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City of Westminster

Committee Agenda

Title:	**Cabinet**
Meeting Date:	**Monday 15th July, 2019**
Time:	**6.30 pm**
Venue:	**Rooms 18.01 & 18.03, 18th Floor, 64 Victoria Street, London, SW1E 6QP**
Members:	**Councillors:**

Nickie Aiken (Chairman)	Heather Acton
Ian Adams	Tim Mitchell
Timothy Barnes	Rachael Robathan
Richard Beddoe	Andrew Smith
Iain Bott	Paul Swaddle

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

Admission to the public gallery is by ticket, issued from the ground floor reception at City Hall from 6.00pm. If you have a disability and require any special assistance please contact the Committee Officer (details listed below) in advance of the meeting.

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

Tel: 7641 3160; Email: rsegal@westminster.gov.uk
Corporate Website: www.westminster.gov.uk

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

AGENDA

PART 1 (IN PUBLIC)

1.	**WELCOME**	
2.	**DECLARATIONS OF INTEREST** To receive declarations by Members and Officers of the existence and nature of any personal or prejudicial interests in matters on this agenda.	
3.	**MINUTES** To approve the minutes of the meeting held on 8 April 2019.	**(Pages 3 - 8)**
4.	**OUTTURN AND ANNUAL ACCOUNTS 2018/19** Report of the Executive Director for Finance and Resources	**(Pages 9 - 34)**
5.	**TREASURY MANAGEMENT OUTTURN 2018/19** Report of the Executive Director for Finance and Resources	**(Pages 35 - 46)**
6.	**FEES AND CHARGES REPORT** Report of the Executive Director for Finance and Resources	**(Pages 47 - 106)**
7.	**ADOPTION OF THE LONDON LIVING WAGE** Report of the Executive Director for Finance and Resources.	**(Pages 107 - 112)**
8.	**LUTON STREET PROJECT (TO FOLLOW)** Report of the Executive Director of Growth, Planning and Housing and the Executive Director of Finance and Resources	

Stuart Love
Chief Executive
5 July 2019

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CITY OF WESTMINSTER

MINUTES

Cabinet

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Cabinet** held on **Monday 8th April, 2019**, Room 18.01 & 18.02 18th Floor, 64 Victoria Street, London, SW1E 6QP.

Members Present: Councillors Nickie Aiken (Chairman), Ian Adams, Iain Bott, Heather Acton, David Harvey, Tim Mitchell, Andrew Smith and Paul Swaddle

Also Present: Councillor Angela Harvey

Apologies for Absence: Councillor Richard Beddoe and Councillor Rachael Robathan

1 WELCOME

1. The Leader welcomed everyone present.

2 DECLARATIONS OF INTEREST

2.1 There were no declarations of interest.

3 MINUTES

3.1 The Chairman, with the consent of the Members present, signed the minutes of the meeting held on 25 February 2019 as a true and correct copy of the proceedings.

4 OXFORD STREET DISTRICT - BUSINESS CASE AND INVESTMENT APPROVAL

4.1 Barbara Brownlee, Executive Director For Growth, Planning & Housing introduced the report and summarised the business case including justification for the Council's investment in improving and enhancing the Oxford Street District. She explained that the business case had been based around four options. All options showed very high value for money compared to a do nothing scenario although Option 4 was recommended as the preferred option as it fully delivers the Place Shaping Strategy and secures the maximum benefit for the district.

4.2 Barbara Brownlee advised Cabinet of a non-material typing error in Table 3.1 of the Business Case (Appendix 1 to the report) and in Appendix 2b to the report which set out the Project Summary by Option. The errors related to references to Phase 1 and 1.5 which should have been labelled either Phase 2 or 3. She circulated an updated table.

4.3 Councillor David Harvey was of the view that Option 4 presented the right balance between the Council retaining stewardship of the district whilst delivering all of the projects in the Place Shaping Strategy via a part investment by the private sector.

4.4 Councillor Mitchell stated that Option 4 was ambitious but was the right option for the Council to pursue given its aspirations. He agreed that Option 2 (Oxford Street only) should not be progressed due to the displacement impacts of undertaking the changes to Oxford Street without prior improvement to district streets which would have a detrimental effect on nearby businesses and residents.

4.5 The Leader thanked the Oxford Street project team and finance colleagues for the significant amount of work they had undertaken on the business case. She hoped to see investment partners including the Mayor of London come forward to deliver Option 4.

RESOLVED

1. That Cabinet approved the Business Case which demonstrates high value for money and provides a robust justification for the £150m investment by the Council for the Oxford Street District programme.

2. That Cabinet approved spend against the project of c.£21m focussed on the design, surveys and other feasibility related work for the programme, this includes a contingency element.

3. That Cabinet approved Option 4 as the Preferred Option which delivers the Place Shaping Strategy as approved by Council on 25 February 2019 and has an estimated cost of £232m. To deliver this option additional funding will be required from the private sector.

4. That Cabinet approved the development of a Funding Strategy which sets out how the council will work to secure the funding required to deliver Option 4 of c.£82m.

5. That Cabinet delegated future decisions on delivering the Oxford Street District Project to the Cabinet Member for Place Shaping and Planning and the Cabinet Member for Finance, Property and Regeneration in consultation with the Oxford Street Steering Group including:

    - Approval for projects to enter the delivery phase (individual projects will be grouped into work packages and approved over the course of the programme) and hence approval to spend against budget.

- Acceptance of external funding and to respond to stakeholders.

REASON FOR DECISION

1. The Council's commitment to the Oxford Street District is to create a long term and ambitious vision for the whole of the district that will strengthen its world-renowned status as a great place to live, work and visit. This strategy will support that ambition and respond to the big challenges that the district faces, including: a rapidly evolving retail environment; a place that can cater to a greater number of people; providing more attractions; and for Oxford Street to be a better neighbour to the wider district, including the residential neighbourhoods. In the wake of strong competition from national and international retail destinations, increased online shopping; increased business rates; and interest rates, retailers and businesses in the district are finding the trading environment very challenging.

2. The business case provides a compelling rationale for the Council to invest in the area to ensure that it retains its status as the nation's high street, a world-renowned destination for domestic and international visitors, characterised by vibrant and historic neighbourhoods. On 6th March 2019, full Council approved the Capital Strategy including allocation of c.£150 million towards the delivery of the final adopted Place Strategy and Delivery Plan. The programme now needs approval to spend against the budget in order to progress. The Council will take responsibility for delivering an ambitious set of projects that will help to bring about a significant change to counter some of the external factors that the district currently faces. Additional funding to support the delivery of the projects listed in the Place Strategy will be required from other external sources.

5 CORPORATE ENFORCEMENT POLICY

5.1 Councillor Ian Adams, Cabinet Member for Public Protection and Licensing, introduced the report. He explained that the full review of the Corporate Enforcement Policy was required to ensure the Council is fully transparent in the way its services carry out enforcement, to bring it in line with recent updates to legislation, and to widen the scope of Council services that the policy applies to following the housing department functions from CityWest Homes being brought in-house.

5.2 Councillor Adams clarified that the update to the policy did not propose any changes to the Council's approach to enforcement which remained to educate and help businesses and individuals understand and meet regulatory requirements through support and advice whilst taking proportionate enforcement action where there is a serious risk or where regulatory breaches are persistent.

5.3 Sara Sutton, Executive Director for City Management & Communities, explained that this was an overarching corporate enforcement policy. It was much more comprehensive than the current policy that had been in place for a number of years and it aligned with the legal requirements set out in the Regulators Code 2014 and the duties under GDPR.

RESOLVED:

1. That the Cabinet approved the updated Corporate Enforcement Policy as set out in Appendix 1 to the report.

2. That the Corporate Enforcement Policy be uploaded to the website and included in publication lists for the authority.

3. That the Corporate Enforcement Policy continues to be reviewed on a regular basis or as the need arises from factors such as changes to legislation.

4. That delegated authority is given to the Chief Executive to approve minor modifications and updates to the policy.

Reasons for Decision

1. The council's current corporate enforcement policy was endorsed and adopted by Cabinet on 17th March 2008 and last updated in 2016. It can be accessed via the council's webpages at: https://www.westminster.gov.uk/enforcement-policy

2. An update to the policy is required to:

   - Fully align the policy with the legal requirements set out in the Regulators Code 2014.
   - Include recent legislative updates (e.g. general data protection regulations (GDPR).
   - Ensure our approach to enforcement is transparent and consistently applied.

6 CONNECTED LIBRARIES - REPORT OF THE INDEPENDENT ADVISORY BOARD ON LIBRARIES TO WESTMINSTER CITY COUNCIL

6.1 Councillor David Harvey, Cabinet Member for Economic Development, Education and Skills introduced the item. He explained that in recognition that libraries were changing the Council established the independent Libraries Advisory Board to consider the longer term future of Westminster's library and archive services. Councillor Harvey stated that the board had developed some strategic recommendations for an effective and sustainable service vision.

6.2 Councillor Harvey emphasised the role of libraries as places of trust for Westminster's communities as well as places of opportunity. He clarified that the report focused on services rather than the buildings themselves. He highlighted that the Board wishes the Council to be bold, thoughtful and innovative in developing a sustainable service vision. He thanked Chris Cotton, who acted as chairman, and the Board for their work.

6.3 Sara Sutton explained that the next phase would be to develop long-term service strategies that respond to the board's recommendations and set a clear future direction for the service. This would begin with an engagement exercise with staff followed by a comprehensive consultation with stakeholders throughout the summer of 2019.

6.4 Councillor Heather Acton, Cabinet Member for Family Services & Public Health, welcomed the report and hoped to foster links between the Libraries Service and health and wellbeing.

RESOLVED:

1. That the Cabinet noted the report of the independent advisory board on libraries.

2. That Cabinet Members consider implications and opportunities arising from the report and its recommendations for their portfolios.

The Meeting ended at 7.13 pm

CHAIRMAN: ____________________ **DATE** ____________________

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City of Westminster

Decision Maker:	Cabinet
Date:	15th July 2019
Classification:	General Release
Title:	2018/19 Annual Accounts and Outturn
Financial Summary:	This report presents the draft Statement of Accounts for the Council and its Pension Fund and provides a narrative as to the outturn position for the financial year ended 31st March 2019
Report of:	Gerald Almeroth, Executive Director – Finance and Resources

1. BACKGROUND

1.1 The Council's statement of accounts was submitted to Audit and Performance Committee on 17th June 2019, following the completion of the audit from Grant Thornton and an unqualified audit opinion.

1.2 In line with legislation the accounts are required to be signed off by the Council's Audit and Performance Committee and published by 31st July 2019. Officers presented the accounts to the Audit & Performance Committee on 17th June 2019 and this included a late change in the accounts as a result of the McCloud Court of Appeal Judgement which could impact the LGPS Pension Scheme. As a result of this the Council included another note in its accounts and pension fund accounts for a contingent liability in relation to this judgement.

1.3 Grant Thornton have given the Council an unqualified audit opinion but are reviewing their position on the judgement - from a local authority perspective. They will issue the audit certificate once the once the firm's position is finalised.

1.4 The public inspection period for the accounts, ran from 7th May to 18th June 2018.

2. EXECUTIVE SUMMARY

2.1 The General Fund revenue position has seen a net outturn of £3.916m underspend against an approved budget of £187.641m. This compares to a Period 10 (January 2019) forecast underspend of £4.141m.

2.2 The revenue underspend will increase the Council's general reserves to £62.783m. This will increase the Council's financial resilience and ability to withstand any short term funding shortfalls that may result from the Fair Funding Review and the Spending Review.

2.3 The HRA revenue outturn is a surplus of £4.678m, against a budgeted surplus of £6.993m. HRA General revenue balances, after the funding of the capital programme, have reduced to £17.234m in line with expectations within the HRA business plan approved in March.

2.4 The general fund capital outturn represents a gross expenditure underspend of £54.858m against budget and a net underspend of £44.571m. This compares to a gross expenditure budget of £279.078m and income budget of £108.870m.

2.5 The HRA capital outturn has a variance of £12.305m (in year underspend) against a revised budget of £113.329m.

2.6 The total value of the Pension Fund as at 31st March 2019 was £1.408bn. The Fund has an allocation of 9% within property, 1% in infrastructure, 69% in equities and 21% in fixed income. As at 31st March 2019 the fund's estimated funding level is 95%, which is an increase of 3% from March 2018.

3. RECOMMENDATIONS

3.1 That the Cabinet note the 2018/19 Annual Accounts.

3.2 That Cabinet approve slippage on the Council's 2018/19 capital programme as outlined in section 6.

4. GENERAL FUND REVENUE OUTTURN

4.1 The table below summarises the general fund revenue position for each Cabinet Portfolio:

Cabinet Portfolio	Full Year Budget (£m)	Full Year Variance (£m)	Quarter 3 Variance (£m)
Leader of the Council	9.865	(0.028)	(0.431)
Deputy Leader, Economic Development, Education & Skills	13.189	0.604	1.024
Finance, Property and Regeneration	46.862	(5.398)	(5.118)
Family Services and Public Health	82.161	0.303	0.721
Environment and City Management	(14.539)	0.694	1.230
Public Protection and Licensing	9.047	0.299	0.000
Housing Services	23.990	0.333	0.277
Place Shaping and Planning	2.586	(0.799)	0.600
Sports, Culture & Community	2.846	(0.088)	0.000
Customer Services & Digital	11.634	0.164	0.000
NET CONTROLLABLE BUDGET	**187.641**	**(3.916)**	**(1.697)**
Council Tax	53.831	-	-
Business Rates - Net of Tarrif	133.810	-	-
CORPOARTE FINANCING	**187.641**	-	-
NET (SURPLUS)/DEFICIT		**3.916**	**1.697**

4.2 The Council has a total net underspend of £3.916m

4.3 Leader of the Council - £0.028m underspend

- Cabinet Secretariat & Member Services (£0.056m underspend) - The underspend is driven by members allowance £0.030m, careful management of staffing costs £0.010m and an underspend across a range of different non-pay budget lines £0.016m.

