	(32)	1	0	0
Capital Programme	(357)	(570)	(621)	(475)	(318)	(277)
Cash Out	**(323)**	**(617)**	**(684)**	**(550)**	**(328)**	**(347)**
Borrowing	0	0	70	240	166	10
Repayment of debt	0	(30)	0	(15)	(5)	(2)
Balance 31 March	**863**	**532**	**466**	**591**	**669**	**567**
Average Balance	**886**	**698**	**582**	**586**	**628**	**597**

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 the bank base rate rising to 0.5% on 2 November 2017. Borrowing interest rates were on a downward trend during most of 2016; they fell sharply to historically low levels after the EU exit referendum and then even further after the MPC meeting of August 2016 when a new package of quantitative easing purchasing of gilts was announced. As inflationary pressures have mounted in the past year the prospect of further interest rate rises have now increased. However, despite the November 2017 rate rise from the bank of England, the PWLB 25-year loan rate has fallen from 2.83% on 29 September 2017 to 2.67% on 12 December 2017.

7.5 Gilt yields remain volatile over 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 asset backed securities and other 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 limit

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	601	855	1,094	1,235	1,303	1,302
	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

Improving Investment Returns

7.8 An investment task force was set up to ensure that the Council made best use of its resources and ensure value for money was being achieved in its investment strategy. The task force contains both Council Members and Officers.

7.9 The task force met on 13 September 2017 to perform an in depth review on the Council's wider investment framework document and provide suggestions improvements. The review looked at the council's property portfolio, short and long term treasury investments, governance arrangements and the impact of investing in the pension fund.

7.10 After the meeting the following recommendations were made:

- The pension fund should be used as a benchmark for all Council investments due to the high long term rate of return.
- Council wide investments should aspire to match inflation
- Property and alternative investments should be focused initially within the borough, with out of borough investments considered as they arise subject to member decision.
- Investments in out of borough property should be considered individually and outweigh the benefits of investing in Borough (which can include non-commercial benefits e.g. Place making) and in a diversified property fund. Individual decisions should be subject to cabinet member approval.
- Governance arrangements for the investment strategy should be closer aligned to the Pension Fund Committee. The body responsible can then report to the council where formal decisions on the investment strategy will be taken.

7.11 These recommendations remain under review in relation to the investment framework and investment governance arrangements going forward.

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	£357m	£570m
2	5.8	Capital Financing Requirement (CFR)	£521m	£601m	£855m
3	5.9	Net debt vs CFR	£270m underborrowing	£350m underborrowing	£634m underborrowing

4	5.10	Ratio of financing costs to revenue stream	GF 0.32% HRA 31.25%	GF (0.89)% HRA 30.11%	GF (2.71%) HRA 28.68%
5	5.14	Incremental impact of new capital investment decisions on council tax	£13.63 decrease in Band D council tax charge per annum	£7.95 increase in Band D council tax charge per annum	£17.65 decrease in Band D council tax charge per annum
6	5.14	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	£601m	£855m
7b	6.7	Operational debt boundary	£282m	£287m	£253m
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	£450m	£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 8.3) 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:

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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 show 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 DCLG'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 yield.

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. The Bank Rate was cut in August 2016 from 0.50% to 0.25%. Subsequently the MPC has now increased the Bank Rate by 0.25% to 0.50% in November 2017. The question still 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. The Bank Rate forecasts for financial year ends (March) are:

    2018/19: 0.50%
    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 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%.

12. Changes to the credit rating will be monitored and in the event that a counterparty 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 of 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.

- **Social Housing Bonds** – Various fund managers facilitate the raising of financing housing associations via bond issues. The investment is therefore asset backed and provides enhanced returns. Officers will need to undertake due diligence on each potential investment in order to understand the risks and likelihood of default.

- **Asset Backed Securities (ABS) / Residential Mortgage backed securities (RMBS)** – As these securities by their nature are asset backed they are regarded as low risk should a default take place, but have a higher return. These are available for direct investment, or as pooled / segregated assets managed by a third party fund manager. In the event of a fund manager option being selected, this would need to be procured through a proper procurement process.

- **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, risk and duration of the loan. A limit of £50 million for this type of investment is proposed with a duration commensurate with 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 category 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

- **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 its 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, Luxembourg, Netherlands, Norway, Singapore, Sweden, Switzerland, UK and USA. This list will be 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 £500m 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
Ultra Short Dated Bond Funds (USDBFs)	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
Social Housing Bonds	Due Diligence	£200m	10 years
Asset backed securities (ABS) and Residential mortgage backed securities (RMBS)	Asset Backed / Due Diligence	£200m	10 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 £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 (AA rated and above): Australia, Canada, Denmark, Finland, France, Germany, Luxembourg, Netherlands, Norway, Singapore, Sweden, Switzerland, UK and USA			

Rationale for investment limits

19. Debt Management Office (DMO): Unlimited. The DMO is an executive agency of Her Majesty's Treasury. Being fully UK government backed, the DMO is the ultimate low risk depositary. Being ultra-low risk, the investment return is very low.

20. UK Government Gilts/T-Bills/Repos: Unlimited. UK Government gilts are regarded by the market as high quality and ultra-low risk. Being ultra-low risk, the investment return is very low.

21. Supra-national Banks, European Agencies: £200m limit. A supra-national bank is a financial institution, such as the European Investment Bank or the World Bank, whose equity is owned by sovereign states. Being owned by overseas states, they are regarded as being very low risk, but not in the same safe risk category as UK. The investment return is very low.

22. Covered Bonds: £300m limit. Covered bonds are debt securities issued by a bank or mortgage institution and collateralised against a pool of assets that, in case of failure of the issuer, can cover claims at any point of time. They are subject to specific legislation to protect bond holders. With slightly more risk. the investment return is higher than UK Gilts.

23. Residential Mortgage Backed Securities (RMBS): £200m limit. A residential mortgage backed security is a pool of mortgage loans created by banks and other financial institutions. The cash flows from each of the pooled mortgages is packaged by a special-purpose entity into classes and tranches, which then issues securities and can be purchased by investors. Being asset backed, they are regarded as being reasonably low risk should a default take place, but with a higher return.

24. Network Rail: Unlimited. Network Rail is the owner and infrastructure manager of most of the rail network in England, Scotland and Wales. Having a UK government guarantee, they are regarded as being reasonably low risk with a lower investment return.

25. Transport for London (TfL): £100m limit. Transport for London is a local government body responsible for the transport system in Greater London. Its parent organisation is the Greater London Authority (GLA). Being a GLA owned entity, the investment is regarded as safe and the return is low.

26. Greater London Authority (GLA): £100m limit. The Greater London Authority is the top-tier administrative body for Greater London, consisting of a directly elected executive Mayor of London and an elected 25-member London Assembly. Being categorised alongside UK local authorities, the investment is regarded as safe and the return is low.

27. UK Local Authorities: £100 limit per authority, £500m in total. This has been increased from £200m on the basis that local authorities have always been regarded as safe counterparties. As an additional safeguard, each new local authority counterparty will be subject to checks regarding latest accounts, audit opinion, financial projections, and financial reputation. There are 326 billing authorities with tax-raising powers in England, consisting of 201 non-metropolitan district councils, 55 unitary authority councils, 36 metropolitan borough councils, 32 London borough councils, the City of London Corporation and the Council of the Isles of Scilly. Additionally, there are levying authorities, consisting of 45 police authorities, 52 fire

authorities and six waste disposal authorities. Having never defaulted in history, UK local authorities and levying authorities are regarded as safe and the return is relatively low. Each new counterparty should be subject to check of latest accounts, any audit issues reported in the latest ISA260 reports, the latest budget position reported to council (to identify if there any potential financial health issues) and officer knowledge of the authority's latest financial reputation.

28. Local Government Association: £20m. The Local Government Association (LGA) is a charitable organisation, funded largely from subscriptions, which comprises local authorities in England and Wales, representing the interests of local government to national government. 435 authorities are members of the LGA as of 2016, including 349 English councils and the 22 Welsh councils, as well number of smaller authorities including fire authorities and national parks. Despite being an entity which represents local authorities, the entity is not regarded as risk free as local authorities and therefore the limit is lower at £20m.

29. Commercial Paper issued by the UK and European Corporates: £40m per name, £200m in total. Commercial paper is an unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. Investment is confined to high quality investment grade corporates. The risk and investment return are higher than the sovereign categories.

30. Money Market Funds (MMF): £70m per manager, £300m in total. Money market funds are open-ended funds that invests in short-term high quality debt securities such as Treasury bills and commercial paper. Money market funds are widely regarded as being as safe as bank deposits, yet providing a higher yield. Being well diversified but investing with higher risk counterparties and instruments, the risk and investment return are higher.

31. Ultra short dated bond funds (USDBFs): £25m per manager, £75m in total. Enhanced money market funds increase returns via increasing interest rate, credit and liquidity risk in order to enhance the return. Being well diversified reduces the impact of a single default within the portfolio.

32. Collateralised Deposits: £100m. In lending agreements, collateral is a borrower's pledge of specific property to a lender to secure repayment of a loan, serving as a lender's protection against a borrower's default. Being asset backed, they are regarded as being reasonably low risk should a default take place, but with a higher return.

33. UK Bank Deposits: £75m per bank. Banks have become a riskier counterparty since the recent bail outs of Lloyds and RBS. The Financial Services (Banking Reform) Act 2013 confers on the Bank of England a bail-in stabilisation option for the resolution for banks and building societies, ensuring that shareholders and creditors/depositors of the failed institution, rather than the taxpayer, meet the costs of the failure. Despite the bail-in risk, the return on UK bank deposits is relatively low.

34. Non-UK Bank Deposits: £50m (Sterling deposits only) per bank. Overseas banks incorporated in the UK provide a number of options for high quality institutions with returns largely similar to UK banks.

35. Green Energy Bonds: £20m per bond, £50m in total (subject to due diligence). This comprises of finance for the supply of electricity from renewable energy sources, particularly in areas such as energy storage and electric vehicle networks. This category is greater risk and will provide an enhanced return. Use should be made of regulated markets where available in order to provide additional investment security and risk reduction.

36. Social Housing Bonds: £200m in total. Housing associations are increasingly issuing public bonds, secured against social housing assets, to meet financing requirements. This category is greater risk and will provide an enhanced return.

37. Rated Building Societies: £10m per building society, £50m in total. Same rationale as UK banks, see above.

38. Loans to organisations delivering services to the Council: £50m in total. Assessed individually and subject to due diligence. At markets rates of interest and reflecting the risk of the borrower, this will offer an enhanced rate of return.

APPENDIX 2

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 in this appendix. There are no changes to the requirements to be formally adopted in the 2017 update, these are listed 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.

Council

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

Cabinet

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.

Housing, Finance and Corporate Services Policy and Scrutiny Committee

This committee is responsible for ensuring effective scrutiny of the Treasury strategy and policies.

Section 151 Officer

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 2017 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”. Such an increase was implemented on 2 November 2017. The question is now as to whether the MPC will stop, 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.

