

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 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;
- (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 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. 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 procurements.

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