- Campaigns and Customer Engagement (£0.090m overspend) – The overspend is due to additional hired and contracted expenditure of £0.203m, however this is offset by an underspend on pay from careful management of staffing of £0.113m.

- City Promotions, Events and Filming (£0.336 overspend) - Despite the challenging outlook and the impact of external factors on the market, the final outturn for the service has significantly improved by comparison to what was reported to Cabinet and ELT at Period 10, £0.164m. This final position reflects additional income generated from events and filming £0.102m and a further £0.062m from the media screens at Piccadilly Underpass on account of indexation.

  In total the service has generated £3.976m, with £1.049m coming from Events and Filming and £2.927m from Outdoor Advertising.

  Whilst an over-spend of £0.336m is showing against the service, this can be largely attributed to the challenging economic climate and market dependencies that have been reported throughout the year, £0.442m and the annual cost of the Trafalgar Square Christmas tree, £0.028m. However, this is partly offset by a refund of £0.134m for the overcharging of business rates.

A review of income targets will take place in 2019/20 to reset the target for the service to ensure they are more aligned to current market conditions.

- Corporate Strategy & Transformation (£0.400m underspend) - The key driver for the underspend is careful management of staff costs, £0.180m. However, this is partly offset by an overspend in external spend on research £0.097m and other non-pay lines £0.007m. Staff costs were £0.028m higher than the forecast at Period 10.

- External Communications (£0.242m overspend) - The overspend of £0.242m is driven by non-pay costs of £0.226m mainly relating to WestCo, redundancy costs of £0.035m and reduced contribution income £0.053m. However, the additional income from a secondment arrangement £0.072m has partly offset the overspend. The outturn is £0.104m greater than the forecast to Cabinet and ELT at Period 10 due to higher non-pay spend compared to assumptions.

- Policy & Strategy (£0.077m underspend) - The underspend is mainly due to hired and contracted services £0.122m and several lower value underspends across different non-pay budget lines £0.025m. However, this is partly offset by an overspend on pay budgets £0.070m. Compared to the forecast reported to Cabinet and ELT at Period 10 the outturn is improved by £0.011m.

- The Lord Mayor’s Secretariat (£0.081m underspend) – The underspend is driven by careful management of staff costs of £0.107m which is partly offset by an overspend across a range of different non-pay budgets.

- The remainder of the underspend in the Leader’s portfolio is across smaller areas totalling £0.082m.

4.4 Deputy Leader, Economic Development, Education & Skills - £0.604m overspend

- Education (£0.445m overspend): The Directorate had cost pressures attributable to Passenger Transport (as a result of 18 more students being conveyed, an increase of 4.8%), Short Breaks and staffing to support children with disabilities and children with an EHCP – Educational, Health and Care Plan. Throughout the year, the Directorate outlined pressures on Passenger Transport in particular. At year-end, the Directorate had pressures of £0.250m in Passenger Transport; £0.050m in Short Breaks and £0.145m of salary related pressures.

- Libraries and Registrars (£0.159m overspend) - Libraries and Registrars are reporting an overspend of £0.159m, an increase in the overspend of £0.104m since Period 10. This largely reflects an under recovery of libraries income (£0.200m) and registrar’s income (£0.085m), which includes delayed delivery of the Portland Hospital onsite registration project, now expected 2019/20. Under-recovery has been partly offset by reducing expenditure, mainly library materials (£0.126m).

4.5 Finance, Property & Regeneration - £5.398m underspend

- City Treasurer's (£5.766m underspend) - As reported to Cabinet and ELT at Period 10 the City Treasurer's department achieved an over recovery of income of £5.832m in relation to interest earnings, and other minor over and underspends across the directorate make up the remainder of the outturn position.

- Legal Services (0.494m overspend) - The key drivers for the overspend are an under recovery of internal legal charges £0.196m (compared to the forecast at Period 10, the under recovery is greater, £0.059m). Legal expenditure of £0.123m was incurred from other boroughs, MTP initiative to reduce external Legal spend was not realised £0.100m and an increase in pay cost, £0.075m from the move to a Bi-Borough service model in April 2018.

- The remainder of the portfolio has other over and underspends which create the final position.

4.6 Family Services & Public Health - £0.303m overspend

Adult Family Services - £0.308m underspend made up of:

- Adult Social Care Integrated Care (£0.308m) – At year-end Adult Services reports an underspend of £0.308m against the core budget of £57.876m. This underspend results from revised placement costs due to changes in client activity and care provision during the last quarter of 2018/19. This compares to a forecast variance of £0.042m underspend at Period 10 as reported to Cabinet and ELT.

- Recent discussions with the local CCGs have highlighted the pressures faced by the CCGs. This is forcing them to review council funding as part of the Better Care Fund and hence that they will reduce funding in 2019/20 down towards the BCF minimum level. Work is being undertaken in conjunction with the CCGs to determine what the financial implications for Adults Services will be.

- All other pressures in contracts, packages and placements, supplies and services and market stabilisation have been contained within existing resources, which includes funds received such as the Adult Social Care Grant of £0.827m and Improved Better Care Fund (iBCF) of £12.317m. The intention of this Government funding is to stabilise ASC and is being deployed to fund increased pressures in contracts, packages and placements.

Public Health – nil variance, with a reduced drawdown of £15k from the ringfenced reserve in light of the following variances by service area:

- Families and Children's - (£0.285m underspend) - Underspends relating to Savings in Families and Children's services have been made through re-procuring large contracts and seeking efficiencies in delivery, particularly Children's Obesity (£0.075m) and Adult's Physical Activity (£0.209m) which has moved to the Behaviour Change team.

- Behaviour Change – (£0.097m overspend) – Although savings have been made in relation to Integrated Healthy Lifestyles, the adding-in of activity from Families and Children's makes the service show an overspend for the year.

- Sexual Health - (£0.363m underspend) - Savings have been made from genitourinary medicine (£0.242m), which offered a transformed service this year. The new service allows for self-testing and the use of a digital platform, both of which have reduced the cost of the service.

- Substance Misuse - (£0.777m underspend) – Several smaller contracts for Primary Care (£0.196m) and Group Work (£0.119m) were absorbed into the larger Core Contracts, therefore realising a saving. There has also been a reduction in the cost of detox placements (£0.228m), as well as other underspends (£0.234m).

- Salaries and Overheads – (£0.433m overspend) - An increase in the number of agency staff has led to an overspend in Public Health salaries. As the year ended the majority of agency appointments were ended.

- Where appropriate grants awarded to this directorate have been added to reserves to match the resources to future years expenditure. For example, to smooth the impact of the potential fallout of the iBCF in 2020/21.

Children's Family Services - £0.611m overspend:

- Family Services (£0.560m overspend): The Directorate had staffing and placement pressures attributable to Looked After Children demographics. The outlined UASC pressures in particular through the year, and further increased these pressures at Period 8 following the closure of the Pan London Rota. The Council have had to take on the equivalent of an additional 44 children compared to the Pan London Rota agreement of 28. At Period 10, the overspend in the Directorate was forecast as £0.400m plus £0.126m of risk relating to increased UASC numbers. This risk converted with a small additionality of £0.034m at year-end due to required use of interim social workers to manage caseloads. The placement cost pressures total £0.410m and additional staffing costs total £0.150m.

- Integrated Commissioning (£0.051m overspend): The Directorate had a minor overspend relating to interim staffing covering vacant roles in the Contracts Team.

4.7 Environment & City Management - £0.694m overspend

- City Highways are reporting a net adverse variance of £2.338m, an improvement of £0.182m compared with Period 10 as reported to Cabinet and ELT. This stems from shortfalls in Paid for Parking income (£1.647m), PCN income (£0.990m) and Road Management income (£0.300m). Additionally, there is a £0.080m overspend on Highways salaries due to the new structure being implemented part way through the year. This overspend has been offset by reductions in Parking contract costs (£0.485m), traffic order making (£0.138m) and other operating costs (£0.056m).

- Waste and Parks (£1.616m underspend) - The outturn for Waste and Parks is a £1.616m underspend, an improvement of £0.326m since Period 10. This constitutes an over recovery of commercial waste income (£1.281m), cemeteries (£0.037m) and special events income (£0.070m), plus an underspend in net operating costs of £0.228m.

- Executive Director of City Management (£0.028m underspend) - The directorate is reporting a minor underspend of £0.028m compared with a forecast to budget position at Period 10.

4.8 Public Protection and Licencing - £0.299m overspend

- Public Protection and Licensing operational outturn position is an underspend of (£0.100) against the projected outturn at PERIOD 10 as reported to Cabinet and ELT. Following a full review of the aged debt profile at year end we have provided for a prudent bad debt provision of £0.400m which has resulted in a net overspend position of £0.299m.

4.9 Housing - £0.333m overspend

- The housing operations outturn was an overspend of £0.333m against a forecast overspend of £0.140m. The forecast overspend (£0.140m) was realised relating to additional revenue costs on potential property acquisitions. The other variance movement is due higher IT recharges for the Housing Options service (£0.090m), a contribution to community halls (£0.040m) and additional running costs above available budgets (£0.063m).

4.10 Placeshaping & Planning - £0.799m underspend

- Development Planning (£0.799m underspend) - The outturn for Development Planning was an underspend of £0.799m, this is in line with the projection at

Period 10 as reported to Cabinet and ELT of an underspend of £0.800m. This underspend was a result of recurring staffing vacancies within the department.

4.11 Sports, Culture & Community - £0.088m underspend

- Community Services are reporting an underspend of £0.088m, a minor £0.003m increase in the underspend from Period 10 as reported to Cabinet and ELT. This largely reflects employee cost savings through a change in the Physical Activity & Leisure Service (PALS) structure.

4.12 Customer Services & Digital - £0.164m overspend

- Information Services (£0.204m overspend) - The overspend is due to additional licence costs for Trustmarque, Microsoft Office 365 and Code Enigma of £0.212m and agency spend £0.063m largely because of GDPR. This is partly offset by an underspend of £0.065m from lower expenditure on software maintenance and £0.006m across a range of different non-pay budget lines.

- Corporate Complaints & Customer (£0.040m underspend) – the underspend is in relation to staffing costs as income has been received from RBKC for a secondment arrangement.

5. GENERAL FUND CAPITAL OUTTURN

5.1 The General Fund capital outturn is summarised below:

Cabinet Member	Approved Expenditure Budget	Approved Income Budget	P10 Expenditure Forecast	P10 Income Forecast	Outturn Expenditure	Outturn Funding	Expenditure Variance (Budget Vs Actual)
	£m	£m	£m	£m	£m	£m	£m
Deputy Leader, Economic Development, Education and Skills	12.333	(9.980)	10.237	(8.720)	9.439	(6.397)	(2.894)
Customer Services & Digital	3.872	-	3.917	-	4.710	-	0.838
Environment and City Management	29.486	(6.063)	27.643	(6.940)	22.412	(6.863)	(7.074)
Environment and City Management/Place Shaping and Planning	32.342	(30.501)	30.966	(28.779)	29.333	(26.063)	(3.009)
Family Services and Public Health	0.940	(0.291)	0.874	(0.195)	1.058	(0.330)	0.118
Finance, Property and Regeneration	116.201	(33.426)	105.466	(33.029)	103.141	(38.184)	(13.060)
Housing Services	43.918	(26.522)	34.645	(22.182)	30.584	(17.943)	(13.334)
Place Shaping and Planning	3.785	(0.560)	3.085	(0.085)	3.405	(0.577)	(0.380)
Public Protection and Licensing	1.730	(1.412)	1.572	(1.412)	1.577	(1.547)	(0.153)
Sports, Culture and Community	2.217	(0.115)	2.464	(0.507)	1.917	(0.678)	(0.300)
Cabinet Portfolio Area Total	**246.824**	**(108.870)**	**220.870**	**(101.849)**	**207.576**	**(98.583)**	**(39.248)**
Projects Funded from FCR*	32.254	-	31.838	-	16.646	-	(15.608)
Grant Total	**279.078**	**(108.870)**	**252.708**	**(101.849)**	**224.220**	**(98.583)**	**(56.856)**

5.2 In total, across the general fund the Council has had total capital expenditure of £224.220m, with funding applied of £98.583m, a total net outturn position of £125.637m. This compares to a net forecast at Period 10 of £150.859m. The total expenditure variance since Period 10 is £28.5m with the majority of this being within GPH, CMC (both c£7m each) and the flexible use of capital receipts at £15m primarily related to the timing of the pension deficit payment in line with market conditions.

5.3 The funding of the capital programme is shown below:

Funding Source	Revised Funding Budget	Funding Actual
	£m	£m
Total Grant & Contributions	(108.870)	-
Central Govt Grants		(6.482)
European Structural and Investment Funds		(7.589)
Grants from GLA Bodies (Incl. TfL)		(7.937)
Grants from non-departmental public bodies		(0.215)
Affordable Housing Fund		(47.665)
Community Infrastructure Levy		(3.371)
S106 Contributions		(3.474)
S278 Contributions		(16.033)
Other 3rd Party Contributions		(4.891)
Other Contributions		(0.482)
Total Grants & Contributions	**(108.870)**	**(98.139)**
Direct Revenue Funding		(0.443)
Total Grants & Revenue Resources	**(108.870)**	**(98.581)**
Capital Receipts	**(32.254)**	**(16.646)**
Borrowing	**(137.954)**	**(108.993)**
Grand Total of Resources	**(279.078)**	**(224.220)**

5.4 The Council's general fund capital programme is categorised into 4 distinct areas – development, efficiency, investment and operational. The expenditure and funding by category is summarised in the table below:

Project Categorisation	Revised Expenditure Budget	Revised Funding Budget	Outturn Expenditure	Outturn Funding	Expenditure Variance	Funding Variance	Net Variance
	£m	£m	£m	£m	£m	£m	£m
Development	82.790	(53)	72.482	(53.867)	(10.308)	(0.376)	(10.684)
Efficiency	32.254	-	16.646	-	(15.608)	-	(15.608)
Investment	-	-	0.009	-	0.009	-	0.009
Operational	164.034	(55)	135.085	(44.716)	(28.949)	10.663	(18.286)
Grand Total	**279.078**	**(108.870)**	**224.220**	**(98.583)**	**(54.856)**	**10.288**	**(44.568)**

- Development – key projects that help the Council achieve its strategic aims, in line with City for All. This includes long term sustainability of Council services through income generation and meeting service objectives in areas such as affordable housing and regeneration.