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. The MPC have subsequently increased the Bank Rate to 0.5% in November. The big question now is 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

Meeting or Decision Maker:	**Cabinet**
Date:	**19th February 2018**
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. The plan sets out gross capital expenditure of £790m 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 30 year period. The investment over the next 10 years has been maximised within the available borrowing headroom, to within circa £3m by 2023/24. 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 (£271m) that underpin the regeneration programme, along with substantial contributions from the Affordable Housing Fund (£180m).**

	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** **Steven Mair, City Treasurer**

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 £1.88bn. This increase of c. £240m is significantly driven by increases in Church Street (Phase 2) at £98m, Infill schemes increasing by £134m, Section 106 acquisitions of £25m and refinements on other schemes. This is offset by a £115m 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 £73m is explained as being driven by savings made through reprocurements.

1.3 The financing of this increase in expenditure has been achieved substantially through an increased use of the Affordable Housing Fund (up £226m), including future expected contributions to the fund and not solely the existing fund held.

1.4 Key elements of the HRA investment programmes included are:

- Continued investment in existing housing stock (£918.6m);
- Investment in the housing estate regeneration programme and other new supply schemes (£959.6m)
- Affordable Housing Fund (AHF) expenditure on new HRA supply over the 5 year period 2018/19 to 2022/23 (£179.8m)

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 2017/18 and 2022/23 it is anticipated that 2,034 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 2,034 units, the HRA is anticipated to deliver 904 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 289 affordable homes will be delivered on General Fund sites, of which 212 homes are partially funded by the AHF. The remaining 841 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. The investment in the regeneration programme has increased in funding from £440m to £604m in this year's 30 year plan. The notable increase is for Church Street Phase 2 which has been revised in light of the masterplan approved by Cabinet this year.

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 £29.3m has been factored into the business plan.

1.10 Neighbourhood planning work has enabled the Council to identify more opportunities to build affordable housing on our own land. The final number and tenure of these houses will depend upon the level of funding received from government. If the Council were to receive full funding from government these could be offered at social rents. There is a determination to build additional homes and further financial modelling is being carried out in relation to these opportunities. These can be incorporated into a future iteration of the business plan once the funding available has been clarified and confirmed.

2. Recommendations

2.1 To approve the indicative HRA capital programme budgets for 2018/19 to 2022/23 (**Appendix B**).

2.2 To approve the proposed allocations from the Council's Affordable Housing Fund to new supply programmes of £328m (**Appendix B**).

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 wholly owned company being set up 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.£29.3m (see section 7 for more detail);
- A re-profiling of repairs (revenue) expenditure has resulted in a transfer of funds from capital expenditure on major works (c.£98m);
- An anticipated decrease in the cost of undertaking void refurbishment works following the introduction of CityWest Homes' new 10-year Term Partnering Contracts (c.£17m);

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

Disposal of high value voids

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.

Rents for high income social tenants

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 £584.7m 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 £179.8m 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	0.6	31.7	32.3
Lisson Arches	2.0	27.5	29.4
Luton Street	0.2	14.3	14.5
Parsons North	0.6	27.2	27.8
Ashbridge	0.5	13.3	13.8
Church Street Phase Two	0.7	179.6	309.9
Tollgate Gardens	7.3	10.0	17.3
Other Estates Regeneration	11.0	108.2	159.2
Total Regeneration	22.9	411.7	604.3
Other Schemes			
District Heating Network Scheme	0.7	10.1	17.7
Edgware Rd	2.0	6.9	8.9
Infill Schemes	3.8	72.0	152.9
Self Financing	22.0	40.0	124.8
Section 106 Acquisitions	-	24.9	24.9
Kemp House/Berwick Street	-	0.8	0.8
Ashmill Street	0.1	0.9	1.0
Central Contingency	-	17.4	24.4
Total Other Schemes	28.6	173.0	355.3
Total	**51.5**	**584.7**	**959.6**

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 an impact upon the in delivery 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 in addition to other benefits, including a public realm improvement fund, a contribution to off-site works improvements to surrounding blocks and a WCC management fee. 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 have been consulted on the proposals.

Cabinet have now approved the masterplan as the Council's delivery framework for the regeneration programme in Church Street.

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

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 should 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 spend has been budgeted as part of this year's Business Plan. Specifically, a reduction of c.£73m is assumed over the Plan period, leading to a total projected spend of c.£1.45 billion (£919m capital and £531m revenue). All of the stock should 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 £29.2m (£3.5m in 2017/18, £25.7m in the next five years) 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.£294m (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	Forecast to 31 March 2018 £m	5yr Plan £m	30yr Plan £m
Mechanical & Electrical	5.0	30.8	286.4
External	8.2	107.8	378.8
Major Voids	3.5	12.5	76.0
Kitchen & Bathrooms	0.9	3.6	26.8
Lifts	2.7	10.4	49.1
General	2.5	1.2	8.9
Fire precautions	4.1	33.2	61.4
Adaptations	1.2	6.0	31.2
Total Capital Works	**28.2**	**205.5**	**918.6**
Repairs & Maintenance	19.6	89.4	531.1
Total Investment	**47.8**	**294.9**	**1,449.7**

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.£29.3m) 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 £73m 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 98 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 £45.6m, with a further £3.4m anticipated from already agreed disposals. Proceeds have so far been utilised to acquire 59 replacement family-sized homes at a cost of £30.4m.

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 1,881 new affordable homes will be delivered. 568 of these homes are currently under construction, with the remaining homes due to start and complete by March 2023. Of this pipeline of 1,881 units, the HRA is anticipated to deliver 884 affordable units. 199 of the HRA affordable homes will be delivered on 'infill' sites and an additional 183 homes on 'section 106' sites. 681 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 251 affordable homes will be delivered on General Fund sites, of which 212 homes are partially funded by the AHF. The remaining 746 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, including the anticipated position at the end of 2017/18.

Table 3 – New Affordable homes

	Number of units to complete	Tenure				Funding route		
Forecast Year	Total	Social	Intermediate	Specialist	Spots (Social and TA)	HRA	General Fund	Section 106 or funded directly by RP
2017-18	153	34	70	3	46	20	38	95
2018-19	201	68	108	0	25	23	15	163
2019-20	700	223	313	139	25	174	211	315
2020-21	393	173	150	45	25	193	5	195
2021-22	198	150	23	0	25	130	20	48
2022-23	389	292	72	0	25	364	0	25
	2,034	**940**	**736**	**187**	**171**	**904**	**289**	**841**
					2,034			**2,034**
18/19 – 22/23 only	**1,881**	**906**	**666**	**184**	**125**	**884**	**251**	**746**

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 Balances held in the AHF as of December 2017 total £305m. Minimum additional payments of £1.1m are expected during the remainder of 2017/18 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 £305m, £96.5m of these funds are presently formally committed against on-going affordable housing projects. These AHF commitments are made up of £15m against HRA schemes, £73m against schemes in the General Fund and £8.6m against registered providers schemes.

However, going forward to 2027/28, total funding of £465m 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 £305m, plus £1.1m of additional payments expected to be deposited in the AHF during the rest of 2017/18 linked to implemented planning schemes means that further minimum payments of c.£225m will be required from developers linked to new planning schemes up to 2022/23, in order to meet the total AHF funding requirement of £465m.

Table 5 below summarises the levels of funding anticipated to be drawn down by HRA, GF and HA schemes during the rest of 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	8.2	179.8	133.3	321.3
GF	32.0	54.4	-	86.4
HA	15.1	42.0	-	57.1
Total	**55.3**	**276.2**	**133.3**	**464.8**

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. £42m will be required from the AHF to support the delivery of these 244 new affordable homes, supplementing the funding provided by the RPs themselves. Additional affordable housing supply of over 500 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 Chart 2 in section 10.2 shows 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 £3m in 2023/24 which presents a risk should the assumptions not materialise as projected. 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 £790m over the next five years. This will rely upon funding of £130m of HRA revenue resources, £26m from a grant, £300m from RTB & Other capital receipts, £180m from the Affordable Housing Fund and £38m 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 2023/24 at £330m 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 7, the capital programme starts to reduce in size as the bulk of the estates regeneration plan completes. 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 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 the 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.

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

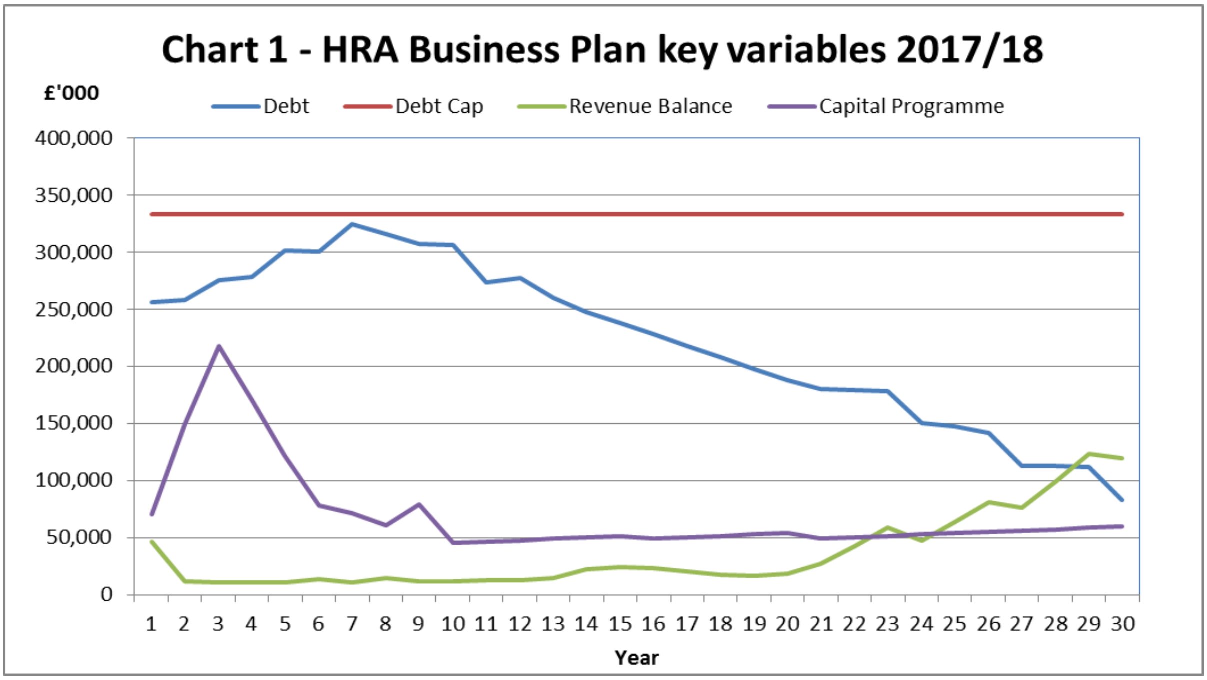
10.1 The base financial position will deliver the following:

