

Report of the Cabinet meeting held on Monday 15 October 2018

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

Also Present: Councillors Melvyn Caplan, Angela Harvey and Gotz Mohindra

1. 2019-2020 Budget Proposals

- (a) We have considered the detailed report from the City Treasurer which sets out proposals for the 2019-2020 Budget. The report we considered which is attached as Appendix A, sets out the financial savings proposals of £35.848 million as currently estimated to be required in 2019-2020. We have again carefully considered these proposals earlier than in previous years in order to allow additional time for those impacted to be able to plan any necessary changes arising and for the full year effect of savings to be realised. The budget reductions are detailed in Schedule 4 of the report (Appendix A) we considered and are part of an ongoing programme. The financial challenges faced since 2010 remain unchanged and are as fully detailed in the City Treasurer's report.
- (b) As previously reported the Council accepted the Government's offer of a four year funding allocation which allowed for some level of certainty but in the context of continuing financial pressure. The budget for 2019-2020 is set to be the final year with this certainty of the multi-year offer. Some of the most significant changes over the next 18 months which will directly impact Local Government funding are: Fair Funding Review; Green Paper on Adult Social Care Funding; Brexit; Government Spending Review and Business Rates Retention; London Pooling Arrangement for Business Rates. The impact on the Council is also fully detailed in the City Treasurer's report.
- (c) The ongoing pressures relating to Adult Social Care are detailed in the report which also explains that for financial modelling purposes it has been assumed that the Council will again apply the precept for Adult Social Care of 2% on Council Tax bills. We have noted that this will not be formally approved by the Council until March 2019 following consideration of a further detailed report at our February meeting.
- (d) The details of the Adult Social Care Precept, the Improved Better Care Fund (iBCF), Housing Services, Family Services – Legislative Changes and Greater Understanding of Rights, Unaccompanied Asylum Seeking Children Demographic Demand, Discretionary Housing Payments, Universal Credit and Oxford Street District, the impact of Brexit, Business Rates, the Pension Fund, the West End Partnership and Developing Mayoral Policy are also set out in the report.

- (e) We noted that at period 4 the projected year end underspend was £2.194m and that this would continue to be carefully monitored.
- (f) We have endorsed the financial strategy and recommend this to Council. Details of the revenue funding gap which requires gross savings of £35.848m are shown in Schedule 4 of the report we considered as were the reasons for the accelerated process to that undertaken in previous years. In considering the savings and the whole budget we have had regard to the Equality Impact Assessments, published with the City Treasurer's report. We have also considered the views of the Budget and Performance Task Group and in doing so heard from its Chairman, Councillor Melvyn Caplan. In making our budget recommendations to the Council we confirm that every area of operation has been examined to identify opportunities to reduce costs and generate additional income. In submitting the budget at this stage we have agreed that a further report will be submitted to our meeting on 18 February 2019. This will include any updates as a result of the outstanding consultations and the precepts which will be received from February. The formal Council Tax resolution will also be submitted by us to full Council for adoption on 6 March 2019.

Note by the Head of Committee and Governance Services: The EIAs are available online at <https://committees.westminster.gov.uk/documents/g4535/Public%20reports%20pack%2015th-Oct-2018%2019.00%20Cabinet.pdf?T=10>
Or upon request from Reuben Segal, 020 7641 3160.

We recommend:

1. That having considered and had regard to the Equality Impact Assessments (EIA) in Annex B to the report and considered the views of the Budget and Performance Task Group set out in Annex A to the report, that the Cabinet recommend to Full Council the following:
 - the budget proposals, set out in Annexes B and C of the report attached as Appendix 1 for the 2019/20 budget where relevant external consultations have been completed (remaining consultations are on savings items outlined in 19.1) and as reviewed by the Budget and Performance Task Group as detailed in Annex A of Appendix 1;
 - in principle, the budget proposals for the 2019/20 budget where relevant external consultations have not been completed as separately listed in Section 19 of the report attached as Appendix 1 are approved. Such proposals will be further considered, by Full Council on 6 March 2019, once all consultations and EIAs (Equality Impact Assessments) have been completed.
 - the financial regulations noted in Section 19.6 and set out at Annex D of the report attached as Appendix 1 .

