

Report of the Cabinet meeting held on Monday 25 February 2019

Present: Councillors Nickie Aiken (Chairman), Ian Adams, Richard Beddoe, Iain Bott, Heather Acton, David Harvey, Tim Mitchell, Rachael Robathan and Andrew Smith

1. 2018-2019 Budget and Council Tax

- (a) Following consideration of our recommendations the Council, on 7 November 2018, agreed the financial strategy including the draft estimated cash limited budgets for each service.
- (b) We have now considered a further report setting out final budget proposals for 2019-2020. The Budget and Council Tax report from the Interim Section 151 officer is attached as Appendix 1. The budget will continue to fund the Council's City for All strategy which strives to make Westminster a place where people are born into a supportive and safe environment, grow and learn throughout their lives, build strong careers in world-leading industries, have access to high quality, affordable homes and retire in the community with dignity and pride.
- (c) The Council remains committed to delivering excellent local services over the coming 12 months and all budget proposals have been tested against the City for All priorities. The Council must ensure that it remains in a robust financial position in the face of mounting pressures and risks over the coming years. Over the next 12 months, the Council must achieve savings of c£36m to meet growing demand for services and further reductions in funding.
- (d) From 2020/21, the Council will face much wider financial uncertainty. Under the Government's current plans to reform how Local Government is funded, Westminster City Council faces potential risks from a reduction in funding as part of the next stage of Business Rates Retention, the Government's Spending Review and Fair Funding Review.
- (e) Given these constraints placed on the Council by Government and in the absence of any flexibilities to raise Council Tax for higher value properties, the Council has examined every area of operation to identify opportunities to reduce costs and generate additional income. Based on guidance published by the Government in the Fair Funding consultation, the expectation is that low tax local authorities such as Westminster are to bring their Council Tax levels in line with the national average.
- (f) In line with this, the proposed savings are therefore from measures which avoid service reductions and come instead from efficiencies, transformation and additional income generation, including a modest increase to Council Tax equivalent to an extra 4p a day for Band D equivalent household.
- (g) Since the 2019-20 position was reported to Council some changes have arisen. 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 £35.848m for 2019/20. As in previous years, the proposed savings are from measures which avoid service reductions e.g. additional income generation, efficiencies and other transformation means. We are able to recommend a balanced budget for 2019-20 and confirm that the Council continues to be well placed to meet its future financial challenges.

- (h) The Council is also investing through its Capital Programme (see paragraph 2 below) to deliver the aims of City for All e.g. delivering 2,000 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 Council has examined every area of operation to identify opportunities to reduce costs and generate additional 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 2019-20 and beyond.
- (i) 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.
- (j) The formal Council Tax Resolution which is recommended for adoption is attached as Annex C to Appendix 1 to this report. The full detailed report and our recommendations to the full Council is attached as Appendix 1 and includes the updated budget we are commending to the Council.

Recommendations

That Cabinet recommends to full Council:

1. that the local element of Council Tax for 2019/20 is increased by 2.1% (CPI inflation as at December 2018) for a Band D equivalent household;
2. the 2019/20 budget, as set out in Appendix 1 to this report, and recommend to the Council, the Tax levels as set out in the Council Tax resolution at Annex C to Appendix 1;
3. 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;
4. that as a consequence of the 2.1% change in Council Tax and the 2% increase in the Adult Social Care precept, the local element for Band D properties be confirmed for 2019/20 as £433.34;
5. 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 2020, be as specified in the Council Tax Resolution in Annex C to the Cabinet report (Appendix 1 to this report) (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;

6. 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;
7. that the Council approves the budget proposals presented to Council on 7 November 2018 which were approved in principle pending the completion of relevant external consultations as outlined in Paragraph 10.17 of Appendix 1 to this report;
8. that the views of the Budget and Performance Task Group set out in Annex A of Appendix 1 to this report be considered as required;
9. that the draft cash limited budgets for each General Fund service with overall net expenditure for 2019/20 of £180.436m (as set out in Schedule 3 of Appendix 1 to this report) be noted;
10. that the Section 151 officer 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;
11. that the Section 151 officer be delegated responsibility for any technical adjustments required to be made to the budget (in line with the Council's Financial Regulations);
12. 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 4d signed off by the Section 151 officer;
13. that the views of consultees and consultation approach, as set out in section 10 of Appendix 1 to this report, be considered by Council;
14. the Council continues as previously agreed to make recurrent additional £4m contributions as part of the on-going annual contributions as set out in paragraph 7.6 of Appendix 1 to this report;
15. that the previously approved 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 Section 151 officer) be recommended to Council for approval;

16. 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 Section 151 officer);
17. that the Section 151 officer 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;
18. that to the extent that the Council is unable to mitigate the CCG funding reductions through novating contracts across to the NHS, through service contracts coming to the end of their natural term, or through allocation from the social care support grant or business rates levy grant, then Council reserves may be used in 2019/20 to offset the pressure and balance the Council's budget;
19. the Council continues the Westminster Community Contribution to allow the most expensive (Band H) 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 and helping people who are lonely and isolated;
20. that the Equality Impact Assessments included in Annex B to Appendix 1 to this report be received and noted to inform the consideration of the budget after approval; and