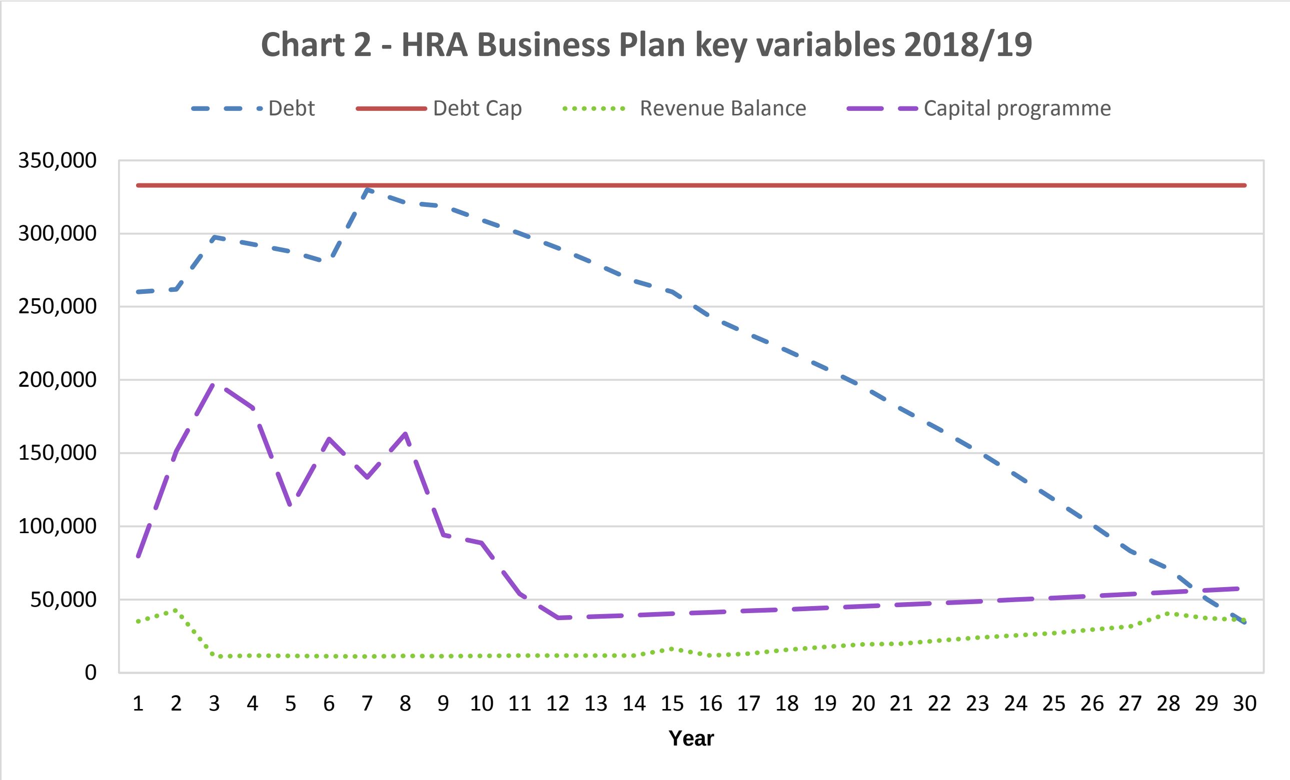
- Investment in existing stock of £1.450bn, including major works capital expenditure of £0.919bn and revenue repairs and maintenance of £0.531bn.
- Investment in new affordable housing of £0.960bn generating new HRA units, along with improved public realm and community facilities.
- Reduction in HRA 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.





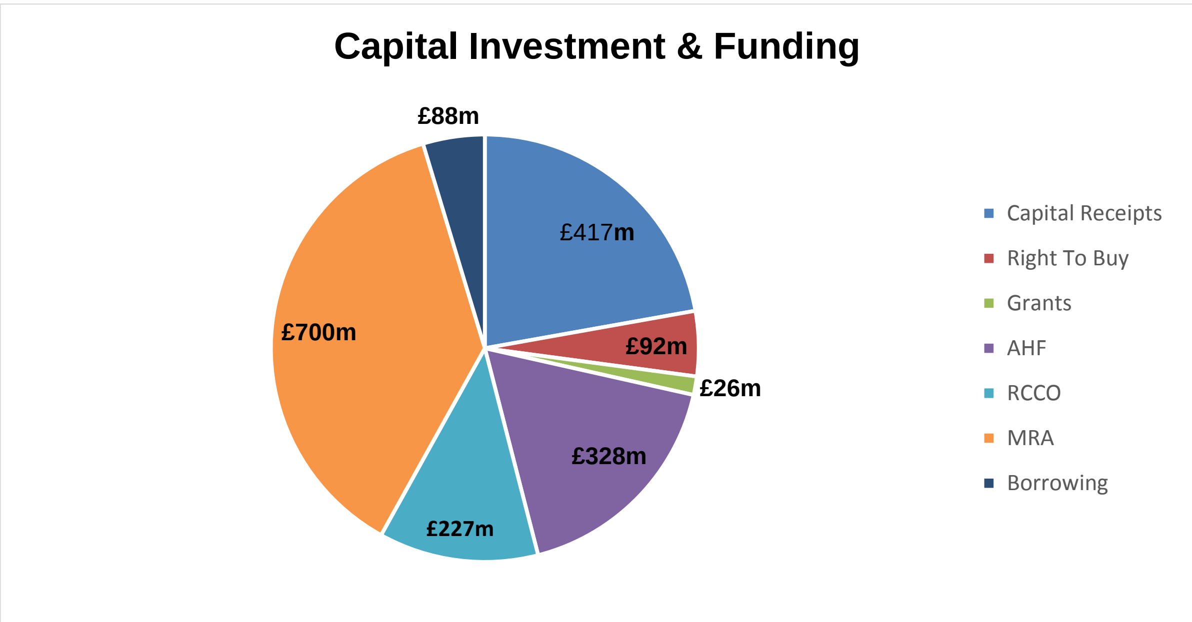
10.3 **Debt cap (red line)** - each local authority HRA has a debt cap, imposed by government as part of the 2012 self-financing settlement. This limits the amount of borrowing that the HRA can undertake. Westminster's cap was originally set at £325m in 2012, but was increased in 2014/15 to £334m. As 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 7 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 in last year's plan) 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 £36m 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 £1.88bn (£1.64bn last year) over 30 years. This includes major works on existing stock of £0.919bn (£1.034bn last year), regeneration £604m (£440m last year) and Other Schemes £355m (£169m). The programme is projected to rise sharply and peak first in 2019/20 and then 2024/25 as a result of increased regeneration expenditure, then gradually reduce from 2024/25 (year 7) 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 is forecast to be funded mainly from: Reserves & Contributions of £227m; capital receipts of £417m generated from land and market sale of new homes; capital grants of £26m; drawdowns from the Affordable Housing Fund of £328m; Right To Buy sales receipts of £92m; MRA of £700m; and borrowing of £88m 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 funding 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 12,188 in year 30. This includes a net total of 859 additional units (bought or built), offset by 509 RTB. 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

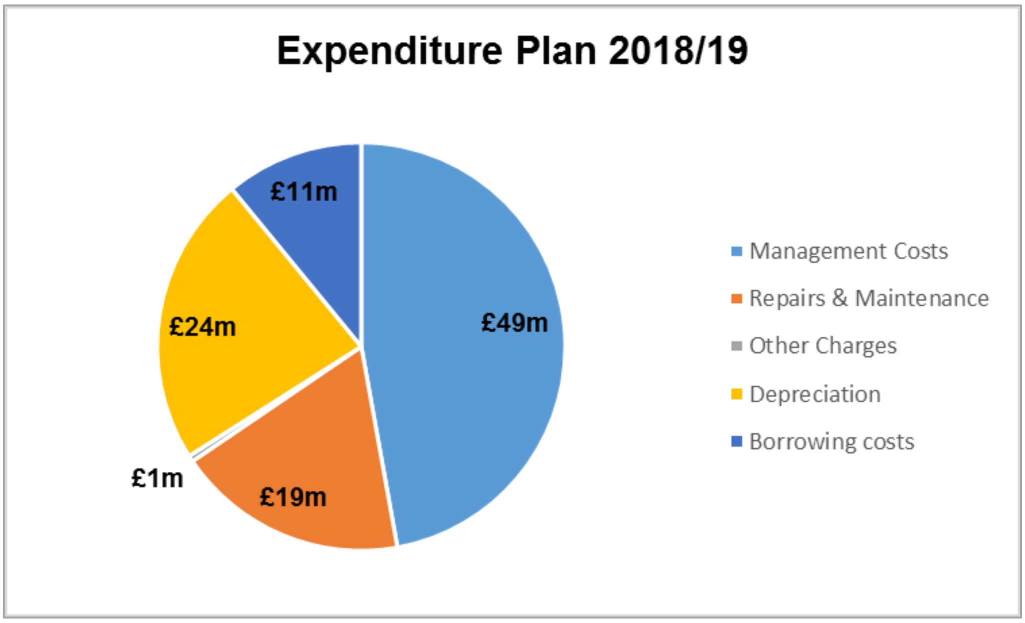
Tenure	Tenanted	Affordable / Intermediate	Leasehold	Total
Stock numbers at 01/04/2017	11,753	-	9,134	20,887
Net Additions	944	117	(202)	859
Disposals - RTB	(509)	-	509	-
Stock numbers at 31/3/2047	**12,188**	**117**	**9,431**	**21,736**

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.

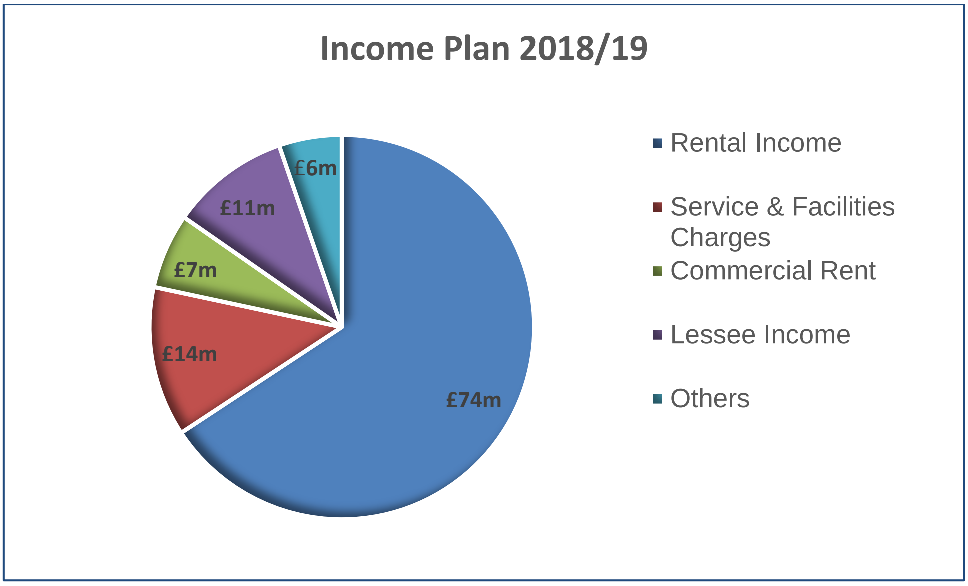
Table 7 - Assumed rent increases

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 £112m 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 £7m gross before costs for repairs and management. Income from lessees in respect of major works is circa £11m 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. All of these contracts 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 4–8: CPI +1% Yr 9 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	24 in the first five years, 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 (2023/24) to within circa £3m 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 £40m before growing again over the subsequent 3 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 £40m 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

h. 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.

i. 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.

j. Reduce major works expenditure. This amounts to £206m over the next 5 years, £919m 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.

k. 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.

l. 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 5 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.

m. 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 £29.2m within Major Works; 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.

n. 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 £592m 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.
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 £3m 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	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.