- Efficiency - these schemes are funded in accordance with the government's "Flexible use of Capital Receipts" (FCR) initiative and to qualify, the schemes must be designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners.

- Investment – 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.

- Operational – The Council's operational schemes are centred on capital improvement works to the Council's operational assets, meet health and safety standards and are fit for purpose in terms of statutory guidance and legislation.

5.5 Deputy Leader – Economic Development, Education and Skills - £2.894m in year underspend

- Education (£1.427m in year underspend) - The capital programme in Education had a gross expenditure of £7.551m and underspent against its profiled budget of £8.978m by £1.427m. All of this underspend is due to re-profiling of project expenditure.

- The Education capital programme is majority funded by external sources such as grants from the Department for Education / Education & Skills Funding Agency or Section 106 / Community Infrastructure Levy.

- Enterprise (£0.644m) – There has been a delay in achieving vacant possession of Ingestre Court, which has now been resolved. This has led to an in-year underspend.

- Connect Westminster – Broadband (£0.586m) – A longer than expected installation period has led to a delay in making voucher payments, which has resulted in an underspend. However, towards the end of the financial year the uptake in vouchers has increased.

- Other in year underspends, primarily across libraries account for the remaining £0.237m of reprofiling.

5.6 Digital & Customer Services - £0.838m overspend

- The overspend is driven by End User Computing £0.922m which is due in part to laptop specification being higher than plan, but largely because of brought forward purchasing of devices to take advantage of the £0.150m discount offered by Microsoft. In 2019/20 there is an approved capital budget of £0.990m and due to bring forward procurement the full capital budget is not expected to be consumed.

- The overspend is partly offset by an underspend on other smaller capital projects within Information Services. There is an underspend of £0.042m against the Data Centre project as the in-year requirements were less than previous assumptions. No additional software licences were purchased, which saved £0.050m for Corporate Software Licences project. Data Network Refresh was underspent by £0.056m due to less replacing equipment required for this year. Core Departmental Applications shows an overspend position of £0.024m due to an increased capitalisation of staffing costs on previous forecasts.

5.7 Environment & City Management - £7.074m in year underspend

- Cathodic Protection System – Harrow Road (0.798m)– Part of the Elevated Harrow Road Bridge is enclosed by a building known as the Battleship Building, the soffit of the bridge is within the building footprint, so sections of the cathodic protection system can only be accessed through the building. Gaining access to the building and working around tenants occupying the space resulted in delays to the programme. The condition of the concrete forming parts of the bridge was also found to have unexpected voids in it, these voids had to be filled in order to ensure the new cathodic protection system would work properly.

- Piccadilly Underpass (£0.905m) – Additional works to identify fire prevention measures are now required. This necessity has made the feasibility studies more complex. As a result, implementation has been re-phased to 2019/20.

- Planned Preventive Maintenance (£1.179m) – Out of a gross budget of £13.982m, expenditure of £1.179m has been reprofiled to 2019/20. This will allow, subject to member approval, for the funding of works at Portland Square.

- Waste Fleet (£0.712m) – The retro-fit of the waste fleet, necessitated by ULEZ requirements, has been delayed by delivery of the parts taking longer than expected. Hence some of this work will now be undertaken in the early part of 2019/20.

- Sherwood Street Footway Widening (£0.570m) – Commencement of work has been delayed by the survey and design stage taking longer than planned. Therefore, this scheme will now take place in 2019/20.

- Harrow Road / Ladbroke Grove (£0.457m) – TFL have not yet approved the scheme so the works have been rescheduled for 2019/20.

- Other (£2.453m) – Several schemes of which are reliant on external factors such as a TFL approvals and agreements with external partners to proceed totalling £1.5m (Victoria Embankment Sturgeons, Thayer/Mandeville Street, Strutton Ground). The remaining £0.953m is due to the work taking longer than expected to complete and with completion in early 2019/20.

5.8 Environment and City Management/Placeshaping and Planning - £3.009m in year underspend

- Baker Street Two Way (£0.558m) – This scheme has underspent in 2018/19 due to the work taking longer than expected to complete. The current stage of this project is now scheduled to finish in summer 2019.

- Berkeley Square North (£0.661m) – Delays in this project mean implementation has only just started. Consequently, the substantial element of the work will occur in 2019/20.

- Bond Street (£0.609m) – £0.609m of expenditure has been reprofiled to 2019/20 due to ongoing issues with Crossrail implementation. This has limited access to the site, so the next phase of the scheme has had to be reprogrammed for 2019/20.

- Ceremonial Streetscape (£0.631m) - Some of the more complex designs put forward are still awaiting the necessary planning permission from Historic England. Once approval has been granted, these schemes will commence in 2019/20.

- Other (£0.550m) – A number of schemes have moved in scope and design as requested by external developers, resulting in revised delivery dates in 2019/20.

5.9 Family Services & Public Health - £0.118m overspend

- The portfolio has an overspend on the Adults capital programme of £0.039m related to the acquisition of a home for a Learning Disability client as well as an overspend of £0.079 on the remodelling of an Early Help centre with Children's Services.

5.10 Finance, Property & Regeneration - £13.060m in year underspend

- Refurbishment of Lisson Grove Offices (£4.875m) – The budget in 2018/19 relates to the refurbishment of Lisson Grove Offices. The procurement process for the main contractor will take longer than originally programmed, delaying the project. It is now expected to commence in 2019/20.

- City Hall Major Refurbishment (£3.816m) – The refurbishment of City Hall is now complete, and staff have reoccupied the building. The final account for the main contract was lower than previously forecast. In addition, the budget included a contribution towards tenant's fit out costs which will not be incurred until after the lower floors are leased, forecast for next financial year.

- Beachcroft (£2.342m) – Beachcroft is now on site and under construction. The underspend is due to the appropriation of land from the HRA to the General Fund. Appropriation costs do not show as capital expenditure but are included in the budget, to ensure the project is fully costed, and then reported as underspend.

- Dudley House (£1.159m) – The project achieved practical completion on the school this financial year, opening as planned in time for the new school year. Construction continues on the residential units which will complete mid 2019/20. The in-year underspend relates to retention payments which have been reprofiled into future years.

- Church Street Green Spine (£0.737m) – Ongoing negotiations with UK Power Networks and a cost review has delayed commencement of the project, resulting in an in-year underspend.

- Other minor underspends of £0.131m total the remainder for this portfolio.

5.11 Housing - £13.334m in year underspend

- TA Purchases In-borough/Out of Borough (£6.794m) – Expenditure on TA purchases is driven by the availability of suitable properties for sale, which has fallen in 2018/19. In addition, the average cost of acquisitions has fallen. Both factors have led to an underspend against budget.

- Housing Investment Fund (£4.000m) – The final payment in the £15m investment was anticipated to be made in this financial year. However, the £4m payment will now be due in 2019/20.

- Affordable Housing Fund (£2.540m) – A change in funding requirements for Westminster Community Homes' schemes has resulted in an in-year underspend. Payments are expected to be made in early 2019/20.

5.12 Placeshaping & Planning - £0.380m in year underspend

- The in year underspend within this portfolio is related to a number of small public realm/Placeshaping schemes.

5.13 Public Protection and Licencing - £0.153m in year underspend

- Sanctuary scheme (£0.087m) – As a result of changes in the eligibility criteria, there have been delays in processing grants supporting domestic violence cases. This has resulted in an underspend in 2018/19.

- Other variances on smaller projects of £0.066m make up the total for the portfolio's overall in year underspend.

5.14 Sports, Culture & Community - £0.300m in year underspend

- Moberly Sports Centre Redevelopment (£0.513m) – The Moberly Sports Centre opened this financial year and work on Jubilee Phase 2 is expected to start in 2019/20. The underspend relates to costs reclaimed from developer who have fully utilised the loan facility provided to them by the Council.

- Paddington Rec Ground Improvements (£0.213m, overspend) – An acceleration of this scheme resulted in commencement of work in 2018/19. The overspend will be funded by the Community Infrastructure Levy.

5.15 Flexible Use of Capital Receipts (FCR) – £15.608m in year underspend

- FCR has had an in year underspend of £15.608m. This is primarily related to the timing of the pension's deficit payment and slippage on the City Hall Refurbishment revenue costs.

6. CAPITAL SLIPPAGE

6.1 The table below summaries the slippage position for each portfolio:

Portfolio	Expenditure Slippage from 2018/19 £m	Funding Slippage From 2018/19 £m
Deputy Leader, Economic Development, Education & Skills	(3.159)	4.141
Environment & City Management	(5.660)	(1.547)
Family Services & Public Health	(0.115)	0.115
FCR	(13.608)	0.000
Finance, Property & Regeneration	(11.627)	0.800
Housing Services	(8.847)	8.639
Placeshaping & Planning	(4.888)	5.000
Public Protection & Licencing	(0.158)	(0.135)
Sports, Culture & Communities	0.315	(0.391)
Grand Total	**(47.747)**	**16.622**

6.2 Total expenditure slippage from 2018/19 is £47.747m with funding slippage of £16.622m. Therefore, there is net slippage of £31.125m. Appendix 1 to this report gives a breakdown of slippage across all projects.

6.3 Cabinet are asked to approve the slippage from 2018/19 into 2019/20 and 2020/21 as per the detailed breakdown in appendix 1.

7. HRA REVENUE & CAPITAL OUTTURN

7.1 The HRA revenue outturn is an overall surplus of £4.678m, this is an adverse variance of £2.315m from budget. General revenue balances, after the funding of capital programme, have reduced to £17.234m in line with expectations within the HRA business plan approved in March.

7.2 The variance included £3.2m of adverse expenditure variances and a positive £0.890m variance on income. The significant contributing factors are outlined below.

7.3 Overall rental income had an adverse variance of £0.931m due to higher void levels of 2.77% against a budget of 1% across the year. The dwelling and non dwelling rental income variance of £1.135m was offset by higher commercial and other income of £0.204m.

7.4 A one-off item of income was received in year from the settlement of a previous dispute with a contractor of £1.5m. Additional investment income of £0.155m and other miscellaneous items contributed to the balance of £0.123m

7.5 Management costs on estate offices (£0.450m) and estate halls (£0.150m) were higher than budgeted. Revenue expenditure on regeneration schemes was £0.436m higher than budgeted due to the increased activity on large schemes this year. Depreciation was £0.925m higher than budgeted due to movements in HRA non-dwellings. Recharges for the Housing Options service £0.491m were higher than budgeted after detailed review during the year. Corporate recharges for support services were £0.317m higher than budgeted and total repairs costs were £0.272m overspent due to additional costs for temporary boiler work. Other minor variances totalling £0.159m made up the balance.

7.6 The gross capital expenditure outturn for the HRA is £101.024m a total variance of £12.305m compared to the revised budget of £113.329m. This is split between Major Works of £49.043m, Housing Regeneration of £17.620m and Other Projects of £34.362m.

7.7 The outturn for Major Works is an overspend of £3.471m. The majority of this is from External repairs and decorations where final settlements of works came in higher than forecast resulting in an overspend of £5.748m. This was offset by underspends in other areas such as External works and laterals of £2.762m due to lower than forecast final settlements and delays to the finalisation of client briefs. A combination of other variances contribute to the remaining underspends of £0.485m.

7.8 The outturn for Regeneration is an underspend of £13.448m. The majority of this is on acquisition programmes related to major schemes. The ability to spend these budgets is heavily influenced by when suitable properties become available and when they are required to progress the projects. The acquisition budget for Ebury was underspent by £7.260m and Church Street by £4m. The balance of £2.188m was spread over the schemes with no individual variances being over £1m.

7.9 Other Capital projects within the HRA had an outturn of £2.328m underspent. This is due to a revision of the payments due on West End Gate which resulted in a £1.056m underspend. The small sites programme had an overall underspend of £1.719m due to scheme contingencies not being required and some expenditure being reprofiled to 2019/20. An overspend of £0.476m on the self-financing programme resulted from an acquisition which had not been forecast to complete in year being brought forward.

8. PENSION FUND

Fund Account

8.1 The value of the Council's Pension Fund increased by £82m over the course of the year, rising from £1.336bn in 2017/18 to £1.418bn in 2018/19. The table below summarises the major elements that comprise this net change.

2017/18		2018/19
£'000		£'000
58,868	Members Contributions Directly Paid in	61,242
(57,350)	Benefits Paid and Transfers Out	(58,189)
(5,734)	Management Expenses	(5,823)
15,785	Investment Income	12,242
56,708	Investment Returns	72,884
68,277		**82,356**

8.2 As part of the deficit recovery plan, increased contributions paid into the Fund have resulted in the Fund returning to a positive cash flow (contributions versus pensions paid) of £3m, meaning that investments no longer need to be sold to fund pension payments in the financial year. Deficit Recovery contributions for 2018/19 totalled £24.743m.

8.3 Management costs have slightly risen by 1.6% in the year, largely due to the increased value of the Fund over the year resulting in higher management fees. It is expected with further transitions of assets in to the London CIV pool company that further cost savings on management fees will be made going forward.

8.4 The Fund has seen a decrease in investment income of 22%; this is due partly to the transfer of segregated bond assets to a global buy and maintain pooled fund, which has impacted on the way in which income is distributed.

8.5 The Fund has continued to benefit from strong equity markets and a large asset allocation to this area; the total increase in assets available to pay benefits saw a 6.2% increase in 2018/19.