2. Capital Strategy Report - 2019/20 to 2023/24

- (a) The report from the Interim Section 151 officer, which we considered and which is attached as Appendix 2 outlined the City Council's Capital Strategy and proposed expenditure and income budgets from 2019-2020 to 2023-2024 and future years up to 2032-2033. 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 attached as Appendix 2 updates that strategy with the latest forecasts and projections in the light of recent monitoring.
- (b) The report sets out the governance processes which establish the principles to be followed to ensure the programme continues to achieve value for money for the Council.
- (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 five areas of expenditure: Development, Investment, Efficiency, Major Strategic Acquisitions and Operational, as explained in section 7 of the report attached as Appendix 2.

- (d) The Housing Revenue Account (HRA) capital programme has a value of £743.329m over the next five years. It should be noted 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. Details of the HRA programme are also set out in the report attached as Appendix 2.
- (e) The changes from the currently approved General Fund programme can be summarised as follows:
- Addition of the Ebury development scheme at £11.475m
 - Reduction in Placeshaping schemes (14.9m)
 - Reduction in Lisson Grove programme (£10.875m)
 - Reduction in other GPH schemes (£11.5m)
 - Addition of six new schemes in Children's Services relating to schools of £3.149m
 - Other adjustments (net) of £1.622m
- (f) The proposed budget is fully funded after Council borrowing, but this depends on the schemes being delivered on time and within budget. The impact of borrowing is outlined in the financial implications of the report attached as Appendix 2. 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.

Recommendations:

That Cabinet recommends that full Council:

1. Approve the capital strategy as set out in the report attached as Appendix 2.
2. Approve the capital expenditure for the General Fund as set out in Appendix A to the report attached as Appendix 2 for 2019/20 to 2023/24 and future years to 2032/33.
3. Approve the capital expenditure forecasts for the General Fund as set out in Appendix A to the report attached as Appendix 2 for 2018/19 (Period 8).
4. Approve the expenditure forecast for 2018/19 (Period 8) for the HRA as set out in Appendix B to the report marked as Appendix 2.
5. Approve the capital expenditure for the HRA for 2019/20 to 2023/24 as in accordance with the 30 year HRA Business Plan and as included in Appendix B to the report attached as Appendix 2.
6. Approve the financial implications of the HRA capital programme including the references to the debt cap and the level of reserves as detailed in Section 8 to the report attached as Appendix 2.

7. 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.
8. Approve that all development and investment projects, along with all significant projects follow the previously approved business case governance process as set out in paragraphs 5.1 and 6.5 to 6.14 to the report attached as Appendix 2.
9. Approve that no financing sources, unless stipulated in regulations or necessary agreements, are ring fenced.
10. Approve that contingencies 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 that they are required to fund capital project costs, as detailed in Sections 12.11 to 12.14 to the report attached as Appendix 2.
11. Approve the council plans to continue its use of capital receipts to fund the revenue costs of eligible proposals (subject to full business cases for each project). This comes under the MHCLG Guidance on the Flexible Use of Capital Receipts (FCR), if considered beneficial to the Council's finances by the City Treasurer at year-end. (The Council's strategy for flexible use of capital receipts is outlined in section 11 to the report attached as Appendix 2).
12. Note the continued use of flexible use capital receipts (as approved at November Council) to fund revenue costs associated with City Hall, Network and Telephony Transformation and Technology Refresh projects as detailed in section 11.9 and 11.14 to 11.28 to the report attached as Appendix 2.
13. Note the Council's proposal to make use of £400m of forward borrowing to finance the capital programme and subsequently reduce the longer-term revenue impact, as approved by Full Council in November 2018.
14. Approve the financing of the capital programme and revenue implications as set out in paragraphs 14.1 to 14.30 to the report attached as Appendix 2.
15. Approve the financing of the capital programme being 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. Housing Investment Strategy and HRA Business Plan 2019/20

- (a) We reported to the Council (7.11.18) 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. 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.