Risk	Impact	Mitigation
	levels further. This would compound annually.	
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 c£50m.	This is provided for within contingency on the regeneration scheme budgets. The central contingency could be drawn upon. Other general estates 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	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.

Risk	Impact	Mitigation
	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.	

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:

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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								
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	5.0	7.1	5.7	6.0	6.5	5.4	**30.8**	**286.4**
External Repairs & Decorations	8.2	27.7	24.3	19.1	15.4	21.3	**107.8**	**378.8**
Fire Precautions	4.2	13.4	11.4	4.1	2.1	2.2	**33.2**	**61.4**
General	2.5	0.7	0.1	0.0	0.0	0.5	**1.2**	**8.9**
Kitchen & Bathroom	0.9	0.8	0.8	0.7	0.7	0.7	**3.6**	**26.8**
Lifts	2.7	2.4	2.0	2.0	2.0	2.0	**10.4**	**49.1**
Major Voids	3.5	2.5	2.5	2.5	2.5	2.5	**12.5**	**76.0**
Total Major Works	**28.2**	**55.8**	**47.9**	**35.6**	**30.4**	**35.8**	**205.5**	**918.6**
Regeneration								
Cosway Street	0.6	6.5	18.6	5.9	0.7	0.0	**31.7**	**32.3**
Lisson Arches	2.0	8.3	17.1	1.7	0.3	0.0	**27.5**	**29.4**
Luton Street	0.2	2.1	6.4	5.8	0.0	0.0	**14.3**	**14.5**
Parsons North	0.6	8.7	15.8	2.4	0.3	0.0	**27.2**	**27.8**
Ashbridge	0.5	5.3	7.8	0.2	0.0	0.0	**13.3**	**13.8**
Church Street Phase Two	0.7	5.3	4.6	64.9	40.5	64.3	**179.6**	**309.9**
Tollgate Gardens	7.3	10.0	0.0	0.0	0.0	0.0	**10.0**	**17.3**
Other Estates Regeneration	11.0	17.3	32.9	28.5	14.2	15.4	**108.2**	**159.2**
Total Regeneration	**22.9**	**63.5**	**103.2**	**109.3**	**55.9**	**79.7**	**411.7**	**604.3**
Other Schemes								
District Heating Network Scheme	0.7	1.9	1.9	5.9	0.4	0.0	**10.1**	**17.7**
Edgware Rd	2.0	0.0	6.6	0.3	0.0	0.0	**6.9**	**8.9**
Infill Schemes	3.8	12.7	17.9	15.0	11.0	15.4	**72.0**	**152.9**
Self Financing	22.0	10.0	0.0	10.0	10.0	10.0	**40.0**	**124.8**
Section 106 Acquisitions	0.0	0.0	12.4	0.0	0.0	12.4	**24.9**	**24.9**
Kemp House/Berwick Street	0.0	0.7	0.0	0.0	0.0	0.0	**0.8**	**0.8**
Ashmill	0.1	0.3	0.6	0.0	0.0	0.0	**0.9**	**1.0**
Central Contingency	0.0	5.4	6.3	2.3	2.0	1.4	**17.4**	**24.4**
Total Other Schemes	**28.6**	**31.0**	**45.8**	**33.6**	**23.4**	**39.2**	**173.0**	**355.3**
Total Capital Expenditure	**79.7**	**150.3**	**196.9**	**178.5**	**109.7**	**154.8**	**790.2**	**1,878.2**
Financed By:								
Capital Receipts	15.4	45.6	63.9	68.7	28.9	63.9	**270.9**	**416.8**
Right To Buy	17.5	8.6	5.7	1.6	8.7	4.5	**29.2**	**92.4**
Grants	0.2	5.9	4.6	12.0	3.5	0.0	**26.0**	**26.2**
AHF	15.2	18.4	25.4	66.0	21.9	48.1	**179.8**	**328.3**
RCCO	8.0	46.4	38.4	6.9	23.4	14.9	**130.0**	**226.8**
MRA	23.3	23.3	23.3	23.3	23.3	23.3	**116.7**	**699.9**
Borrowing	0.0	2.0	35.6	0.0	0.0	0.0	**37.6**	**87.7**
Total Financing	**79.7**	**150.3**	**196.9**	**178.5**	**109.7**	**154.8**	**790.2**	**1,878.2**

Appendix C – Operating Account

WESTMINSTER CITY COUNCIL
HRA Business Plan
Operating Account
(expressed in money terms)

		Income				Expenditure																
Year	Year	Net rent Income	Other income	Misc Income	Total Income	Managt.	Depreciation	Responsive & Cyclical	Other Revenue spend	HRA Cost of Rent Rebates	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**	**£,000**
1	2017.18	87,944	5,559	15,678	109,181	(47,697)	(23,331)	(19,615)	(4,200)	0	(460)	(95,303)	(12,269)	**1,608**	0	0	3,821	(10,923)	**(5,494)**	**40,105**	**437**	**35,048**
2	2018.19	87,046	5,697	19,384	112,127	(48,889)	(23,909)	(19,016)	(513)	0	(1,148)	(93,475)	(11,337)	**7,316**	0	0	0	0	**7,316**	**35,048**	**325**	**42,689**
3	2019.20	86,976	5,840	18,702	111,517	(50,112)	(24,384)	(18,947)	0	0	(1,108)	(94,550)	(11,530)	**5,437**	0	0	0	(37,116)	**(31,679)**	**42,689**	**139**	**11,149**
4	2020.21	90,162	5,986	17,891	114,039	(51,365)	(25,170)	(18,937)	0	0	(1,325)	(96,797)	(12,203)	**5,039**	(4,622)	0	0	0	**418**	**11,149**	**167**	**11,733**
5	2021.22	93,224	6,136	17,031	116,391	(52,649)	(25,844)	(19,524)	0	0	(1,882)	(99,899)	(11,902)	**4,590**	(5,130)	0	0	0	**(540)**	**11,733**	**218**	**11,411**
6	2022.23	96,693	6,289	19,168	122,150	(53,965)	(26,400)	(20,184)	0	0	(2,711)	(103,260)	(11,653)	**7,237**	(7,521)	0	0	0	**(284)**	**11,411**	**113**	**11,241**
7	2023.24	100,693	6,446	19,656	126,795	(55,314)	(27,488)	(20,979)	0	0	(2,779)	(106,560)	(12,857)	**7,378**	0	0	0	(7,607)	**(228)**	**11,241**	**64**	**11,076**
8	2024.25	104,304	6,607	20,524	131,436	(56,697)	(28,324)	(21,662)	0	0	(2,849)	(109,531)	(12,832)	**9,072**	(8,828)	0	0	0	**244**	**11,076**	**96**	**11,416**
9	2025.26	107,534	6,773	20,757	135,063	(58,114)	(29,219)	(22,438)	0	0	(2,920)	(112,691)	(12,852)	**9,520**	(2,381)	0	0	(7,457)	**(318)**	**11,416**	**96**	**11,194**
10	2026.27	110,583	6,942	20,357	137,881	(59,567)	(30,260)	(23,178)	0	0	(2,993)	(115,999)	(12,543)	**9,340**	(9,260)	0	0	0	**80**	**11,194**	**172**	**11,446**
11	2027.28	114,035	7,115	19,128	140,279	(61,056)	(31,083)	(24,009)	0	0	(3,068)	(119,216)	(12,091)	**8,973**	(9,145)	0	0	0	**(172)**	**11,446**	**380**	**11,653**
12	2028.29	117,404	7,293	19,607	144,304	(62,583)	(32,330)	(24,820)	0	0	(3,144)	(122,877)	(11,612)	**9,815**	(10,166)	0	0	0	**(351)**	**11,653**	**465**	**11,768**
13	2029.30	119,851	7,476	20,097	147,423	(64,147)	(33,106)	(25,410)	0	0	(3,223)	(125,887)	(11,139)	**10,398**	(10,842)	0	0	0	**(445)**	**11,768**	**451**	**11,774**
14	2030.31	122,346	7,662	20,599	150,608	(65,751)	(33,902)	(26,014)	0	0	(3,304)	(128,971)	(10,667)	**10,970**	(11,404)	0	0	0	**(434)**	**11,774**	**438**	**11,778**
15	2031.32	124,893	7,854	21,114	153,861	(67,395)	(34,716)	(26,633)	0	0	(3,386)	(132,130)	(10,278)	**11,453**	(7,364)	0	0	0	**4,089**	**11,778**	**435**	**16,302**
16	2032.33	127,490	8,050	21,642	157,182	(69,080)	(35,550)	(27,266)	0	0	(3,471)	(135,367)	(9,782)	**12,034**	(16,941)	0	0	0	**(4,908)**	**16,302**	**421**	**11,815**
17	2033.34	130,139	8,252	22,183	160,574	(70,807)	(36,404)	(27,915)	0	0	(3,558)	(138,683)	(9,216)	**12,676**	(11,938)	0	0	0	**738**	**11,815**	**398**	**12,951**
18	2034.35	132,843	8,458	22,738	164,039	(72,577)	(37,278)	(28,578)	0	0	(3,647)	(142,080)	(8,799)	**13,160**	(10,934)	0	0	0	**2,226**	**12,951**	**392**	**15,570**
19	2035.36	135,602	8,669	23,306	167,577	(74,391)	(38,174)	(29,258)	0	0	(3,738)	(145,560)	(8,353)	**13,664**	(11,930)	0	0	0	**1,734**	**15,570**	**389**	**17,693**
20	2036.37	138,417	8,886	23,889	171,192	(76,251)	(39,091)	(29,953)	0	0	(3,831)	(149,126)	(7,806)	**14,260**	(12,871)	0	0	0	**1,388**	**17,693**	**383**	**19,464**
21	2037.38	141,289	9,108	24,486	174,883	(78,157)	(40,029)	(30,665)	0	0	(3,927)	(152,779)	(7,163)	**14,941**	(14,922)	0	0	0	**19**	**19,464**	**374**	**19,857**
22	2038.39	144,219	9,336	25,098	178,653	(80,111)	(40,991)	(31,394)	0	0	(4,025)	(156,521)	(6,431)	**15,701**	(13,918)	0	0	0	**1,783**	**19,857**	**364**	**22,004**
23	2039.40	147,209	9,569	25,726	182,504	(82,114)	(41,975)	(32,140)	0	0	(4,126)	(160,355)	(5,699)	**16,451**	(14,914)	0	0	0	**1,537**	**22,004**	**358**	**23,899**
24	2040.41	150,261	9,809	26,369	186,438	(84,167)	(42,983)	(32,904)	0	0	(4,229)	(164,283)	(4,916)	**17,240**	(15,910)	0	0	0	**1,330**	**23,899**	**351**	**25,580**
25	2041.42	153,375	10,054	27,028	190,457	(86,271)	(44,015)	(33,686)	0	0	(4,335)	(168,307)	(4,083)	**18,068**	(16,905)	0	0	0	**1,162**	**25,580**	**342**	**27,084**
26	2042.43	156,554	10,305	27,704	194,562	(88,428)	(45,072)	(34,486)	0	0	(4,443)	(172,429)	(3,224)	**18,909**	(16,901)	0	0	0	**2,009**	**27,084**	**335**	**29,427**
27	2043.44	159,798	10,563	28,396	198,757	(90,638)	(46,154)	(35,306)	0	0	(4,554)	(176,652)	(2,340)	**19,764**	(17,896)	0	0	0	**1,868**	**29,427**	**329**	**31,624**
28	2044.45	163,105	10,827	29,106	203,038	(92,904)	(47,262)	(36,145)	0	0	(4,668)	(180,979)	(1,583)	**20,476**	(11,891)	0	0	0	**8,585**	**31,624**	**338**	**40,548**
29	2045.46	166,480	11,098	29,834	207,412	(95,227)	(48,397)	(37,003)	0	0	(4,785)	(185,412)	(752)	**21,247**	(20,784)	0	0	(4,101)	**(3,638)**	**40,548**	**346**	**37,256**
30	2046.47	169,925	11,375	30,580	211,880	(97,608)	(49,559)	(37,882)	0	0	(4,904)	(189,953)	(1,521)	**20,405**	(15,881)	0	0	(6,080)	**(1,555)**	**37,256**	**341**	**36,042**