Net Asset Statement and Liability

8.6 The Pension Fund defined benefit obligation has fallen by £35m, this is largely due to the fair value of scheme assets rising by £67m in light of favourable equity market conditions. This increase in scheme asset values has been slightly offset by an increase in the present value of promise retirement benefits of £32m due to changes in the financial assumptions, including higher inflation and salary levels, coupled with pension increases and a reduction in the discount rate.

2017/18 £'000		2018/19 £'000
(2,014,651)	Present Value of Promised Retirement Benefits	(2,046,789)
1,335,977	Fair Value of Scheme Assets (bid value)	1,402,762
(678,674)	**Net Liability**	**(644,027)**

8.7 An analysis of the £1.418bn net assets shows is shown below:

2017/18 £'000		2018/19 £'000
183,879	Bonds	-
150	Equities	150
1,129,276	Pooled Investment Vehicles	1,402,288
337	Futures & Foreign Exchange	-
2,790	Income Due	120
13,218	Debtors	-
10,321	Cash Deposits	5,802
(229)	Investment Liabilities	-
(9,663)	Amounts Due for Purchase investments	-
6,728	Other Current Assets	11,293
(831)	Other Current Liabilities	(1,321)
1,335,976		**1,418,332**

9. TREASURY

9.1 As at 31 March 2019, net cash invested was £506m, a decrease of £235m on the position at 31 March 2018 as shown below:

	31 March 2019 (£m)	31 March 2018 (£m)
Total Borrowing	(223)	(251)
Total Cash Invested	729	992
Net Cash Invested	**506**	**741**

Investments

9.2 The Council's Annual Investment Strategy which forms part of the annual Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by the Council on 6 March 2019. The Council's policy objective is the prudent investment of balances to achieve optimum returns on investments, subject to maintaining adequate security of capital and a level of liquidity appropriate to the Council's projected need for funds over time.

9.3 The table below provides a breakdown of investments, together with comparisons for the previous financial year end.

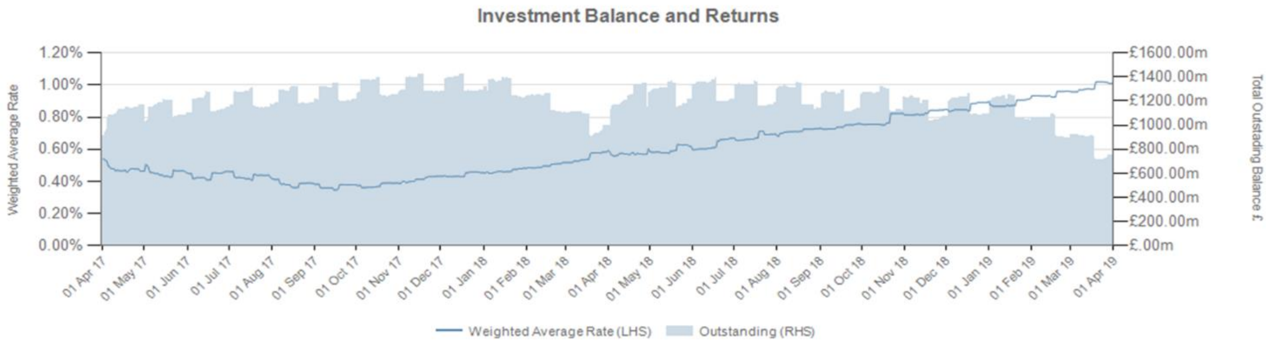
	Investment Balance 31 March 2019 (£m)	Investment Balance 31 March 2018 (£m)	Movement
Money Market Funds	59.7	129.6	-69.9
Notice Accounts	89.5	89.3	0.2
Term Deposits	465.0	385.0	80.0
Tradeable Securities	114.8	336.1	-221.3
Enhanced Cash Funds	0.0	52.2	-52.2
Total:	**729.0**	**992.2**	**-263.2**

9.4 Liquid balances are managed through Money Market Funds providing same day liquidity. Cash has been invested in alternative and less liquid instruments, particularly term deposits and tradable securities. The average level of funds available for investment in 2018/19 was £1.172m.

9.5 Daily investment balances have steadily decreased from £992.9m at 1 April 2018 to the current £729.0m.

9.6 The Bank of England reduced the Base Rate in August 2016. However, since the latter half of 2017, rates have steadily improved. This is due to the November 2017 and August 2018 Bank of England base rate increases.

9.7 Although surplus cash for investment has reduced, cash has been invested with higher interest rate paying counterparties. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.



9.8 All investment limits specified in the 2018/19 investment strategy have been complied with except for two instances of cash balances received after close of banking business:

- £1.171m on 3 April 2018.
- £23.686m on 25 May 2018.

9.9 The original/ budgeted average balance for 2018/19 was £1.2 billion. The actual average investment balance for the year was £1.172 billion. The average investment balance peaked in June 2018, reaching £1.294 billion and then fell to £729.0 million at 31 March 2019.

The table below shows the actual investment income and expenditure achieved in the year, the budget and the variance.

	Budget £000	Actual £000	Variance £000
Investment Income	-5,575	-11,148	-5,573
Interest Payable	12,293	10,626	-1,667

Borrowing

9.10 At £223m, the Council's borrowing was well within the Prudential Indicator for external borrowing, namely, that borrowing should not exceed the estimated capital financing requirement (CFR) for 2018/19 of £724m. The final CFR for 2018/19 was £755m.

9.11 Currently, the Council is "under borrowed" by £532m because it has used internal resources to fund capital expenditure.

9.12 The table below shows the details around the Council's external borrowing as at 31 March 2019, split between the General Fund and HRA.

Total Borrowing	31 March 2018 (£m)	31 March 2019 (£m)
HRA	226	196
General Fund	25	27
Total Borrowing	**251**	**223**

9.13 The breakdown of the existing loans is shown below:

Borrowing Type	Loan Balance 31 March 2018 (£m)	Loan Balance 31 March 2019 (£m)	Movement
PWLB	181.04	151.04	-30.00
LOBO	70.00	70.00	0.00
Mortgage Annuity	0.23	0.19	-0.04
Greater London Authority	0.00	2.00	2.00
Total:	**251.27**	**223.23**	**-28.04**

9.14 A HRA loan of £30m has matured in August 2018 which was costing 9.75% interest per annum.

10. CORE STATEMENTS

Balance Sheet

10.1 The balance sheet in the table below show that the Council's net assets have increased by £331m.

1 April 2017 Restated*	31 March 2018 Restated*		Note	31 March 2019
£'000	£'000			£'000
		ASSETS		
		Non-current		
2,091,617	2,368,869	Property, plant and equipment	Note 18C	2,661,728
42,746	42,846	Heritage assets	Note 19	42,846
454,840	405,224	Investment property	Note 20	472,825
1,077	875	Intangible assets		724
28,886	17,433	Long-term investments	Note 21A	25,150
15,229	38,015	Long-term debtors	Note 26	67,604
2,634,395	**2,873,262**	**Total long term assets**		**3,270,877**
		Current		
742,980	864,800	Short-term investments	Note 21A	673,751
179	94	Inventories		101
73,369	93,842	Short-term debtors	Note 26	148,044
170,302	161,238	Cash and other cash equivalents	Note 21B	72,104
2,250	-	Assets held for sale		-
-	40,000	Investment property held for sale		-
989,080	**1,159,974**	**Current assets**		894,000

1 April 2017 Restated*	31 March 2018 Restated*		Note	31 March 2019
£'000	£'000			£'000
		LIABILITIES		
(2,069)	(32,069)	Short-term borrowing		(2,486)
(469,035)	(629,411)	Short-term creditors	Note 27	(371,176)
-	-	Short-term provisions	Note 28	(685)
(8,341)	(5,635)	Revenue receipts in advance	Note 13	(3,643)
(479,445)	**(667,115)**	**Total current liabilities**		**(377,990)**
		Long term		
(204)	(2,917)	Long-term creditors	Note 27	(4,321)
(121,504)	(81,451)	Provisions	Note 28	(144,150)
(251,269)	(221,230)	Long-term borrowing		(222,521)
(786,898)	(710,551)	Other long-term liabilities	Note 29	(720,187)
(89,789)	(71,490)	Capital receipts in advance	Note 13	(86,180)
(1,249,664)	**(1,087,639)**	**Long-term liabilities**		**(1,177,359)**
1,894,366	**2,278,482**	**Net assets**		**2,609,528**
(578,267)	(641,414)	Total Usable Reserves		(823,248)
(1,316,099)	(1,637,068)	Total Unusable Reserves	Note 16B	(1,786,280)
(1,894,366)	**(2,278,482)**	**Total Reserves**		**(2,609,528)**

10.2 This increase in net assets is primarily due to an increase in long term assets, namely Property, Plant and Equipment and Investment Properties. This is in line with the latest valuations of our property portfolio and the expenditure the Council has incurred on the capital programme, which is higher than in previous years. The net asset position is further enhanced by the reduction in creditors, which has reduced significantly as a result of Council's final Business Rates position in line with statutory reporting requirements.

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

10.3 Local government accounting requires the production of a comprehensive income and expenditure statement and movement in reserves statements, using international accounting standards. The movement in reserves statement is designed to adjust for technical transactions such as depreciation.

10.4 A reconciliation of the CIES with budget monitoring is shown below

	General Fund Balance £m	Housing Revenue Account £m	Total £m
Surplus of Provision of Services (CIES)	(99.145)	(8.325)	(107.470)
Technical Accounting Adjustments (MiRS)	(18.110)	25.626	7.516
Use of Earmarked Reserves	113.338	(9.169)	104.169
Net Surplus against Budget	(3.917)	8.132	4.215

10.5 The technical accounting adjustments consist of movements for:

- Neutralisation of depreciation
- Revaluation gain/losses for the Council's property portfolio
- The transfer of capital grants to the capital grants reserve
- Revenue expenditure funded from capital under statute
- Adjustment to the Pension reserve which neutralises the current service costs and ensures that the actuarial estimates are not charged to Council Tax.

Cash Flow Statement

10.6 There was a £89m decrease in the Council's cash and cash equivalents (investments that mature in no more than three days) falling to £72.104.

2017/18 Restated*		Note	2018/19
£'000			£'000
(179,531)	Net (surplus)/deficit on the provision of services		(107,470)
(217,826)	Adjustments to net (surplus)/deficit on the provision of services for non-cash movements	Note 31	(238,892)
126,636	Adjustments for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities	Note 31	146,342
(270,721)	**Net Cash Flows from Operating Activities**		**(200,020)**
303,750	Net Cash Flows from Investing Activities	Note 32	(41,010)
(23,965)	Net Cash Flows from Financing Activities	Note 33	330,164
9,064	Net (increase)/decrease in cash and cash equivalents		89,134
170,302	Cash and cash equivalents at the beginning of the reporting period		161,238
161,238	**Cash and cash equivalents at the end of the reporting period**		**72,104**

10.7 The decrease in the Council's cash position is mainly due to expenditure incurred as part of the Council's capital programme and an outflow of expenditure for financing activities. Furthermore, the Council's reduction in creditors resulting from its NNDR position creates a reduction in cash as sums are paid to the GLA. However, it should be noted that with investments of c£700m the Council are still in a healthy cash position.

11. OBJECTIONS

11.1 The auditors have not received any objections in relation to the 2018/19 statement of accounts.

12. CONCLUSION

12.1 Westminster City Council is a complex organisation in terms of its broad range of services and this is illustrated in its financial complexity as well. However, the Council is generally in a healthy position as at the end of the 2018/19 financial year with an appropriate level of general reserves for an organisation of this side and breadth. However, local government finances, have been and will continue to be in a period of uncertainty with key reviews coming forward that will have a significant impact on the Council. This includes the Fair Funding Review, Spending Review and Adult Social Care green paper. All of these reviews could have an adverse impact on the Council's finances and may therefore require the Council to draw down on its reserves in the short term.

12.2 In addition to the reviews mentioned above, the one financial factor that sets the Council apart from other local authorities in the country is the level of business rates it collects – approximately 8% of the total in the country. This can both have benefits and disadvantages and it is important to note that a strong reserves position also helps to smooth out fluctuations in business rates which can be a significant number for Westminster.