- (b) The plan has been designed to minimise the impact of increasing construction costs and a challenging residential market on both the Council's Affordable Housing target and the impact on its own development and regeneration programme. To ensure the plan is robust the Council has reviewed all its development schemes. The Council is planning to take advantage of the recent relaxation of the HRA borrowing cap to increase borrowing whilst protecting the sustainability of the overall business plan. New homes will be energy efficient and promote healthy living and capitalising upon technological innovations in the application of building materials and construction methods. The homes will give thorough consideration to the practicality of use, safety and lifespan whilst ensuring well-sized proportions to accommodate the needs of modern single, coupled and family living. The Council is critically examining its scheme assumptions and estimates by commissioning industry experts to provide forecasts of current prices and expected increases over the coming months and years.
- (c) Since last year the 30-year plan for capital investment in the Council's existing stock and regeneration schemes has increased from £1.717bn over thirty years to £1.784bn. This increase of c. £67m is mainly driven by increases to Ebury Bridge (£47m) due to the move of phase 1 to self-delivery and £11m on buy-back of social units on general fund (GF) or housing subsidiary schemes.
- d) With regards to the Council's major regeneration schemes and Ebury Bridge in particular, we are looking to mitigate the recession in the sale housing market and convert it into an opportunity to expand our housing provision for working families to live in Westminster by switching from sale to more rental tenures with a range of price points for rental housing.
- (e) The key elements of the HRA investment programme are:
- Continued investment in existing housing stock (£892.8m);
 - Investment in the housing estate regeneration programme and other new supply schemes (£600.7m)
 - Affordable Housing Fund (AHF) expenditure on new HRA supply over the 5 year period 2019/20 to 2023/24 of £185.2m and £292.4m over 30 years.
- (f) 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 has made a commitment to deliver at least 1,850 affordable homes in Westminster by 2023 and the Council is on track to exceed this target. Current projections are that 2,263 new affordable homes will be delivered by 2023/24. Further analysis of this can be found in sections 4.5, 4.6 and Table 1 in Appendix 3 to this report.
- (g) The Council's HRA supply plans are dependent on significant levels of both capital receipts and receipts into the AHF continuing into the future. The impact of changes to either of these, as seen this year, will mean the Council needing to look at other mitigations such as scaling back activity or using an alternative to the HRA. The housing subsidiary companies, which were set up this year, will also enable some of these impacts to be mitigated.

- (h) In October 2018 the government formally removed the borrowing cap. Whilst this has provided greater flexibility for the HRA, the business plan still needs to be assessed against the ability of the HRA to finance any increased borrowing. Other opportunities to secure affordable loans or grant aid are explored as and when they arise. No funding is accepted that imposes conditions on the Council that impede the timely delivery of its programmes.
- (i) During 2018/19 the Council announced the decision to bring its Arms' Length Management Organisation (ALMO) City West Homes (CWH) back into the Council. This will have a significant impact on the HRA however the longer term operating model of housing delivery within Council is yet to be determined. Adjustments have been made to 2019/20 revenue budgets to manage the transition over this period.

Recommendations:

That Cabinet recommends that the full Council:

1. Approve HRA capital programme budgets for 2019/20 to 2023/24 as attached in Appendix B to the report attached as Appendix 3.
2. Approve the HRA revenue budget for 2019/20 as detailed in Sections 8,11 and Appendix C) to the report attached as Appendix 3.
3. Approve the adjustment of HRA capital budgets in 2018/19 to match the assumptions within this Business Plan as detailed in Appendix B to the report attached as Appendix 3.
- 4. Treasury Management Strategy Statement 2019/20 - 2023/24**
 - (a) The Local Government Act 2003 and the regulations made under the Act require 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 4.
 - (b) 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 Ministry for Housing, Communities and Local Government (MHCLG) and must be agreed by the full Council.
 - (c) This report we considered which is attached as Appendix 4 sets out the Council's proposed Treasury Management Strategy Statement for the period

2019-2020 to 2023-2024 and Annual Investment Strategy (AIS) for the year ended 31 March 2020, together with supporting information.

Recommendations:

That Cabinet recommends to the full Council:

1. the Treasury Management Strategy Statement;
2. the borrowing strategy and borrowing limits for 2019/20 to 2023/24 set out in sections 5 to 7 to the report attached as Appendix 4;
3. the prudential Indicators set out in section 8 to the report attached as Appendix 4;
4. the Annual Investment strategy and approved investments set out in Appendix 1 to the report attached as Appendix 4;
5. the Minimum Revenue Provision Policy set out in Appendix 2 to the report attached as Appendix 4.

5. Integrated Investment Framework 2019/20

- (a) The Council gave approval (7.3.2018) to implement a comprehensive strategic integrated investment framework for bringing together and managing all of its investments.
- (b) The Council holds £1.1bn of short term cash based investments (as at 31 December 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 £385m, 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.
- (c) The Council holds £1.1bn of treasury investments in high grade but very liquid investments, generating a forecast return of 0.89% and £385m in much longer term liquid property investments, generating around 3.1% net of direct costs. The current inflation rate as measured by CPI is 2.1% (as at December 2018), and this must be taken into account alongside the current treasury investments yield.
- (d) The report we considered, attached as Appendix 5, 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. an updated 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.

Recommendations:

1. That Cabinet recommends that full Council:
 - a) approve and implements the Integrated Investment Framework set out in the report attached as Appendix 5;
 - 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 and to reduce costs and liabilities, whilst maintaining adequate cash balances for operational purposes, and not exposing the capital value of investments to unnecessary risk;
 - f) approve that investments allocated to 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 portfolio (acquisitions will be made out of borough only on an exceptional basis). 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 on an exceptional basis and subject to Cabinet Member approval;
 - h) the Investment Executive to implement, monitor and report on the investment strategy.

6. Pay Policy 2019-2020

- (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 6 to this report and is recommended for approval.

Recommendation:

That Cabinet recommends to full Council:

1. The Pay Policy for 2019/20, attached as Appendix A to the report attached as Appendix 6.

Nickie Aiken, Leader of the Council

Background Papers

Reports and Minutes of Cabinet Meeting: 25 February 2019