Appendix D

Key achievements in the last 12 months

Achievements in the past year have included:

- Church Street masterplan approved by Cabinet as delivery framework for the regeneration programme.
- 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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City of Westminster

Decision Maker:	**Cabinet**
Date:	**19 February 2018**
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 020 7641 2831 smair@westminster.gov.uk**

EXECUTIVE SUMMARY

1. Members will be aware that the 8 November 2017 meeting of Full Council gave approval to implement a comprehensive strategic integrated investment framework for bringing together and managing all of its investments.

2. The Council holds £1.4bn of short term cash based investments (as at 12 January 2018), 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 Statement (ISS) set by the Pension Fund Committee.

3. In summary, the Council holds £1.4bn of treasury 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 with the current inflation rate as measured by CPI of 3.0% (as at January 2018), treasury investments are depreciating in value. The £1.4bn treasury portfolio

is 68% 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.

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 seeks 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

5. That the Council:

a) approve and implement the Integrated Investment Framework set out in this report;

b) approve that the target for the overall return on Council investments should aspire to match inflation;

c) approve that the benefits of investing in the Pension Fund should be used as a benchmark when evaluating other investments;

d) adopt the asset allocation percentages set out in the Framework and work towards achieving these;

e) agree 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;

f) 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 should be subject to Cabinet Member approval;

g) 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;

h) approve the establishment of an Investment Executive, comprising the membership set out in paragraph 55, 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

6. The Council is responsible for managing its cashflows and assets exceeding £7bn at 31 March 2017. At 12 January 2018, investments totalled £1.8bn, comprising £1.4bn 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 align 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.

7. 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 (MTFP). 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.

8. While the assets are distributed across a range of areas, the complexity of the Council and its funding need 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:

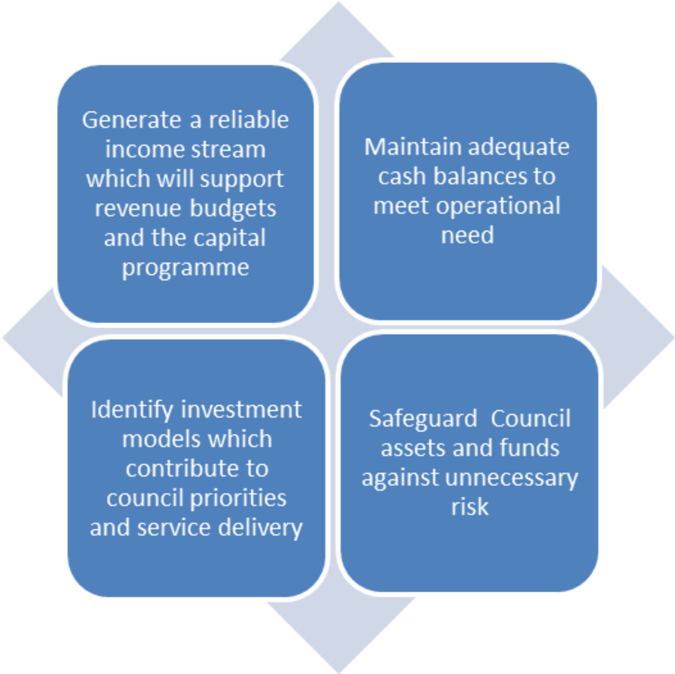
   - the significant value of investments held by the Council;
   - their increasing importance in terms of generating income which supports revenue budgets and capital investment;
   - their potential to add value and contribute towards corporate objectives in their own right.

9. 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

10. 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.

11. The role of investment management is to support service delivery by balancing four key strategic objectives as follows:



12. An appropriate investment strategy which balances the above objectives is therefore key.

13. The Council is exposed to possible future events, such as:

- the potential impact of an economic downturn following the UK's exit from the EU, which could reduce the UK's gross domestic product (GDP) 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 the capital programme;
- Government funding policy changes.

14. Ideally, the investment strategy should be aimed at generating future income to address these longer term risks.

ACCEPTABLE RISK LEVELS

15. An appropriate investment 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
- investigates property investment opportunities.

16. The suggested policy going forward is that the Council will generally seek to obtain the maximum amount of income consistent with an optimum 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.

17. 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.

18. 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

19. The Council is responsible for managing two broad investment portfolios:

- the Council investment portfolio of £1.8bn comprising £1.4bn 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.

20. 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 12 January 2018 £ 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%	1,374	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	6.0%	7	0	0
Investment properties	4.2%	455	455	405
Total		**1,877**	**1,239**	**966**

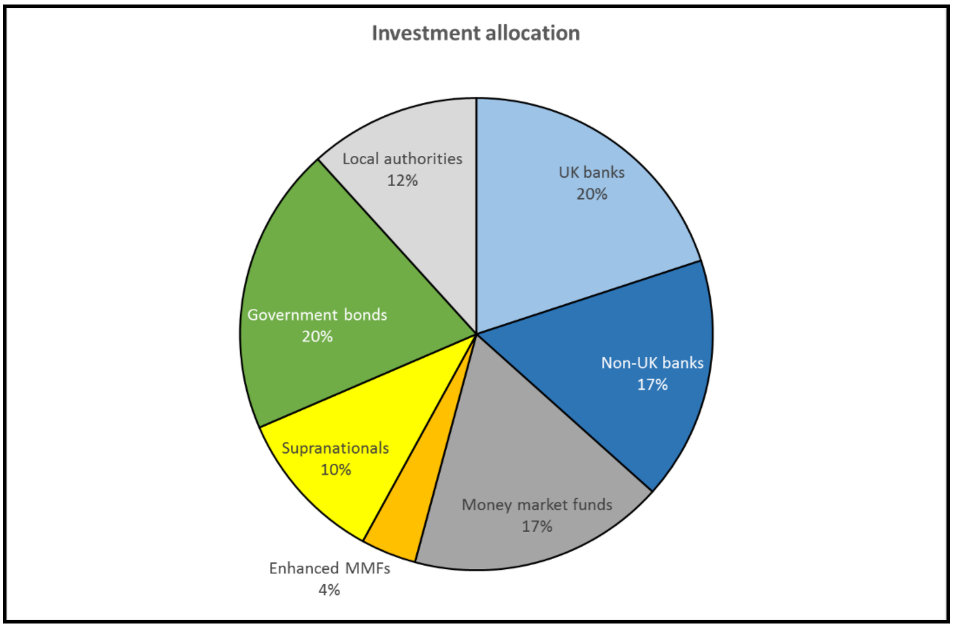
21. The Pension Fund is a separate legal entity and, therefore, its assets cannot fit within the wider investment framework of the Council. However, despite this ring-fencing, the pension fund has a significant second-order impact on the Council's financial position and funding needs, because of the existing deficit in the scheme, and the contribution plan in place to close this over a 17-year horizon.

22. Although the funding position of the Pension Fund has improved from 74% at March 2013 to 88% at September 2017, this still represents a liability of £171m. To close the deficit, the Council is injecting additional contributions over the period 2017/18 to 2019/20, comprising £30m of one-off resources and increased revenue contributions followed by inflation-linked levels of contributions thereafter until the deficit is resolved.

23. The funding of the Pension Fund assumes an annualised rate of return of 5.1% over the 17-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 £171m deficit represents a form of borrowing with an interest rate set at the discount rate of 5.1%.

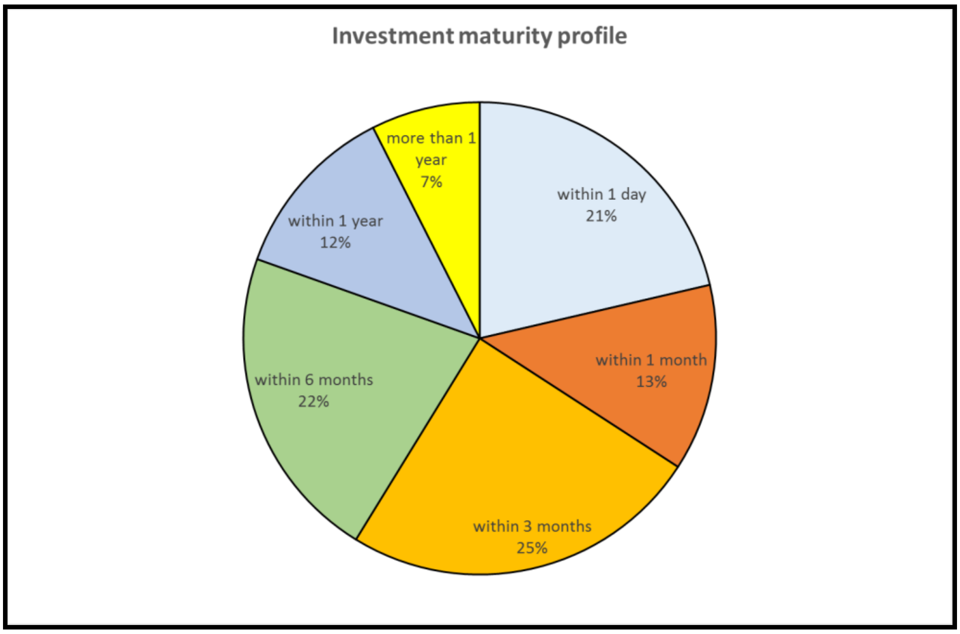
SHORT-TERM INVESTMENTS

24. In line with the current investment strategy, the treasury portfolio of short term cash-based investments is concentrated in the banking sector with 37% in bank deposits, 21% in money market funds and 10% in supranational banks as shown below.