Background Documents

Link to the Council's statement of accounts - https://www.westminster.gov.uk/2018-2019-annual-accounts

Appendix 1 – Detailed Breakdown of Capital Slippage by Portfolio

Portfolio/Project	Expenditure Slippage from 2018/19	Funding Slippage from 2018/19	Expenditure Slippage to 2019/20	Funding Slippage to 2019/20	Expenditure Slippage to 2020/21	Funding Slippage to 2020/21
Deputy Leader, Economic Development, Education & Skills	**(3,159,000)**	**4,141,000**	**3,399,000**	**(4,381,000)**	**(240,000)**	**240,000**
ENTERPRISE	(644,000)		644,000			
HALLFIELD HEATING & DISTRIBUTION	(177,000)	177,000	177,000	(177,000)		
KING SOLOMON SCHOOL EXPANSION	(1,548,000)	1,548,000	1,548,000	(1,548,000)		
LIBRAIRES 6 YEAR D╔COR PROGRAMME	(424,000)		424,000			
NHB PLACES OF WORK	(150,000)	150,000	150,000	(150,000)		
SCHOOLS MINOR WORKS PROJECTS	240,000	(240,000)	0	0	(240,000)	240,000
SEN CASE MANAGEMENT SYSTEM PROJECT	(16,000)		16,000			
SPECIAL SCHOOLS – FIRE DOORS	(30,000)	30,000	30,000	(30,000)		
ST AUGUSTINE'S FIRE DOORS	(50,000)	50,000	50,000	(50,000)		
ST GEORGE'S SCHOOL EXPANSION	(96,000)	1,926,000	96,000	(1,926,000)		
ST MARYLEBONE BRIDGE SPECIAL SCH	(264,000)	500,000	264,000	(500,000)		
Environment & City Management	**(5,660,000)**	**(1,547,000)**	**5,660,000**	**1,547,000**		
2015/16 CYCLE PARKING ESTATES		14,000		(14,000)		
ABELL AND CLELAND PUBLIC REALM	(9,000)	9,000	9,000	(9,000)		
BROOK STREET/DAVIS ST TWO WAY		(5,000)		5,000		
CAMBRIDGE CIRCUS IMPROVEMENTS	(404,000)		404,000			
CARRIAGEWAY PROGRAMME MAINTENANC	(1,181,000)	2,000	1,181,000	(2,000)		
CEMETERIES INFRASTRUCTURE	(8,000)		8,000			
COMMERCIAL WASTE CONTAINERS	(5,000)		5,000			
CYCLE PARKING IN ESTATES 2017/18		(35,000)		35,000		
CYCLE PARKING IN STREET 2017/18		(52,000)		52,000		
CYCLE SUPER HWAY ROUTE5 PONSONBY		50,000		(50,000)		
CYCLE SUPERHIGHWAY EAST-WEST		(4,000)		4,000		
CYCLE SUPERHIGHWAY ROUTE 11	(121,000)	93,000	121,000	(93,000)		
ELEVATED HARROW RD BRIDGE	(797,000)		797,000			
GENERAL DEVELOPER SCHEMES	(151,000)	(1,402,000)	151,000	1,402,000		
GLASSHOUSE ST HIGHWAY SOFTENING	(84,000)	84,000	84,000	(84,000)		
HARROW ROAD /LADBROKE GROVE	(457,000)	300,000	457,000	(300,000)		
JERMYN STREET	(359,000)	359,000	359,000	(359,000)		
JOHN SNOW HANDPUMP BROADWICK ST		262,000		(262,000)		
LED LIGHTING ROLLOUT	119,000		(119,000)			
LONDN CYCLE GRID CIRCLELINE WEST		(3,000)		3,000		
LONDON CYCLE GRID CLN EAST		71,000		(71,000)		
LONDON CYCLE GRID JUBILEE LINE		(4,000)		4,000		
LONDON CYCLE GRID QUIETWAY 68		(82,000)		82,000		
LONDON CYCLE GRID QUIETWAY 7		(3,000)		3,000		
LONDON CYCLE GRID QUIETWAY 88		50,000		(50,000)		
LONDON CYCLE HIRE SCHEME CIL	58,000	(58,000)	(58,000)	58,000		
LONDON CYCLE PERMEABILITY		15,000		(15,000)		
LONDON CYCLEGRID VAUXHALL CROSS		(1,000)		1,000		
LONDONCYCLE GRID CYCLE SUPER HW		34,000		(34,000)		
LONDONCYCLEGRID CIRCLELINE SOUTH		9,000		(9,000)		
OPEN SPACES STRATEGY	(5,000)		5,000			
OXFORD STREET DISTRICT PHASE ONE	1,384,000		(1,384,000)			
PADDINGTON GREEN SCHOOL MUGA	20,000	(20,000)	(20,000)	20,000		
PARKS LANDSCAPG&INFRASTRUCTU IMP	(89,000)	89,000	89,000	(89,000)		
PARKS&OPEN SPACES INFRASTRUCTURE	27,000		(27,000)			
PARKS-BERKELEY SQ INFRA STRUC		1,000		(1,000)		
PARLIAMENTARY ESTATES DUCTING	159,000	(159,000)	(159,000)	159,000		
PENFOLD STREET, CHURCH STREET	(301,000)		301,000			
PICCADILLY UNDERPASS	(905,000)		905,000			
PLANNED PREVENTATIVE MAINTEN&STR	133,000		(133,000)			
PUBLICLIGHTING-AGEDEXPIREDEQUIPM	(251,000)		251,000			
QUEENSWAY ST SCAPE IMPROVE PHASE	393,000	49,000	(393,000)	(49,000)		
QUIETWAY WAYFINDING (TFL)		50,000		(50,000)		
RECYCLING CONTAINERS AND BINS	35,000		(35,000)			
ROAD SAFETY SCHEME INVESTIGATION		(815,000)		815,000		
SAFE AND SECURE (PRIVATE) SS	(64,000)		64,000			
STJAMES PALA FORECOURT PUB REALM	(508,000)	508,000	508,000	(508,000)		
STJOHNSGDEN(PARK)HORSEFERRYROADW	(7,000)		7,000			
STMARYS CHURCH(PARK)BOUNDARYWALL	(85,000)		85,000			
STRUTTON GROUND	(414,000)	(813,000)	414,000	813,000		
THAYER/MANDEVILLE STREET	(310,000)		310,000			
TILING ALL SITE IMPROV CHANGROOM	(10,000)		10,000			
ULTRA LOWEMISSION ZONE COMPLY	(712,000)	(222,000)	712,000	222,000		
VICTORIA EMBANKMENT MOORING RINGS	(297,000)	297,000	297,000	(297,000)		
VICTORIA EMBANKMENT STURGEONS	(343,000)		343,000			
VILLIERS STREET PUBLIC REALM	(63,000)	69,000	63,000	(69,000)		
WATERLOO BRIDGE	34,000	(284,000)	(34,000)	284,000		
WESTBOURNE GREEN OUTDOOR GYM	(22,000)		22,000			
WESTBOURNE GREEN SKATE PARK&MUGA	(60,000)		60,000			

Portfolio/Project	Expenditure Slippage from 2018/19	Funding Slippage from 2018/19	Expenditure Slippage to 2019/20	Funding Slippage to 2019/20	Expenditure Slippage to 2020/21	Funding Slippage to 2020/21
Family Services & Public Health	**(115,000)**	**115,000**	**115,000**	**(115,000)**		
BARNEY & FLOREY	(91,000)	91,000	91,000	(91,000)		
CUSTOMER SELFSERVICE DIGITAL	39,000	(39,000)	(39,000)	39,000		
FRAMEWORKI- UPGRADE TO MOSAIC	7,000	(7,000)	(7,000)	7,000		
MOBILE WORKING	(70,000)	70,000	70,000	(70,000)		
FCR	**(13,608,000)**		**13,608,000**			
CAPITALISATION PENSION CONTRIB	(10,000,000)		10,000,000			
CITY HALL REVENUE COSTS	(2,608,000)		2,608,000			
NETWORK&TELEPHONY TRANSFORMATION	(250,000)		250,000			
TECHNOLOGY REFRESH	(750,000)		750,000			
Finance, Property & Regeneration	**(11,627,000)**	**800,000**	**11,627,000**	**(800,000)**		
BEACHCROFT	(2,342,000)		2,342,000			
CAPITALISED SALARY COSTS	(73,000)		73,000			
CARLTON DENE	44,000		(44,000)			
CHURCHST GREEN SPINE PUBLICREALM	(737,000)	800,000	737,000	(800,000)		
CITY HALL - MAJOR REFURBISHMENT	(1,000,000)		1,000,000			
CORONERS COURT IMPROVEMENTS	(5,000)		5,000			
COSWAY STREET	(200,000)		200,000			
COUNCIL HSE-LEASE DISPOSAL COSTS	(299,000)		299,000			
COUNCILHSE-FITOUTFORREGISTRARSA	32,000		(32,000)			
DUDLEY HOUSE	(1,159,000)		1,159,000			
ENERGY MONITOR & TARGET	(340,000)		340,000			
FARM STREET	69,000		(69,000)			
GPH OTHER	(4,875,000)		4,875,000			
HUGUENOT HOUSE REDEVELOPMENT	109,000		(109,000)			
LANDLORD RESPONSIBILITIES	(168,000)		168,000			
LANDLORD RESPONS-MAYFAIRLIBRAR	(25,000)		25,000			
LEISURE REVIEW - DEVELOPMENT	68,000		(68,000)			
LISSON GROVE IMPROVEMENT-INFRA	(190,000)		190,000			
LISSON GROVE PROGRAMME	(315,000)		315,000			
LUXBOROUGH DEVELOPMENT	64,000		(64,000)			
MIN ENERGY EFFICIENCY STD (MEES)	(49,000)		49,000			
SIR SIMON MILTON UNIVERSITY TEC	(383,000)		383,000			
STRATEGIC ACQUISITIONS LEISURE	7,000		(7,000)			
STRATEGIC ACQUISITN-HUGUENOT HSE	1,000		(1,000)			
WESTMEAD	50,000		(50,000)			
WESTMINSTER ACADEMY	89,000		(89,000)			
Housing Services	**(8,847,000)**	**8,639,000**	**4,847,000**	**(5,750,000)**	**4,000,000**	**(2,889,000)**
291 HARROW ROAD	(60,000)	60,000	(1,034,000)	777,000		
AFFORDABLE HOUSING FUND BUDGET	(2,540,000)	2,540,000	2,540,000	(2,540,000)		
HARROW ROAD			1,094,000	(837,000)		
HSING INVESTMT IN DISHARGE DUTY	(4,000,000)		4,000,000			
TA PURCHASE IBB	(1,492,000)	6,039,000	(4,948,000)	(3,150,000)	2,889,000	(2,889,000)
TEMP ACCOMMODATION ACQUISITIONS	(755,000)		3,195,000		1,111,000	
Placeshaping & Planning	**(4,887,821)**	**5,000,000**	**4,887,821**	**(5,000,000)**		
20 GROSVENOR SQUARE	(223,000)	223,000	223,000	(223,000)		
BAKER STREET TWO WAY	(558,000)	340,000	558,000	(340,000)		
BERKELEY SQ NRTH SIDE PUB REALM	(661,000)	661,000	661,000	(661,000)		
BOND STREET	(609,000)	608,000	609,000	(608,000)		
CEREMONIAL STREETSCAPE	(631,000)	1,085,000	631,000	(1,085,000)		
CHRISTCHURCH GARDENS	222,000		(222,000)			
CLEVELAND ROW	(120,000)	120,000	120,000	(120,000)		
COVENT GARDEN STREETSCAPE	(340,000)	340,000	340,000	(340,000)		
CROSSRAIL,BONDSTWESTERNTICKETH	(37,000)	37,000	37,000	(37,000)		
DUKE STREET - SELFRIDGES	(90,000)	90,000	90,000	(90,000)		
EAST MAYFAIR AREA - CORK STREET		(73,000)		73,000		
EAST MAYFAIR AREA - SAVILE ROW	(344,000)	417,000	344,000	(417,000)		
HANOVER SQUARE PUBLIC REALM	95,000	(95,000)	(95,000)	95,000		
MOTCOMBSTPUBLICREALMIMPROVEMENTS	(204,821)	205,000	204,821	(205,000)		
NEWPORT PLACE	(222,000)		222,000			
NORTH AUDLEY STREET	(256,000)	256,000	256,000	(256,000)		
OPEN SPACES AND GREENER PLACES	(205,000)		205,000			
OXFORD STREET WEST (WEP)	5,000		(5,000)			
SHERWOOD STREET FOOTWAY WIDENING		570,000		(570,000)		
SOHO PUBLIC REALM IMPROVEMENTS	(200,000)		200,000			
WEP - CONNECT WMINSTER-BROADBAND	(586,000)	293,000	586,000	(293,000)		
WEP - THE STRAND-ALDWYCH	77,000	(77,000)	(77,000)	77,000		

Portfolio/Project	Expenditure Slippage from 2018/19	Funding Slippage from 2018/19	Expenditure Slippage to 2019/20	Funding Slippage to 2019/20	Expenditure Slippage to 2020/21	Funding Slippage to 2020/21
Public Protection & Licencing	**(158,000)**	**(135,000)**	**158,000**	**135,000**		
CCTV - CRIME & DISORDER	(158,000)		158,000			
DISABLED FACILITIES GRANT		(135,000)		135,000		
Sports, Culture & Communities	**315,000**	**(391,000)**	**(315,000)**	**391,000**		
MOBERLY SPORTS CENTRE REDEVELOP	67,000		(67,000)			
PLAY FACILITIES	(38,000)	38,000	38,000	(38,000)		
PRG - BLUEBELL GLADE WORKS	27,000	(85,000)	(27,000)	85,000		
PRG – COMMUNITY SUITE	70,000	(70,000)	(70,000)	70,000		
PRG - SYNTHETIC PITCH REPLACEMNT	63,000		(63,000)			
PRG-REPLACEMEN CHILD'S PLAY GRND	180,000	(275,000)	(180,000)	275,000		
SAYERS CROFT REFURBISHMENTS		1,000		(1,000)		
SEYMOUR LEISURE CENTRE	1,000		(1,000)			
SPORTS&LEISUR-CONDITIONSURVEY&MA	(55,000)		55,000			
Grand Total	**(47,746,821)**	**16,622,000**	**43,986,821**	**(13,973,000)**	**3,760,000**	**(2,649,000)**

City of Westminster

Decision Maker:	Cabinet
Date:	15 July 2019
Classification:	General Release
Title:	Treasury Management Strategy Outturn 2018/19
Wards Affected:	All
Policy Context:	To manage the Council's finances prudently and efficiently
Cabinet Member	Cabinet Member for Finance, Property and Corporate Services
Financial Summary:	This report forms part of the monitoring of the treasury function as recommended in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice. It reviews the implementation of the strategy and final outturn position
Report of:	Gerald Almeroth Executive Director for Finance and Resources

1. EXECUTIVE SUMMARY

1.1. The purpose of this report is to:

- Present the Council's Annual Treasury Management Outturn Report for 2018/19 in accordance with the Council's treasury management practices. It is a regulatory requirement for this outturn report to be presented to Council by the 30 September each year.

1.2. Treasury management comprises:

- managing the City Council's borrowing to ensure funding of the Council's future capital programme is at optimal cost;
- investing surplus cash balances arising from the day-to-day operations of the Council to obtain an optimal return while ensuring security of capital and liquidity.

1.3. This report complies with CIPFA's Code of Practice on Treasury Management, and covers the following:

- Review of the Council's investment portfolio for 2018/19 to include the treasury position as at 31 March 2019.
- Review of the Council's borrowing strategy for 2018/19.
- Review of compliance with Treasury and Prudential Limits for year to 2018/19.
- Economic update for 2018/19.

1.4. The Council has complied with all elements of the Treasury Management Strategy Statement (TMSS) apart from two instances (already reported in the 2018/19 mid-year review) which arose because of exceptional banking receipts which were received too late in the day to be moved from the bank until the following day. This resulted in funds in excess of the strategy limit set for the Council's current bank account on two occasions:

- £1.171m on 3rd April 2018.
- £23.686m on 25th May 2018.

2. RECOMMENDATIONS

2.1. Cabinet is asked to note the annual treasury strategy final outturn 2018/19, noting the cases of non-compliance.

3. TREASURY POSITION AS AT 31 MARCH 2019

3.1. As at 31 March 2019, net cash invested was £506m, an decrease of £235m on the position at 31 March 2018 as shown below:

	31 March 2019 (£m)	31 March 2018 (£m)
Total Borrowing	(223)	(251)
Total Cash Invested	729	992
Net Cash Invested	**506**	**741**

Investments

3.2. The Council's Annual Investment Strategy which forms part of the annual Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by the Council on 7 March 2018. The Council's policy objective is the prudent investment of balances to achieve optimum returns on investments, subject to maintaining adequate security of capital and a level of liquidity appropriate to the Council's projected need for funds over time.

3.3. The table below provides a breakdown of investments, together with comparisons for the previous financial year end.

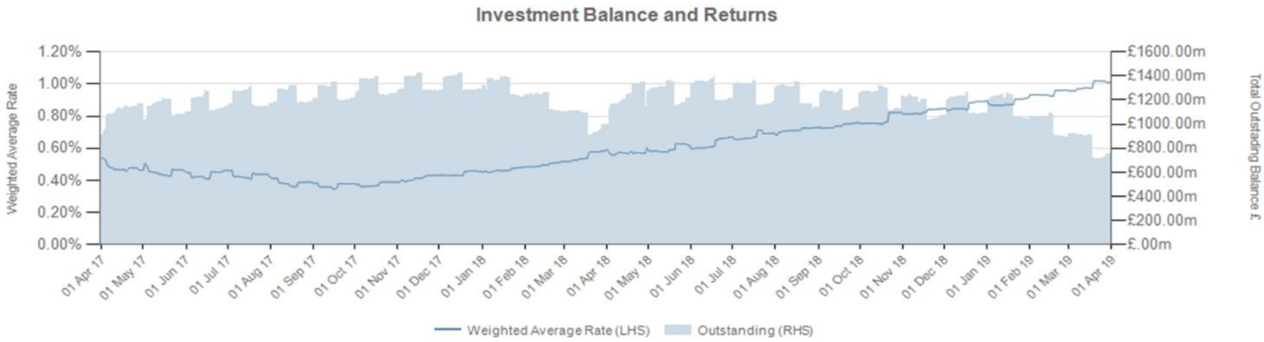
	Investment Balance 31 March 2019 (£m)	Investment Balance 31 March 2018 (£m)	Movement
Money Market Funds	59.7	129.6	-69.9
Notice Accounts	89.5	89.3	0.2
Term Deposits	465.0	385.0	80.0
Tradeable Securities	114.8	336.1	-221.3
Enhanced Cash Funds	0.0	52.2	-52.2
Total:	**729.0**	**992.2**	**-263.2**

3.4. Liquid balances are managed through Money Market Funds providing same day liquidity. Cash has been invested in alternative and less liquid instruments, particularly term deposits and tradable securities. The average level of funds available for investment in 2018/19 was £1,172m.

3.5. Daily investment balances have steadily decreased from £992.9m at 1 April 2018 to £729.0m at 31 March 2019.

3.6. The Bank of England reduced the Base Rate in August 2016. However, since the latter half of 2017, rates have steadily improved. This is due to the November 2017 and August 2018 Bank of England base rate increases.

3.7. Although surplus cash for investment has reduced, cash has been invested with higher interest rate paying counterparties. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.



3.8. All investment limits specified in the 2018/19 investment strategy have been complied with except for two instances of cash balances received after close of banking business:

- £1.171m on 3 April 2018.
- £23.686m on 25 May 2018.

3.9. The original/ budgeted average balance for 2018/19 was £1.2 billion, while the actual outturn average investment balance for the year was £1.172 billion. The average investment balance peaked in June 2018, reaching £1.294 billion.

3.10. The table below shows the actual investment income and expenditure achieved in the year: budget versus actual and the variance.

	Budget £000	Actual £000	Variance £000
Investment Income	-5,575	-11,148	-5,573
Interest Payable	12,293	10,626	-1,667

3.11. Appendix 1 provides a full list of the Council's limits and exposures as at 31 March 2019.

Borrowing

3.12. At £223m, the Council's borrowing was well within the Prudential Indicator for external borrowing, namely, that borrowing should not exceed the estimated capital financing requirement (CFR) for 2018/19 of £724m. The final CFR for 2018/19 was £746m.

3.13. Currently, the Council is "under borrowed" by £523m because it has used internal funding resources to fund capital expenditure.

3.14. The table below shows the details around the Council's external borrowing as at 31 March 2019, split between the General Fund and HRA.

Total Borrowing	31 March 2018 (£m)	31 March 2019 (£m)
HRA	226	196
General Fund	25	27
Total Borrowing	**251**	**223**

3.15. The breakdown of the existing loans is shown below:

Borrowing Type	Loan Balance 31 March 2018 (£m)	Loan Balance 31 March 2019 (£m)	Movement
PWLB	181.04	151.04	-30.00
LOBO	70.00	70.00	0.00
Mortgage Annuity	0.23	0.19	-0.04
Greater London Authority	0.00	2.00	2.00
Total:	**251.27**	**223.23**	**-28.04**

3.16. A HRA loan of £30m has matured in August 2018 which was costing 9.75% interest per annum.

Forward Borrowing

3.17. As anticipated in the 2018/19 TMSS, the Council has undertaken no new borrowing due to the high level of cash holdings. Officers are monitoring market conditions and reviewing the need to borrow at current low rates if a requirement is identified for either the General Fund or Housing Revenue Account (HRA).

3.18. Officers have also investigated the use of forward borrowing deals. On 12 March, the Council undertook two forward borrowing deals: £37.5m with a start date 15/3/22 and end date 15/3/62, and £12.5m with a start date 15/3/23 and end date 15/3/66.

3.19. A further £200m is currently being negotiated with a separate provider with a view to a similar forty-year loan to be transacted around end-April 2019 to commence in four years' time.

COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

3.20. During the financial year to 31 March 2019, the Council operated within the Treasury Limits and Prudential Indicators set out in the TMSS approved by Council on 7 March 2018 as set out below.

PI Ref		2018/19 Forecast	2018/19 Actual	Indicator Met?
1	Capital expenditure	£389m	£325m	Met
2	Capital Financing Requirement (CFR)	£724m	£746m	Met
3	Net debt vs CFR	£503m underborrowing	£523m underborrowing	Met
4	Ratio of financing costs to revenue stream	GF (3.06)% HRA 30.11%	GF (2.35)% HRA 28.68%	Met
5a	Authorised limit for external debt	£724m	£746m	Met
5b	Operational debt boundary	£275m	£255m	Met
6	Working Capital Balance	£0m	£4m	Met
7a	Upper limit for variable interest rate borrowing	£0m	£0m	Met
7b	Upper limit for fixed interest rate borrowing	£724m	£746m	Met
7c	Limit on surplus funds invested for more than 364 days (i.e. non specified investments)	£450m	£0m	Met
8	Maturity structure of borrowing	Upper limit under 12 months: 40% Forecast: 0% Lower limit 10 years and above: 35% Forecast: 75%	Upper limit under 12 months: 0% Lower limit 10 years and above: 73%	Met

Capital expenditure and borrowing limits

3.21. Capital expenditure to 31 March 2019 totalled £325m for the General Fund and the HRA against a forecast for the whole year of £570m. This relates to a number of large development projects and related acquisitions. The forecast for development projects are contingent on progress by developers which is anticipated will improve over the remainder of the year. Acquisitions are reactive and depend on properties becoming available on the market and as such the forecast can be volatile but will continue to be monitored by officers.

	2018/19 Indicator (£m)	2018/19 Actual (£m)
General Fund Capital Expenditure	279	224
HRA Capital Expenditure	110	101
Total Capital Expenditure	**389**	**325**
Financed by:		
Capital Receipts	130	46
Capital Grants	128	112
Funded from Revenue	18	22
Major Repairs Allowance	23	24
Prudential Borrowing	90	121
Total Finance	**389**	**325**

3.22. The impact on the Council's Capital Financing Requirement is also shown in the table below:

	General Fund £m	Housing Revenue Account £m	Total £m
Adjusted Opening CFR 31/03/2018	373	261	634
Prudential Borrowing in 2018/19	109	12	121
Capital Receipts applied to reduce CFR	0	0	0
Minimum Revenue Provision	-7	0	-7
MRP in respect of Other Long Term Liabilities	-2	0	-2
Closing CFR	**473**	**273**	**746**

3.23. External borrowing was well within the Capital Financing Requirement, Authorised Borrowing Limit and the Operational Boundary:

- The Authorised Limit is a level for which the external borrowing cannot be exceeded without reporting back to Full Council. It therefore provides sufficient headroom such that in the event that the planned capital programme required new borrowing to be raised over the medium term, if interest rates were deemed favourable and a thorough risk analysis determined, the cost of carry was appropriate, this borrowing could be raised ahead of when the spend took place.

- The Operational Boundary is set at a lower level and should take account of the most likely level of external borrowing. Operationally, in accordance with CIPFA best practice for Treasury Risk Management, a liability benchmark is used to determine the point at which any new external borrowing should take place. As a result of the significant level of cash balances, it is deemed unlikely that any new borrowing will be required in the short-term.

3.24. The purpose of the maturity structure of borrowing indicator is to highlight any potential refinancing risk that the Council may be facing if any one particular period there was a disproportionate level of loans maturing. The table below shows that the maturity structure of the Council's borrowing as at 31 March 2019 was within the limits set and does not highlight any significant issues.

Actual Maturity at 31 March 2019	Duration	Upper Limit	Lower Limit
0	Under 12 Months	40	0
7	12 Months and within 24 Months	35	0
7	24 Months and within 5 Years	35	0
13	5 Years and within 10 Years	50	0
73	10 Years and Above	100	35

3.25. The purpose of the interest rate exposure indicators is to demonstrate the extent of exposure to the Council from any adverse movements in interest rates. The table at paragraph 4.1 shows that the Council is not subject to any adverse movement in interest rates as it only holds fixed interest borrowing.

3.26. The average rate on the fixed interest borrowing is 4.24% with an average redemption period of 18 years. This reflects the historical legacy of borrowing taken out some years ago which is now higher than PWLB interest rates for comparable loans if they were taken out now. Officers have considered loan re-financing but premiums for premature redemption are prohibitively high making this option poor value for money.

3.27. The Council's borrowing portfolio contains £70m of Lender Option Borrower Option loans (LOBOs). These are long-term loans of up to 60 years, which are subject to periodic rate re-pricing. The rates are comparable with loans for similar durations provided by the PWLB. There is some refinancing risk associated with these loans because of the lender option to increase interest rates. Some banks are offering premature repayment or loan conversion for LOBOs to fixed term loans and officers will remain alert to such opportunities as they arise.

Investment limits

3.28. Investment in non-specified investments at £0m is well within the limit of £450m for such investments. This reflects the fact that 100% of the Council's investments have a life of less than 12 months.

3.29. Whilst the short duration is within approved limits, there is scope within the Investment Strategy to extend the duration of investments for up to five years.

Using longer duration investments and marginally lower credit ratings is likely to increase the yield the Council earns from its investments, but comes with risk.

4. THE ECONOMY AND INTEREST RATES

4.1. After weak economic growth of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over the UK's departure from the Euopean Union, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% y/y, confirming that the UK was the third fastest growing individual country in the G7 in quarter 4.

4.2. After the Bank of England Monetary Policy Committee (MPC) raised the Bank Rate from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit are clear. If a disorderly exit resulted, it is likely that the Bank Rate would be cut to support growth.

4.3. Nevertheless, the MPC does have concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.5% (excluding bonuses) in the three months to December 2018 before falling marginally to 3.4% in the three months to January 2019. UK employers ramped up their hiring at the fastest pace in more than three years in the three months to January 2019 as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9%, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

4.4. As for CPI inflation, this has been on a falling trend, reaching 1.8% in January 2019 before rising marginally to 1.9% in February 2019. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three-year time horizons remained marginally above the MPC's target of 2%.

4.5. The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 1.5%, i.e., a real terms wage increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

4.6. The EU has now set a Brexit deadline of 31 October 2019. It appears unlikely that there would be a Commons majority supporting no deal or revoking Article 50. The probability of a General Election in 2019 has increased over recent weeks and this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of weak Sterling and concerns around inflation picking up.

5. BACKGROUND

5.1. The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. These are contained within this report.

6. FINANCIAL IMPLICATIONS

6.1. Financial implications contained in the body of this report.

7. LEGAL IMPLICATIONS

7.1. The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. This report assists the Council in fulfilling its statutory obligation under the Local Government Act 2003 to monitor its borrowing and investment activities.

7.2. Legal implications verified by Michael Carson, Principal Solicitor Employment, Criminal and Commercial Litigation.

8. BACKGROUND PAPERS

Full Council Report

Treasury Management – Annual Strategy for 2018/19, including Prudential Indicators and Statutory Borrowing Determinations – 7 March 2018.