Source: TreasuryLive as at 12 January 2018

25. 93% of investments mature within 12 months as shown below.



Source: TreasuryLive as at 12 January 2018

26. 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.

27. This approach provides flexibility for the Council at very low levels of risk, but tends to result in fairly low returns, typically less than 0.50%, 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 versus credit rating.

INVESTMENT PROPERTY

28. 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.

29. 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.

30. Geographically, the investment property portfolio is inevitably 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 5.50% in the regions (see Appendix C). In-house investment property generated 4.20% yield (excluding capital growth) in 2016/17.

31. Currently, the property portfolio is heavily fragmented due to its historical incremental build-up with a heavy concentration in car parks which generates 39% of total income, followed by shops generating 22%, offices generating 17% and other smaller units generating the remainder.

32. The car park assets, which provide a steady income stream, 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.

33. An initial £50m drawdown facility for investment schemes to generate additional income towards future Medium-Term Plan savings was approved as part of the previous year’s Capital Strategy. Of this £12.397m was invested leaving a balance of £37.613m. Additional funding of £50m has been added to the Capital Strategy 2018/19-2022/23 for this budget producing a total budget of £87.613m. Schemes funded by this will go ahead if they generate additional income after full due diligence.

34. A more focused property investment strategy is likely to increase returns by:

- setting out more clearly the process and goals of the strategy;

- providing a framework for rationalising lot size over time which will improve both efficiency and reduce the costs of managing the portfolio;

- targeting properties with a modern specification and minimal management costs;

- diversifying risk, sector and geography;

- improving asset quality and increase in average asset value.

35. 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 will improve performance and delivery of active asset management of the portfolio.

36. Any strategy or future scrutiny of the Investment property portfolio should take into consideration any recommendations and requirements of the statutory guidance on local government investments, notably recommendations for the use of indicators in evaluating performance and viability of investments. Example indicators and background of the statutory guidance are included in Appendix D.

LONG-TERM INVESTMENTS

37. 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 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.

38. These are classed as non-specified investments under the DCLG’s statutory guidance for local government investments.

39. 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 Statement (TMSS) expressly permits new investments in non-specified institutions. For any such investments, specific proposals will be considered by the Director of Treasury and Pensions, and approved by the s151 Officer subject to due diligence.

40. Non-specified investments include asset 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.

41. 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.

42. Such investments typically offer returns of 4% to 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.

43. The Council's current portfolio of non-specified investments is:

	Value at 12 January 2018 £ 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	24.9	25.6	0.50%
Supranational	73.7	0	0.52%
Other arm's 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	Annualised 6% over 7-year life of fund
Total	**120.9**	**41.3**	

44. 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.

45. 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

46. In order to assess appropriate changes to the treasury portfolio, it is important to consider also 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 minimise funding gaps.

47. The Council has a significant capital programme, totaling more than £2.5bn to 2031/32. This will be funded from £1.2bn of external funding, leaving a net funding requirement of £1.4bn, as set out below.

	Forecast	Five year plan					Future years to	Total
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2030/31	
	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	277	420	424	297	208	122	845	2,593
Total funding	(197)	(168)	(221)	(155)	(141)	(124)	(218)	(1,224)
Net Funding Requirement	**80**	**252**	**203**	**142**	**67**	**(2)**	**627**	**1,369**
% of treasury portfolio set against funding needs	6%	18%	15%	10%	5%	0%	46%	100%
Suggested maturity allocation	**10%**	**20%**	**15%**	**10%**	**5%**	**10%**	**30%**	**100%**

Source: Capital Strategy 2018/19 to 2022/23

INVESTMENT ALLOCATION

48. 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.

49. 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.

50. Therefore, the proposed approach going forward is to move investment allocations towards agreed percentages as follows:

Type of investment	Current allocation	Proposed allocation
Short-term investments – less than one year	69%	10%
Short-term investments – less than two years	6%	20%
Short-term investments – less than three years	0%	15%
Short-term investments – less than four years	0%	10%
Short-term investments – less than five years	0%	5%
More than five years:		
Property	25%	40%
Alternative investments	1%	

OPTIONS FOR INCREASING YIELD

51. This will be achieved by making the following changes to the investment portfolio over the next 6 to 9 months. The following will be examined and assessed.

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 gilt yield 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 counterparty risk to individual banks, 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 to 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 to 0.9%, greater than the current treasury portfolio. Yields can be higher for AA or A rated asset backed securities eg a 3 to 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 the government policy increasing lending to households and small businesses
Investment property		
4. Adopt a more focused 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 if 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	Increased return on property portfolio of at least 0.8%.	Adverse property markets may result in a fall in sale value

• ensure the sale of resultant assets to repay any associated financing costs within an envelope of 5 years.		
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 to 6.5%	By using a fund structure, this arms-length approach distances the Council from the costs of directly managing such property and investment is secured on the underlying property
Alternative assets		
6. These fall outside traditional investments, such as listed equities and bonds, and include renewable energy, infrastructure and commodities.		
7. 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 to 6% with a maturity of 2 to 5 years. Direct lending and commercial real estate debt tend to generate 7 to 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		
8. Pension Deficit – invest an additional £50m to £60m in the pension fund over current contributions	This would reduce the interest on the pension fund deficit by 20% to 24% and thus improve the funding position by 18% to 22%, providing ongoing revenue savings of £1.7m to £2.0m per annum	Adverse markets in UK and abroad increase pensions deficit notwithstanding the additional investment made

SCRUTINY

52. An investment task force was set up to ensure that the Council made best use of its resources and ensure value for money was being achieved in its investment strategy. The task force contains both Council Members and Officers.

53. The task force met on 13 September 2017 to perform an in depth review on the Council's wider investment framework document and provide suggestions improvements. The review looked at the council's property portfolio, short and long term treasury investments, governance arrangements and the impact of investing in the pension fund.

54. After the meeting the following recommendations were made:

- the pension fund should be used as a benchmark for all Council investments due to the high long term rate of return;
- council wide investments should aspire to match inflation;
- property and alternative investments should be focused initially within the borough, with out of borough investments considered as they arise subject to member decision;

- investments in out of borough property should be considered individually and outweigh the benefits of investing in Borough (which can include non-commercial benefits e.g. Place making) and in a diversified property fund. Individual decisions should be subject to cabinet member approval.

55. Governance arrangements for the investment strategy should be closer aligned to the Pension Fund Committee. The body responsible can then report to the council where formal decisions on the investment strategy will be taken.

OVERALL INVESTMENT TARGET

56. 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.

57. 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 six months and some of the higher return generating options have a lead-in time of one to two 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

58. 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.

59. The implementation, management, monitoring and reporting of this Integrated Investments Framework will therefore operate as now, being approved by Full Council with specific investment decisions that require such action being delegated to the Cabinet Member for Finance, Property and Corporate Services after due diligence and advice from the City Treasurer and Tri-Borough Director of Treasury and Pensions.

60. Day-to-day aspects of treasury management function will continue to be delegated to officers in the same way that they are at present, 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's portfolio.

61. The implementation, monitoring and reporting will be delegated to the Investment Executive. 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.

62. The Investment Executive will meet half yearly supplemented with ad hoc calls and meetings in times of need of change.

63. Key information will be reported to Members on a half yearly basis through the half yearly investment reports.

64. 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 in which to invest;

    - benchmark the Council's performance and identify any areas where there is scope for improvement.

DUE DILIGENCE

65. 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 risk and reward.

66. 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.

67. 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.

68. 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 Ps" principle as set out in Appendix A.

69. 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;

    - environmental, social. ethical and sustainability considerations.

OPTION APPRAISAL

70. 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 focused;
- structured around the key questions set out in Appendix B;
- take non-financial benefits into consideration where relevant.

71. 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 AND LEGAL IMPLICATIONS

72. 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.

73. A full review of the proposed Framework will be undertaken by Legal Services to ensure compliance with all legislative requirements and consistency with the Council’s existing Constitution, terms of reference and scheme of delegation.

RECOMMENDATION

74. That Members:

a) approve and implement the Integrated Investment Framework set out in this Report (to be reviewed on an annual basis);

b) approve the target for the overall return on Council investments should aspire to match inflation;

c) approve the benefits of investing in the Pension Fund should be used as a benchmark when evaluating other investments;

d) adopt the asset allocation percentages set out in the Framework and work towards achieving these;

e) agree that the overarching objective of this Framework is to achieve an overall return on Council investments aspiring to match inflation per annum, 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;

f) 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 should be subject to Cabinet Member approval;

g) 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;

h) approve the establishment of an Investment Executive, comprising the membership set out in paragraph 55, 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.

BACKGROUND PAPERS

Overview and scrutiny

Treasury Monitoring Report – January 2018

Council

2018/19 Draft Treasury Management Strategy - January 2018

2018/19 Council Tax and Capital Strategy – November 2017

2017/18 Statement of Accounts – April 2017

If you have any queries about this Report or wish to inspect any of the Background Papers, please contact:

Phil Triggs, Tri-Borough Director of Treasury & Pensions

Tel: 0207 641 4136

Email: ptriggs@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 Ps" 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 ongoing 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 EU implications?

Press

a) 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 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	Feb 17	Jun 17
West End offices	3.00%	3.25%	3.25%
City Offices	4.00%	4.00%	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%
Food stores	5.00%	5.00%	5.00%
Industrial distribution	4.50%	5.00%	5.00%
Industrial multi-lets	4.75%	4.75%	4.50%
Leisure Parks	5.00%	5.00%	5.00%
Regional Hotels	5.50%	5.25%	5.00%

Source: Savills

APPENDIX D – Performance indicators

Statutory guidance on Local Government Investments proposes that:

Local authorities should present a range of indicators to allow members and other interested parties to understand the total exposure from borrowing and investment decisions. The indicators should cover both the local authority's current position and the expected position, assuming all planned investments for the following year are completed. The indicators do not need to take account of Treasury Management investments unless these are expected to be held for more than 12 months.

The Guidance requires local authorities to develop quantitative indicators that allow Councillors and the public to assess a local authority's total risk exposure as a result of its investment decisions.

Below are examples of performance indicators worth considering within a property investment portfolio.

Target income returns	Net revenue income compared to equity. This is a measure of achievement of the portfolio of properties.
Benchmarking of returns	As a measure against other investments and against other council's property portfolios.
Gross and net income	The income received from the investment portfolio at a gross level and net level (less costs) over time.
Operating costs	The trend in operating costs of the non-financial investment portfolio over time, as the portfolio of non-financial investments expands.
Vacancy levels and tenant exposures for non-financial investments	Monitoring vacancy levels (voids), ensure the property portfolio is being managed (including marketing and tenant relations) to ensure the portfolio is productive as possible.