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 and Pensions

Tel: 020 7641 4136

Email: ptriggs@westminster.gov.uk

Appendix 1 – Limits and exposures as at 31st March 2019

Category	Limit per Counterparty (£m)	Duration Limit	Counterparty Name	Current Exposure (£m)
UK Government (Gilts/ T-Bills/ Repos)	Unlimited	Unlimited	Treasury Bills	59.8
UK Local Authorities	£100m per local authority; £500m in aggregate	3 years	Cambridgeshire County Council	20.0
			Isle of Wight Council	10.0
			Leeds City Council	40.0
			London Borough of Barnet	20.0
			London Borough of Croydon	10.0
			London Borough of Enfield	30.0
			London Borough of Hackney	15.0
			London Borough of Hillingdon	20.0
			London Borough of Southwark	20.0
			North Lanarkshire Council	25.0
			Redcar & Cleveland Borough Council	30.0
			South Ayrshire Council	10.0
			Surrey County Council	10.0
Money Market Funds	£70m per fund. £300m in aggregate.	Three day notice	Aberdeen Sterling Fund	11.8
			Federated Sterling Liquidity Fund	10.1
			JP Morgan Sterling Liquidity Fund	1.0
			Morgan Stanley Sterling Liquidity Fund	36.8
UK Banks (AA-/Aa3/ AA-)	£75m	5 years	HSBC	49.2
UK Banks (A-/A3/A)	£50m	3 years	Goldman Sachs International	45.0
			Lloyds Bank	30.0
			Santander UK Plc	50.0
			Standard Chartered Bank	30.0
Non-UK Banks (AA-/ Aa2/ AA-)	£50m	5 years	Svenska Handelsbanken	40.3
			Toronto Dominion Bank	40.0
Non-UK Banks (A/A2/ A)	£35m	3 years	Commonwealth Bank of Australia	35.0
			Helaba	15.0
			Rabobank Nederland	15.0
TOTAL				**729.0**

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City of Westminster **Cabinet Report**

Decision Maker:	Cabinet
Date:	15th July 2019
Classification:	General Release (Appendix 2 and Appendix 3 – Exempt from public disclosure)
Title:	Fees & Charges Review
Wards Affected:	All
Key Decision:	Yes
Financial Summary:	During 2018/19, Westminster City Council received c£855m of income of which c£140m was from fees and charges, approximately 16%. The income from fees and charges help to manage demand and cover costs for providing services. Changes proposed to fees and charges for 2019/20 are anticipated to deliver £1.6m of the savings target for the year.
Report of:	Gerald Almeroth, Executive Director of Finance and Resources

1. Executive Summary

1.1. During 2018/19, Westminster City Council received c£855m of revenue of which c£140m was from fees and charges. Fees and charges are set to help manage demand and cover the costs of providing services. There has been steady growth in fees and charges with more services now reaching a cost recovery position.

1.2. As a significant element of the Council's total income generation is from fees and charges (16.3% of its income comes from fees and charges) it is vital to support and monitor this income flow, as any major changes due to external influences could have impact on the Council's overall financial position.

1.3. All fees and charges have been reviewed for 2019/20. Of the 39 Service areas in scope for fees and charges review, 11 have already made changes to fees and charges for 2019/20, <u>15 have reviewed charging and require authorisation as part of this paper</u>, 7 are set by statute and 6 propose no change.

1.4. The fees and charges review process and report remains a key component of the Medium Term Planning (MTP) process. Fees and charges will contribute a net £1.614m to 2019/20 MTP savings, therefore authorisation of changes is required to ensure delivery of these committed savings.

1.5. It remains beneficial or even a contractual requirement for some service areas to change their charges outside of this review cycle but the process and acceptability of changes are still intended to be reviewed as part of the fees and charges process.

1.6. The monitoring, review and innovation in fees and charges is an important aspect of managing the Council's finances. The annual reporting of fees and charges gives an opportunity for summarising and oversight of fees and charges income as well as giving services a platform for approval of changes and additions to fees and charges, which is of benefit to both service leads and members.

1.7. The process also allows challenge on a regular basis to ensure that all have considered inflationary rises, cost recovery and adequate pricing strategies. Ownership of the process with one team also gives better oversight of initiatives, models and processes applied by all different services which can lead to improvements in sharing of best practices and opportunities across a wider platform.

2. Recommendations

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

2.2 That Cabinet is recommended to:

a) Approve changes to fees and charges as outlined in Appendix 2 and 3 of this report
b) Note the changes already approved by other committees/members for 2019/20 highlighted in Appendix 2 of this report.
c) Note the fees for which no increase is proposed for 2019/20. Details of these fees are included in Appendix 2 of this report.
d) Note the overall proposed contribution from fees and charges to the Medium Term Plan (MTP) for 2019/20 and 2020/21 as highlighted in table 2 of section 7 of this report
e) Note the fees and charges policy at Appendix 1

3. Reasons for Decision

To agree the Council's fees and charges position and changes for the coming year.

4 Background

4.1 Given the continuing financial challenges that Westminster faces, there is a need for a continuous review of prices, service offering and appropriate generation of income to avoid service reductions as a result of the financial pressure the Council faces. It is particularly important to ensure in the current financial climate that prices are competitive within the market and that services are not being inappropriately subsidised.

4.2 The amount that can be recovered from charging for a service cannot exceed the costs incurred in providing it unless the service is provided on a commercial basis through a company. However, the objective of setting fees and charges is not limited to cost recovery, wider objectives include responding to demand for services. It is also important to consider changes in the context of a complex set of statutes and regulations.

5 Legal Implications

5.1 For local authorities, charging decisions are subject to a complex series of statutes and regulations. Some services are mandatory and governed by specific legislation whilst other services are discretionary. Discretionary services are those which the council is permitted to provide but not required to provide.

5.2 The Council has general powers to charge a person for discretionary services under section 93 of the Local Government Act 2003 ("LGA 2003") and under the power of general competence in Section 1 Localism Act 2011 ("LA 2011").

5.3 The overall position on charging may be summarised as follows:

- Authorities must not charge for a service if legislation prohibits it from doing so.
- Similarly, authorities must charge for a service if legislation requires them to do so.
- In the absence of specific powers or prohibition on charging for services authorities may use the powers in either s93 Local Government Act 2003 or s1 Localism Act 2011 to make charges for discretionary services
- If the Council wishes to make a profit from providing a service it must provide the service through a company in accordance with section 95 Local Government Act 2003 or section 1 Localism Act 2011.

5.4 Examples are demonstrated in the table below:

Type of charging	Examples	Mandatory /Discretionary service
No charge permitted	• Service assessment for community care. • Housing advice • Planning application relating to a listed building	Generally Mandatory
Charges or charging scheme set by government or in legislation	• Planning application fees	Generally Mandatory
Charging scheme set locally but must be in accordance with government-prescribed principles	• Community infrastructure levy	Either
Charge set locally, but essentially income cannot exceed the cost of providing the service.	• Charge for a discretionary service under either s 93 LGA 2003 or LA 2011 where there is no other power to charge for the service	Discretionary
No limit on charges	• Commercial property rents.	Generally discretionary

There is some flexibility over the calculation of costs that may be legitimately recovered.

- Guidance issued by the then Office of the Deputy Prime Minister to accompany the Local Government Act 2003 states that a modified form of total cost can be used that includes overheads

- The legislation does not define a “service”. Authorities therefore have flexibility over defining the service. The possible interpretations could range from a specialised individual service to a much broader definition of service.

6 Process

6.1. The annual review of fees and charges brings the following benefits to the Council:

- Greater clarity of information on charging areas
- More coordination in approach across the Council
- Greater oversight of income and services for Cabinet
- Improvements in income levels for fees and charges

6.2. There is now greater scrutiny over services and their annual review of charging mechanisms and prices with greater oversight at both a service level and member level.

6.3. A number of services successfully deliver a position of cost recovery. Currently 28 out of 39 are budgeted at a cost neutral position in 2019/20. This does suggest there is further scope for potential growth in services in future years and it is clear that those with loss making positions are those continuing to increase fees to improve their position (only 2 controllable charges currently budgeted at a loss has not proposed a change)

6.4. To review the Council’s overall income generation from fees and charges, all services, with the support of finance, have been asked to assist with the following:

- Prepare changes to fees and charges, taking into account the charging policy of the Council, strategic aims of the service and potential legal implications.
- All Services as part of the MTP process were asked to consider relevant changes to fees and charges and the potential additional income this could generate. This has led to significant income proposals (£1.614m from 6 services, details of which are included in table 2 of this report)
- Following this, to help summarise this information, all services have provided a pro-forma including both qualitative and quantitative data about the service showing individual charges, budgets, actual performance and information on why the service is chargeable and how it delivers the service.

6.5. Where possible the fee review process has been aligned to allow Cabinet to review the position and authorise changes annually in a coordinated manner.

6.6. However, it is noted that there are some exceptions to the process. For certain services, the approval of fees and charges is delegated to Committees and/or Cabinet Members, an example being the Licensing Committee which approves fees for those licensing regimes where the Council has the power to set its own fees. This will remain the case, however services should still aim to align with the June /July timeframe for approval and implementation. Cabinet will be informed annually as part of fees and charges reporting as to any changes that do occur outside of the process and their impact.

7. Financial Implications

7.1. Year on year, fees and charges continue to be a source of additional income and savings for the Council's MTP, allowing the safeguarding of the Council's budget position.

7.2. Fees and charges related MTP proposals are anticipated to deliver a net £1.614m of savings/income in 2019/20. 2019/20 savings proposals have been authorised at Full Council through the Council tax report.

7.3. £1.364m of 2019/20 MTP savings relate to fees and charges requiring approval in this report, therefore approval is required to assist with the delivery of these savings. Fees and charges requiring authorisation will generate income of £85.2m in 2019/20. Full year impact of increases represents an average growth in income of 2.1%.

7.4. At present, £3.390m of proposals have been proposed in relation to fees and charges for 2020/21 but this is subject to change as the MTP process continues. As part of the on-going MTP process, fees and charges will continue to be reviewed to consider where additional MTP proposals could be submitted.

This is demonstrated in the table below:

Service	Net Savings/(pressures) 19/20 £000's	20/21 £000's
Public Protection and Licensing	234	300
Libraries	300	(100)
Physical Activity, Sports and Leisure	400	2,200
Parking	250	50
Highways & Road Management	200	690
Waste & Parks	330	200
Registrars	(100)	150
City Promotions, Events and Filming	-	(100)
Total	**1,614**	**3,390**

Table 2: MTP targets related to fees and charges

8. Risks

8.1. The Council faces continued pressure to find new income and savings to balance its annual budget. Central Government funding continues to decrease with councils expected to find answers internally to the continuous pressure on reducing public sector spend.

8.2. Any change in the overall economic outlook (or indeed business confidence) has the potential to impact on such commercial income streams. Customer needs and behaviours continue to change which brings new challenges and opportunities to the Council.

8.3. Certain income streams are more sensitive to the state of the general economy than others. The Council has seen pressures in 2018/19 on parking; planning/development control; and highways & road management. There are many drivers for change but pressures are likely to continue across chargeable services, so the Council has to continue to analyse and review charging models and strategies to ensure it manages demand and income effectively.

8.4. The risk areas below will impact demand for products:

- Demography
- Technology
- Financial Framework
- Legislative Framework
- Brexit
- Inflation
- Competition

9. Policy

9.1. The policy for fees and charges setting is included in this report at Appendix 1. This should be reviewed every year in line with the annual review of fees and charges, to ensure it remains reflective of the Council's priorities; the principles of the charging culture; and to help the Council maximise income in specific areas to support the continued provision of services that matter to the Council and its communities. No changes to the policy are proposed.

9.2. As highlighted within the policy, the Council needs to set fees and charges with full consideration of the following:

- Legislation, in particular some fees and charges are set centrally by government;
- Stakeholder influence and the potential for challenge;
- Demand implications for services as a result of reviewing prices; and
- Where the Council has discretion over the fees and charges set it should consider whether the aim is to:
  - Recover the total cost of providing a service including an overhead allocation
  - Provide a free or subsidised service to encourage use
  - Set charges in such a way as to manage demand for services
  - Be set flexibly in order to be comparable with those of competitors

9.3. There can be significant implications of not fully considering these areas when setting fees and charges. The Hemmings Case is an example of a challenge on the level of fees and charges set, and need for regular review. It also highlighted the requirement to take into account any accumulated deficit and surplus when undertaking any fee review, and to ensure fees were determined by the appropriate delegated party.

9.4. Detailed financial analysis is required in relation to cost recovery (including an allocation of corporate overheads) to ensure that the specific provisions in the Local Government Act 2003 and Localism Act 2011 as appropriate are adhered to.

9.5. It is worth noting that as the Council continues to make cost efficiencies in line with financial pressures, this could have the adverse impact of decreasing the income that the Council can obtain from fees and charges under cost recovery principles. If the Council is able to recover a cost through fees and charges it should consider whether cost reductions in these areas are appropriate.

If you have any queries about this Report please contact: Gerald Almeroth, Executive Director of Finance and Resources

Appendix 1 – Charging Policy

1.1. The overall principal aim will be to ensure that the Council's fees and charges are set within a framework of value for public money, whereby financial, performance, access and equality are considered fully and appropriately, and decisions taken represent a transparent and balanced approach.

1.2. Fees and charges will be reviewed annually as part of the budget setting process and in line with the agreed corporate timeline for each relevant year to be submitted as part of the budget proposals, or other such timeline as Council may agree.

1.3. The legal basis for charging is based on the specific provisions contained in the Local Government Act 2003, the Localism Act 2011 and various other statutes that are specific to particular services, So that in addition to existing statutory provisions which expressly authorise charging section 93 of the 2003 Act and section 1 of the 2011 Act allows a local authority to charge for any services which it has discretion to provide. Charges cannot be made for any services for which there is a duty to provide or where legislation expressly prohibits the charging for discretionary services.

1.4. In exercising its charging powers a local authority is under a duty to ensure that taking one financial year with another the income from any charges for a service does not exceed the cost of providing the relevant service. This means that over a realistic period of time any surpluses or under recovery of income should be addressed through a review of the charging policy. However, the reinvestment of any income generated in excess of the cost of providing the service would not represent a surplus. The underlying principle behind the legislation is that one service should not be cross-subsidising another as each service must be viewed as distinct for charging purposes. Statutory Guidance has been issued by the Secretary of State which needs to be taken into account in considering the exercise of the charging powers and which addresses the above principles in greater detail.