Cabinet Report

City of Westminster

Meeting:	**Cabinet**
Date:	**19th February 2018**
Classification:	**For General Release**
Title:	**Pay Policy 2018- 2019**
Wards Affected:	**n/a**
Financial Summary:	**There are no direct financial implications**
Report of:	**Lee Witham, Director of People Services**

1. Executive Summary

1.1 To advise of the publication of the Council's annual Pay Policy for 2018 – 2019, which needs to be approved by Cabinet on 19th February 2018 and by full Council on 7th March 2018, before publication.

2. Recommendations

2.1 That the Council be recommended to adopt the Pay Policy for 2018 - 2019 (see Appendix 1).

3. Reason for decision

3.1 The Council is required to publish its Pay Policy by 31st March every year. It must be approved formally by Cabinet and full Council before publication. The Council is already transparent in its approach to Senior Pay and publishes detailed information about senior officer pay and Members' allowances to meet its duties under the Local Government Transparency Code (2015).

3.2 The Council's Pay Policy meets the statutory requirements of the Localism Act 2011. It brings together all the Council's existing policies on pay, which have been subject to consultation.

3.3 The Pay Policy must include details in relation to: all aspects of Chief Officers' remuneration, increases and additions to remuneration, bonuses, termination payments and remuneration on recruitment. It must also include information about the relationship between the remuneration of its highest paid officer (the Chief Executive) and the median salary of all employees (the “pay multiple”).

3.4 This report appends the proposed Pay Policy for 2018 – 2019. All pay data in the Pay Policy will use the snapshot date of 31st March 2017.

3.5 Government’s reforms to public sector exit payments (i.e. to cap exit payments at £95,000 and recover exit payments for employees earning £80,000 plus) were due to come into effect from Autumn 2016. However, they were delayed and are now expected to be implemented sometime in 2018. The Pay Policy will be amended if this takes place.

4 Legal Implications

4.1 The statutory requirements set out in Chapter 8 of Part 1 of the Localism Act 2011 (Sections 38-43) are summarised in the report and the pay policy statement. The pay policy statement complies with the statutory requirements.

4.2 Implications completed by Rhian Davies, Chief Solicitor (Litigation and Social Care).

5 Financial Implications

5.1 All changes to pay will be reflected in the budget setting process.

If you have any queries about this report or wish to inspect any of the background papers please contact: Lee Witham, Director of People Services lwitham1@westminster.gov.uk, 0207 641 3224

Appendix 1
Westminster City Council
Pay Policy 2018- 2019

Introduction

Westminster City Council's (the Council) Pay Policy is published in line with the Localism Act 2011, Section 38 (1) which requires all Local Authorities in England and Wales to publish their Pay Policy annually, at the start of each financial year.

The Council's Pay Policy is presented to full Council for approval on 7th March 2018. It brings together the Council's approach to pay and remuneration[1] which was approved by Cabinet on 27th August 2008 and is detailed in various Council policies. It is published on the Council's website.
The Council seeks to be an Equal Opportunities employer and will heed all relevant employment legislation related to pay and remuneration. This includes but is not limited to the Equality Act (2010) and the Part-time Workers (Prevention of Less Favourable Treatment) Regulations (2000).

The Council publishes salaries of Chief Officers and senior staff earning over £63,297 (FTE) and above on the Council's website in line with Local Government Transparency Code 2015.

Under the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017, mandatory gender pay reporting will be required of all employers with over 250 employees from March 2018. The gender pay gap is a measure of the difference between men's and women's average earnings across the organisation. It is expressed as a % of men's earnings.

This gender pay gap data for Westminster City Council as at the 31st March 2017 will also be published on the Council's website.

Background

The Council implemented a Broad Band pay structure in 2008, the purpose of which is to provide one simplified pay structure from the top to the bottom of the organisation. The pay structure focuses on rewarding added value and supporting business aims. It does not reward time served in post i.e. there is no guaranteed incremental progression. All progression is based on exceeding performance targets.

The Broad Band pay structure provides clarity and transparency on the levels within the organisation and applies to all staff employed by the Council with the exception of: schools support staff (except where the governing body has adopted the broad band structure), JNC Youth Workers, Public Health staff who TUPE transferred into the Council and Soulbury staff.

Notes
[1] Excluding some employees in Schools, JNC Youth Workers, Public Health staff that TUPE transferred into the Council and Soulbury staff.

The Council recognises the need to recruit and retain staff in highly skilled or specialist work areas, where posts are hard to fill. It is accepted that our central London location and the occasional limited availability of quality personnel in certain professions means that in exceptional circumstances it is difficult to recruit to key posts on the salary for the grade of the post. Where there is a genuine requirement a Market Based Salary Supplement reflecting the difference between WCC salary and market pay rates is paid as a time bound and non - contractual addition to salary.

The Broad Band Pay Structure

There is one Broad Band pay structure from the top to the bottom of the organisation. There are 7 Broad Bands with 7 pay steps in each band. Band 1 is the lowest and Band 7 is the highest. The band of a post is determined through job evaluation.

The pay levels in the Broad Bands are generally reviewed annually in line with the National Joint Council for Local Government Services (NJC) and the Greater London Provincial Council (GLPC).

Definition of Chief Officer

The term "Chief Officer" for the purposes of this Pay Policy includes the following positions:

- The Chief Executive
- All Executive Management Team (EMT) Directors*
- All Directors / Deputy Director, Heads of Services (Corporate Leadership Team)*

*all of whom meet the definition of either Statutory or Non-Statutory Chief Officers or Deputy Chief Officers as specified under Part 1, Section 2 (para's 6 -8) of the Local Government and Housing Act 1989, (LGHA) e.g.

"Non-Statutory Chief Officer" means,
(a) a person for whom the head of the authority's paid service is directly responsible;
(b) a person who, as respects all or most of the duties of his/her post, is required to report directly or is directly accountable to the head of the authority's paid service; and
(c) any person who, as respects all or most of the duties of his/her post, is required to report directly or is directly accountable to the local authority themselves or any committee or sub-committee of the authority.

"Deputy Chief Officer" means, subject to the following provisions of this Section, a person who, as respects all or most of the duties of his/her post, is required to report directly to one or more of the statutory or non-statutory Chief Officers.

For the purposes of this Pay Policy only, managers below Corporate Leadership Team level, who as a result of changes in the structure, now report to a Chief Officer as defined above are not classified as Deputy Chief Officers.

Pay accountability

Salary packages on appointment which exceed £100,000
All posts, including those which exceed a salary package[2] of £100,000, are appointed within a pay band and structure where the principles of reward and remuneration have been previously agreed by full Council. Therefore any new appointments are not subject to full Council consideration.

Redundancy payments which exceed £100,000
Employees are contractually entitled to be paid in line with the Council's Redundancy Compensation policy if they are made redundant. If a proposed redundancy payment exceeds more than £100,000 (excluding the capital cost of pension entitlement) and this is higher than the employee's contractual entitlement, the approval of full Council will be sought before an offer is made to the employee.

Chief Officer Remuneration

Chief Executive (Head of Paid Service)
The Chief Executive was paid a spot salary of £205,419 per annum (as at 31st March 2017). An additional 18% of this amount is held as deferred salary. This amount is not guaranteed and payment depends on performance. The Chief Executive was awarded a deferred salary payment of £32,867 in May 2017 for the period 1st April 2016 – 31st March 2017. The Chief Executive undertakes the role of Returning Officer. A Returning Officer **may** recover their charges for services and expenses provided they were necessarily rendered or incurred for the efficient and effective conduct of the election and the total does not exceed the overall maximum recoverable amount specified by the Secretary of State in an order.

The Chief Executive package was reviewed by the appointments sub committee on 16th January 2018 and has been changed to bring it in to line with other senior officers whereby an additional 10% (rather than 18%) of the spot salary is held as deferred salary. This amount is not guaranteed and payment depends on performance.

Posts which exceed a salary package of £100,000

- Directors (Executive Management Team) are paid at Band 7[3]. The basic salary range for Band 7 is £137,130 - £189,193.

- Deputy Directors / Heads of Services (Corporate Leadership Team which includes some members of the Executive Management Team) are paid at Band 6. The basic salary range for Band 6 is £96,957 - £133,910.
  These salary figures include 10% "deferred salary"

Notes
[2] Including basic salary and professional fees, PHI and lease car contributions where applicable but excluding pension contributions in accordance with the Local Government Pension Scheme regulations.

[3] Broad Band salary figures in the document are as at 31st March 2017.

Deferred salary
Directors and Deputy Directors/Heads of Service are only paid 90% of the basic salary figures listed above. 10% of the basic salary is deferred. Payment of the deferred salary up to 10% is not guaranteed and will depend on achievement of targets.

Benefits
All Chief Officers are entitled to the following benefits:

- Private Health Insurance
- Reimbursement of the payment of one professional membership fee relevant to the proper performance of duties
- Up to £234 per month contribution to contract car hire (not available for any Chief Officer appointment made after 1st December 2011).

There is no cash alternative to the above benefits.

Additional Allowances
All Chief Officers are expected to work such hours as are required for the efficient performance of their duties. There are no other additional elements of remuneration in respect of overtime or premium payments (e.g. bank holiday working, stand by arrangements etc).
There are no additional allowances in respect of the roles of:
Monitoring Officer
Section 151 Officer

General Remuneration Principles Applying to Remuneration of Chief Officers and Employees

Recruitment
On recruitment individuals will be placed on the appropriate step salary within the evaluated grade for the job. In order to recruit high quality staff a relocation package may be offered where necessary and where this would be considered cost effective. When recruiting and appointing to a Chief Officer post, the starting salary offered must be within the target salary and cannot exceed this except in exceptional cases where the Executive Director or Chief Executive has authorised this. Where an interim is required to cover a Chief Officer role, a Temporary Agency Contractor may be engaged in line with the requirements of the Council's Procurement and Contracts Code, rather than the use of a Contract for Services.

Broad Band Pay Progression
There is no automatic time served incremental progression. All progression is based on exceeding performance and increased contribution. Any pay progression cannot exceed the maximum of the relevant band.

The Council does not apply performance related pay or bonuses.

Termination of Employment
On termination of employment with the Council, the Council's policy applies to all Chief Officers. Individuals will only receive compensation:

- where appropriate and relevant (e.g. redundancy compensation)
- in line with the Council's Redundancy and Redundancy Compensation Policy
- which complies with the specific terms of a settlement agreement, which will take into account the Council's contractual and legal obligations, the need to manage an exit effectively, risks to the Council and the commercial business case.

Re-employment
The decision to re-employ a previous employee, who has been made redundant by the Council (and on termination of employment received a redundancy compensation payment), will be made on merit.

The Council will not engage such an individual under a Contract for Services.