1.5. The key features included in the framework are outlined below:

- Fees and charges will be structured to support the Authority's priorities.
- The income generated from fees and charges will be used to support the work of the Authority.
- Fees and charges will normally be calculated on a full cost recovery basis, depending on the state of the market and any other relevant factors. Any concessions will be specified and separately agreed.
- Market research, comparative data, management knowledge and any other relevant information will be used where appropriate to ensure that charges are properly prepared.
- Fees and Charges will not be used in such a way that would restrict access to information or services.

- The impact on income from fees and charges will be taken into consideration when a decision is taken to change any services provided by the Authority.
- The cost of collection will be considered to ensure that fees and charges are economical to collect.
- Highlighting the impacts of not increasing charges should be an essential part of the budget setting process.

1.6 The general principle for all charging areas should be full cost recovery and the service will have to justify any deviation from this approach and highlight implicit subsidies arising from any decision not to pursue full cost recovery. In the longer term the Council should aspire to identify and highlight, within internal financial processes and to Government, implicit subsidies provided in service areas such as adult social care where regulations prevent recovery of the full costs of providing a service.

1.7 The income generated from fees and charges will be monitored on a monthly basis as part of the overall budget monitoring process.

1.8 To ensure all areas regularly review and update charges, fees and charges are reviewed at the beginning of each financial year based on prior year information and current year budgets. All fees and charges will then either be approved by Cabinet or noted (having been approved by the relevant Committee) in June/July of each financial year with fees and charges changes implemented thereafter. This will be undertaken by service areas with support from finance and in conjunction with the relevant Cabinet Member. The relevant Committee will be asked to approve changes to the fees and charges for non-executive functions.

1.9 This will allow a schedule of fees and charges to be agreed and published each year following as part of the budget preparation, which will be updated during the year to reflect any decisions made at other agreed times. As part of this policy therefore, the opportunity will be taken on an annual basis to review the rationale behind and potential for charging for services.

1.10 Where full cost recovery is not the basis for the level of the fee, the default position should be an inflationary increase in line with the Retail Price Index (RPI). Decisions not to increase a charge by inflation and / or not to recover full costs will need to be justified. It should be noted that the process of fee setting may not suggest a change in fees, but should demonstrate that fees have been reviewed and an informed decision made not to change the fee.

2. What level of fee to set:

2.1. It is important to fully consider legislation that governs each service before setting a charging structure.

2.2 When charging for discretionary services, authorities can recover up to the cost of provision for each ‘kind of service’.

2.3. Different users may be charged differentially or not at all, e.g. free or reduced fees to children.

2.4. Considerations that need to be taken into account are:

- The impact of increased charges on residents and service users;
- What level of charge the market will bear; and
- Whether full cost recovery will create unintended consequences

2.5. These considerations may mean that fees are set below full cost recovery.

2.6. It is noted that different considerations apply in the case of parking charges, which are set on the basis of transport policy considerations alone.

3. How to decide what the scope of the service is for full cost recovery:

3.1. When charging for discretionary services, authorities can recover up to the cost of provision for each ‘kind of service’. A ‘kind of service’ refers to a group of services that can realistically be classed together because they are similar or related to each other rather than each discrete service being classified on its own.

3.2. The level at which services are grouped at should be decided upon through professional judgment having regard to the relevant statutory guidance.

4. How to calculate fees for full cost recovery:

4.1. Authorities enjoy a degree of discretion in defining what the cost of provision is.

4.2. Prior year surpluses or deficits should be taken into consideration when calculating the new charge as services should not over-recover ‘taking one year with another’. Any over- or under-recovery that resulted in a surplus or deficit of income in one period should be addressed by an authority when setting its charges for future periods so that, over time, revenue equates to cost.

4.3 Standard methodology for calculating the cost of a service includes:

- Employee costs;
- Premises and transport;
- Supplies and services;
- Third party payments (Services supplied and charged by external parties such as other local authorities or private contractors);
- Transfer payments (payments transferring through the Council such as Housing benefits monies and adults social services clients);

- Support services and overheads (including any allocation of management or commissioning costs) and
- Depreciation.

4.4 Some costs such as overheads may need to be apportioned. An appropriate allowance should be made for management and overheads where this is not produced automatically by accounting systems.

4.5. To ensure charges stand up to audit it is imperative that all apportionment and allocation of costs to various charges are carried out on the Council's financial system and have backing documents to support your method of allocation/apportionment.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
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City of Westminster

Decision Maker:	Cabinet
Date:	15 July 2019
Classification:	General Release
Title:	Adoption of Living Wage
Wards Affected:	All
Report of:	Councillor Rachael Robathan, Cabinet Member for Finance, Property and Regeneration
Financial Summary:	Adoption of London Living Wage and National Living Wage will see cost pressures relating to wage bills as contracts are retendered over the next 3-5 years. Detailed financial modelling is required however, based on an initial survey of key contracts, the potential cost pressure could range between £3m to £6m. Through the competitive nature of retendering and a phased implementation approach some of the financial impact will be mitigated and spread over several years and could be further mitigated through service redesign. The incremental uplift in pay for Apprentices is expected to be £0.112m.
Report Author:	Gerald Almeroth, Executive Director of Finance and Resources

1. Executive Summary

1.1 This report sets out considerations relating to the adoption of London Living Wage/National Living Wage Policy (LLW/NLW) for Westminster City Council and its application to third parties who provide goods and services under contract. The LLW is a benchmark threshold rate of pay for workers living or working in London that is set annually by the Living Wage Foundation to reflect the increased costs of living in the capital. The current rate is £10.55 per hour in London. The Living Wage Foundation also promote the National Living Wage which is the rate used for outside of London, currently set at £9.00 per hour. These figures compare to the statutory National Minimum Wage for over 25-year olds which is £8.21 per hour.

1.2 The Council already pays its directly employed London staff (excluding apprentices) at least the LLW and this report sets out the benefits of working with its supply chain so that all directly contracted staff are also able to benefit from a living wage. This report recommends the Council applies for Living Wage Foundation accreditation which acts as a public demonstration of the Council's commitment to residents, employees and suppliers.

1.3 Legal guidance within this report notes that imposing LLW on suppliers would leave the Council vulnerable to challenge as it discriminates against bidders from EU Member states. This would not apply to contracts below the thresholds set out in the Public Contract Regulations 2015 and those that do have a 'cross border interest'. There has not been a challenge in the UK to date because Councils have been careful to apply LLW to contracts on a case by case basis, this is the approach that the Council would also propose.

1.4 Commercially, early adopters of LLW have seen cost pressures as a result of increased wage bills and through maintaining the salary differential between staff at different grades. However, through the competitive nature of retendering and a phased implementation approach any impact would be spread over several years and could be further mitigated through service redesign.

2. Recommendations

2.1 That the Cabinet recommends the Council takes steps to adopt a Living Wage policy whereby staff working for contractors delivering services on behalf of the Council are paid at least the London Living Wage or the National Living Wage outside of London.

2.2 The Council continues to pay its own London based staff LLW and to broaden this to apply to its apprentices.

2.3 The Council seeks Living Wage Foundation accreditation as a public pledge of its commitment.

2.4 A phased approach to implementation is adopted which means that the Living Wage will be incorporated as contracts are retendered with appropriate legal advice taken on a case by case basis.

3. Reasons for Decision

3.1 This recommendation directly supports the City for All priorities, specifically:

- Caring fairer City and
- City of opportunity

4. Background information, including policy context

4.1 The London Living Wage is a benchmark threshold rate of pay for workers living or working in London that is set annually by the Living Wage Foundation to reflect the increased costs of living in the capital. The current rate is £10.55 per hour versus the statutory National Minimum Wage of £8.21. The Living Wage Foundation also calculates and promotes a National Living Wage for outside London which is currently £9.00 per hour.

4.2 The Living Wage Foundation publishes revised rates in November each year which accredited employers are obliged to pay. Since 2011/12 the LLW rate has increased from £8.55 to its present £10.55 hourly rate, an average increase of 2.9% per annum.

4.3 Currently over 5,000 employers are Living Wage Foundation accredited including 18 London Boroughs. Accreditation provides public recognition of the Council's commitment to pay the London Living Wage and provides support to the Council in its policy implementation.

4.4 To achieve Living Wage Foundation accreditation the Council must agree to the following:

(i) To pay LLW to all employees 18 and over

(ii) To put in place a plan so that LLW/NLW is paid by all contractors and subcontractors to their employees to the extent permitted by law. The definition of employees is those contracted staff who work 2 or more hours a day, on any day of the week, for 8 or more consecutive weeks of the year

(iii) To implement the revised LLW/NLW hourly rates announced each November within 6 months (Council and contracted staff)

4.5 LLW does not strictly apply to contractors that supply the organisation with products e.g. stationery suppliers but would apply to contractors working on WCC's behalf on WCCs' premises for example outsourced cleaning, security, catering staff etc.

4.6 Living Wage Foundation accreditation states that self-employed workers are treated the same as sub contracted staff as are staff with no fixed place of work like couriers and homecare workers.

4.7 Research from the Living Wage Foundation/Cardiff University found that 93% of employers say their business has benefitted since becoming accredited Living Wage employers. 86% point to an improved reputation of the organisation; 75% have found increased motivation and retention rates for employees and 56% say it has improved industrial relations.

4.8 The Council already pays its directly employed London staff (excluding apprentices) at least the LLW. There are two staff who have TUPE'd over from City West Homes whose basic salaries are slightly below the LLW however this will be addressed as part of the LLW accreditation process.

4.9 RBKC are also applying for accreditation, there are likely to be additional benefits from operational efficiency across Bi-borough contracts.

5. Financial implications

5.1 The impact of the LLW is concentrated on those sectors in which a high proportion of the operating cost comprise relatively low skilled labour e.g., social care services, waste collection, catering, security services and some building related services.

5.2 In circumstances where the workforce is London based and discretely assigned to a WCC contract (e.g. waste collection or cleaning services) it is more likely that the supplier would seek to recover costs arising from adoption of the living wage from the Council.

5.3 There is also a potential impact indirectly on other more highly paid staff as pay differentials between grades are maintained. Suppliers may also seek to apply additional overhead and profit to maintain their margin position.

5.4 Of WCC's top 20 suppliers (£360m per annum of expenditure) only two appear to have universally adopted the LLW. Others may naturally pay in excess of the LLW or they will seek to recover any additional costs arising from adoption of the LLW from the client.

5.5 A survey of seven existing key WCC suppliers in August 2018 suggested a range of additional costs, from zero upwards, but cumulatively totalling around £3m p.a. Whilst not definitive (and it would be subject to further challenge and negotiation) this does suggest a potential impact of between £3-6m p.a. as an eventual potential upward cost pressure.

5.6 As of May 2019 18 out of 33 London local authorities are 'Living Wage Foundation', accredited employers: Brent, Camden, Croydon, City of London, Ealing, Enfield, Greenwich, Haringey, Hackney, H&F, Hounslow, Islington, Lambeth, Lewisham, Redbridge, Southwark, Tower Hamlets and Waltham Forest.

5.7 It is worth noting that 85% of WCC's top 20 suppliers also supply the 18 London Boroughs already committed to pay the LLW directly and in their supply chains.

5.8 Across the Council as a whole, the average contract length is 3.2 years. Some contracts are 5 years or more. Full adoption of LLW on a phased basis will therefore take approximately this period to work through all contracts.

5.9 A phased implementation approach as contracts expire and are re-procured would enable the Council to assess the issues and impact on a case by case basis, while taking advantage of competitive tendering, service redesign and technological advances which could mitigate the potential pressures over time. The Living Wage Foundation accreditation further allows and supports a phased approach to implementation

5.10 The Council currently has 43 apprentices at Level 3 and Level 4, the cumulative annual cost to bring them in line with the LLW would be £112,295 at current LLW rates. The figure is inclusive of National Insurance and employer's Pension Contribution.

6. Legal implications

6.1 The Court of Justice of the European Union has held that the imposition of a wage such as the London Living Wage discriminates against contractors from Member states other than (in this case) the UK, and therefore contravenes Article 56 of TFEU (freedom to provide services). The Court's rationale for this is that imposing the LLW deprives those contractors of the competitive advantage they enjoy by having lower wage costs which advantage is necessary for them to offset the structural advantages enjoyed by domestic contractors.

6.2 There has not been a challenge in the UK to date because Councils have been careful to apply LLW to contracts on a case by case basis where there is little or no cross-border interest, the contract is below threshold, the Council has paid the LLW uplift itself or the risk of challenge is low.

6.3 Current legal advice would therefore suggest the adoption of a phased implementation approach where each procurement is assessed on a case by case basis would avoid or at least mitigate the risk. A clear Council policy on LLW would be required to support the Council's wish to seek LLW on its procurements.

7. Implementation and Next Steps

7.1 Once a decision has been made to adopt the Living Wage and seek accreditation the Council will proceed to a undertake measures to ensure a successful implementation to include:

i. Set up a Living Wage implementation group with representatives from procurement, finance, legal, policy, HR, communications and wider departments to develop and lead the implementation

ii. Develop a detailed action plan with associated timelines to assess all future procurements where Living Wage would be applicable

iii. Review and amend all existing procurement documentation, processes and systems to ensure Living Wage requirements are considered and develop new as required

iv. Write to existing contractors to request voluntary inclusion of Living Wage into qualifying contacts

v. Ensure through contract management that annual Living Wage uplifts are being applied

vi. Update apprentices pay so that new LLW rates are applicable from 1st August 2019[1].

If you have any queries about this report or wish to inspect any of the background papers, please contact: Snowia Hussain, Responsible Procurement Lead x4866

[1] New rates will either be implemented from 1st August 2019 following Cabinet sign-off, or at the appropriate date following agreement at Full Council.