Remuneration of the Lowest Paid Employees
The Council's definition of the lowest paid employee excludes staff based outside London. Employees on Band 1 Step 1 are defined as the Council's lowest paid employees. The full time equivalent annual basic salary of this Step in 2016-17 was £18,846. The Chief Executive's basic salary (as at 31st March 2017) was £205,419 which was 10.90 times the lowest salary.

London Living Wage
The Council does not have a policy to pay the London Living Wage; though the Council's minimum full time equivalent hourly rate of pay to its employees as of 31st March 2017 was £10.04. This exceeded the recommended London Living Wage rate. (£9.75)

Pay Multiple
The Local Government Transparency Code (2015), states that local authorities should publish their pay multiple. This is defined as the ratio between the highest paid salary and the median salary of the workforce. The Council's pay multiple (using total pay[4]) as at 31st March 2017 was 5.74 i.e. the Chief Executive, who had the highest total pay as at 31st March 2017 (£238,286) earned 5.74 times more than the Council's median full time equivalent total salary of £41,493.

Notes
[4] Total pay is the sum of full time equivalent basic salary plus actual amounts received for the reimbursement of professional fees, market based salary supplements, honorariums and shift allowances where claimed up to 31st March 2017. Pension contributions are excluded. Total pay for senior management and the Chief Executive also includes deferred salary for the performance year to 31st March 2017, where awarded, car lease contributions and the value of Private Health Insurance premiums where claimed. All payments have been made in line with Council policy and were pro-rated if applicable.

The Pay Policy for 2018-2019 will be amended in response to the Government's reforms to public sector exit payments (i.e. to cap exit payments at £95,000 and recover exit payments for employees earning £80,000 where they take another public sector role within a 12 month period) as soon as these come into force.

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City of Westminster

Council Meeting – Agenda Item 10

Wednesday 7 March 2018

Future Policy Plan

No.	Subject	Cabinet Member Portfolios	Lead Officer
1	Addressing dementia	Adult Social Services & Public Health	Bernie Flaherty
2	Adult Education	Business, Culture and Heritage	Barbara Brownlee
3	Affordable business space	Business, Culture and Heritage	Barbara Brownlee
4	Affordable childcare	Children, Families & Young People	Melissa Caslake
5	Affordable Housing	Planning, Housing and Public Realm	Barbara Brownlee
6	Air Quality	Environment, Sports and Community	Julia Corkey
7	Alternative Education	Children, Families & Young People	Melissa Caslake
8	Anti-social behaviour	City Highways	Richard Barker
9	Apprenticeships	Business, Culture and Heritage	Barbara Brownlee
10	Assets of Community Value	Environment, Sports and Community	Julia Corkey
11	Benefits administration	Finance, Property and Corporate Services	Steve Mair
12	BIDS	Business, Culture and Heritage	Julia Corkey Barbara Brownlee Richard Barker
13	Business Rates	Leader of the Council Finance, Property and Corporate Services Business, Culture and Heritage	Stuart Love Steve Mair Barbara Brownlee
14	Businesses in Westminster	Business, Culture and Heritage	Barbara Brownlee
15	Capital Programme	Finance, Property and Corporate Services	Steve Mair
16	Care Act	Adult Social Services & Public Health	Bernie Flaherty
17	CCTV	City Highways	Richard Barker

No.	Subject	Cabinet Member Portfolios	Lead Officer
18	Child poverty	Children, Families & Young People Adults & Public Health	Melissa Caslake Bernie Flaherty
19	Child Protection	Children, Families & Young People	Melissa Caslake
20	Childhood Obesity	Children, Families & Young People Adult Social Services & Public Health	Melissa Caslake Bernie Flaherty
21	City for All	Leader of the Council	Julia Corkey Stuart Love
22	City Inspectors	City Highways	Richard Barker
23	CityWest Homes	Housing	Barbara Brownlee
24	Clinical Commissioning Groups	Adult Social Services & Public Health	Bernie Flaherty
25	Commercial Opportunities	Finance, Property and Corporate Services	Julia Corkey
26	Community Cohesion	Leader of the Council	Richard Barker
27	Community Engagement	Environment, Sports and Community	Julia Corkey
28	Community Infrastructure Levy	Planning and Public Realm	Julia Corkey Barbara Brownlee
29	Corporate Parenting	Children, Families & Young People	Melissa Caslake
30	Corporate Services	Finance, Property and Corporate Services	John Quinn
31	Council Budget & Financial Management	Finance, Property and Corporate Services	Stuart Love Steve Mair
32	Council Management	Leader of the Council	Stuart Love
33	Council Tax	Finance, Property and Corporate Services	Stuart Love Steve Mair
34	Counter-terrorism	Leader of the Council Business, Culture and Heritage	Richard Barker
35	Crossrail 1and 2	Planning and Public Realm	Barbara Brownlee
36	Customer Services	Finance, Property and Corporate Services	Julia Corkey
37	Cycling	City Highways	Julia Corkey Barbara Brownlee
38	Debt Management	Finance, Property and Corporate Services	Steve Mair

No.	Subject	Cabinet Member Portfolios	Lead Officer
39	Devolution	Leader of the Council	Stuart Love
40	Encouraging social enterprise	Business, Culture and Heritage	Barbara Brownlee
41	EU Nationals	Leader of the Council	Stuart Love
42	Equalities	Leader of the Council	Julia Corkey
43	Family Recovery / Troubled Families	Children, Families & Young People	Melissa Caslake
44	Fire Station Reforms	Public Protection and Licensing	Richard Barker
45	Fostering and Adoption	Children, Families & Young People	Melissa Caslake
46	Education	Children, Families & Young People	Melissa Caslake
47	Freedom Pass	Leader of the Council Adult Social Services & Public Health City Highways	Bernie Flaherty
48	Gangs & Youth Violence	City Highways	Richard Barker
49	GP Quality & Performance	Adult Social Services & Public Health	Bernie Flaherty
50	Green Spaces & Parks	Environment, Sports and Community	Richard Barker
51	Greener City Action Plan	Environment, Sports and Community	Julia Corkey Barbara Brownlee
52	Growth and Economic Development	Business, Culture and Heritage	Barbara Brownlee
53	Public Health	Adult Social Services & Public Health	Bernie Flaherty
54	Healthwatch Westminster	Adult Social Services & Public Health	Bernie Flaherty
55	High Speed 2	Planning and Public Realm	Barbara Brownlee
56	Home Meals Services	Adult Social Services & Public Health	Bernie Flaherty
57	Homelessness / Rough Sleeping	Housing	Bernie Flaherty Barbara Brownlee
58	Housing Revenue Account	Housing	Barbara Brownlee
59	Housing Strategy & Housing Renewal	Housing	Barbara Brownlee
60	Health & Wellbeing Strategy and the Sustainability and Transformation Plan (STP)	Adult Social Services & Public Health	Stuart Love Bernie Flaherty

No.	Subject	Cabinet Member Portfolios	Lead Officer
61	Digital Strategy	Finance, Property and Corporate Services	John Quinn
62	Information Technology Strategy	Finance, Property and Corporate Services	John Quinn
63	Legal Services	Finance, Property and Corporate Services	John Quinn
64	Libraries	Environment, Sports and Community	Richard Barker
65	Licensing	Business, Culture and Heritage	Richard Barker
66	Local Government Finance	Finance, Property and Corporate Services	Steve Mair
67	London Plan	Planning and Public Realm	Julia Corkey
68	Managed Services Programme	Finance, Property and Corporate Services	John Quinn
69	Protests & demonstrations	City Highways	Richard Barker
70	Managing the public realm	Planning and Public Realm	Barbara Brownlee Richard Barker
71	Utility Companies	City Highways	Richard Barker
72	Mayor of London & London Governance	Leader of the Council	Stuart Love
73	Military Covenant	Housing	Julia Corkey
74	My Westminster Programme	Leader of the Council	Stuart Love
75	Natural Environment	Environment, Sports and Community	Richard Barker Barbara Brownlee Julia Corkey
76	Neighbourhood Forums	Environment, Sports and Community	Julia Corkey
77	Ward budgets	Environment, Sports and Community	Julia Corkey
78	Overcrowding (Housing)	Housing	Barbara Brownlee
79	Parenting	Children, Families & Young People Adult Social Services & Public Health	Melissa Caslake Bernie Flaherty
80	Parking services and enforcement	City Highways	Richard Barker
81	Pedicabs	City Highways Business, Culture and Heritage	Richard Barker Barbara Brownlee
82	Development Planning services	Planning and Public Realm	Barbara Brownlee
83	Policing	City Highways	Richard Barker

No.	Subject	Cabinet Member Portfolios	Lead Officer
84	Policy and Scrutiny	Leader of the Council	Julia Corkey
85	Preventing Re-offending	City Highways	Richard Barker
86	Procurement	Finance, Property and Corporate Services	Barbara Brownlee
87	Corporate Property	Finance, Property and Corporate Services	Steve Mair
88	Property Tenancy Agreements	Housing	Barbara Brownlee
89	Public Conveniences	City Highways Finance, Property and Corporate Services	Richard Barker
90	Public Health	Adult Social Services and Public Health	Bernie Flaherty
91	Queens Park Community Council	Environment, Sports and Community	Stuart Love Julia Corkey
92	Royal Parks	Leader of the Council	Richard Barker Barbara Brownlee
93	School Meals	Children, Families & Young People	Melissa Caslake
94	School Nursing	Adults Social Services & Public Health	Bernie Flaherty
95	Sexual Health	Adult Social Services & Public Health	Bernie Flaherty
96	Short Term Lets	Planning and Public Realm	Richard Barker
97	Special Events	Business, Culture and Heritage	Julia Corkey
98	Special Needs Provision	Children, Families & Young People	Melissa Caslake
99	Specialist Housing Strategy	Housing	Bernie Flaherty
100	Sports & leisure services	Environment, Sports and Community	Richard Barker
101	Staffing	Finance, Property and Corporate Services	John Quinn
102	Street entertainment	City Highways	Richard Barker Barbara Brownlee
103	Street Management	City Highways	Richard Barker
104	Substance misuse	Adult Social Services & Public Health City Highways	Bernie Flaherty Richard Barker
105	Support for small businesses	Business, Culture and Heritage	Barbara Brownlee

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106	Supporting carers	Children, Families & Young People Adult Social Services & Public Health	Melissa Caslake Bernie Flaherty
107	The City Plan	Planning and Public Realm	Julia Corkey
108	Transport for London	City Highways	Barbara Brownlee
109	Tri-borough	Leader of the Council	Stuart Love
110	Violence Against Women & Girls	City Highways Children, Families & Young People	Richard Barker Melissa Caslake
111	Voluntary sector and community support	Environment, Sports and Community	Julia Corkey
112	Walking Strategy	City Highways	Julia Corkey
113	Waste and recycling	Environment, Sports and Community	Richard Barker
114	Welfare Reform & Universal Credit	Leader of the Council	Julia Corkey
115	West End Partnership	Leader of the Council	Stuart Love
116	Worklessness	Business, Culture and Heritage	Barbara Brownlee
117	World War I Centenary Commemorations	Housing	Julia Corkey