2. **Capital Strategy Report 2019-2020 to 2023-2024, Forecast Position for 2018-2019 and Future Years Forecasts Summarised up to 2032-2033**

- (a) We have considered a report which outlines the capital strategy and expenditure and income budgets from 2019-2020 going forward. This is detailed in the report of the City Treasurer which is attached as Appendix B. The strategy continues the ambitious capital programme which is directly linked to the aims and objectives of the City for All and PACE. This report effectively updates that position. As with the Budget proposals this report has been brought forward for early review and endorsement. This will facilitate early planning of the programme before its submission to Council on 6 March 2019.
- (b) The strategic sections of the report provide details of the policy context within which the programme is constructed and the aims and objectives it is designed to deliver. Also set out are the governance processes which establish the principles to be followed in agreeing how to invest capital resources and achieve value for money for the Council. Governance processes have continued to evolve over the year to date particularly with the development of the programme management functions and initiatives which are monitored and reviewed by the Capital Review Group.
- (c) The Council has a significant capital programme across both the General Fund and the Housing Revenue Account (HRA). This supports the strategic aims of the Council, as defined in its *City for All* programme, with its vision for a city of choice, aspiration and heritage. Capital proposals are considered within the Council's overall medium to long term priorities and the preparation of the capital programme is an integral part of the financial planning process. This includes taking full account of the revenue implications of the projects in the revenue budget setting process.
- (d) The General Fund Capital Programme covers five areas of expenditure, as follows:
- Development (£0.954bn) – these schemes will help the Council achieve strategic aims and generate income.
 - Investment (£0.072bn) – schemes within this category will increase the diversification of the Council's property portfolio and will be self-funding, by creating income, and generating efficiency savings.
 - Efficiency (£0.036bn) – 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 to reduce costs 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.

- Major Strategic Acquisitions (£0.135bn) – these expenditure budgets are to allow the Council to acquire properties to enable the development of key strategic sites for future regeneration and investment opportunities.
 - Operational (£1.324bn) – these schemes are related to day-to-day activities that will ensure the Council meets its statutory requirements.
- (e) The Housing Revenue Account (HRA) capital programme has a value of £662m over the next five years (2019-2020 to 2023-2024). It is important to note that HRA resources can only be applied for HRA purposes and that HRA capital receipts are restricted to fund affordable housing, regeneration or debt redemption only.
- (f) Some projects have been re-profiled for a variety of reasons including delays in the tender process, completion of acquisition/land assembly stages, obtaining planning permission and starting on-site construction.
- (g) The proposed budget is fully funded after Council borrowing, but this does depend on the schemes being delivered on time and within budget. The impact of potential changes in cost and timescale are fully explored in the financial implications of the report. Any increases in expenditure or reduction in income will need to be managed by the service areas and either contained within the project or funded from elsewhere within the relevant service.

We recommend:

- (i) That the Council approve the capital strategy as set out in the report attached as Appendix 2;
- (ii) Approve the capital expenditure of the General Fund as set out in the report attached as Appendix A to Appendix 2 for 2019-2020 to 2023-2024 and future years to 2032-2033;
- (iii) Approve the capital expenditure forecasts for the General Fund as set out in Appendix A of Appendix 2 for 2018-2019 (Period 4);
- (iv) Approve the expenditure forecast for 2018-2019 (Period 4) for the HRA as set out in Appendix B of the report attached as Appendix 2 ;
- (v) Approve that in the event that any additional expenditure is required by a capital scheme over and above the approved programme the revenue consequences of this will be financed by revenue savings or income generation from relevant service areas;
- (vi) Approve that all development and investment projects, along with any significant projects follow the previously approved business case governance process as set out in paragraphs 5.1 and 6.5 to 6.14 of the report attached as Appendix B;

- (vii) Approve that no financing sources, unless stipulated in regulations or necessary arrangements, are ring fenced;
- (iix) Approve that contingencies in respect of major projects are held corporately, with bids for access to those contingencies to be monitored by the Capital Review Group (CRG) in the event that they are required to fund capital project costs, as detailed in Sections 12.11 to 12.14 of the report attached as Appendix 2;
- (ix) Approve the Council plans to continue its use of capital receipts to fund the revenue costs of eligible proposals (subject to full business cases for each project). This comes under the MHCLG Guidance on the Flexible Use of Capital Receipts (FCR), if considered beneficial to the Council's finances by the City Treasurer at year-end. (The Council's strategy for flexible use of capital receipts is outlined in Section 11 of Appendix 2);
- (x) Approve the use of a further £7.193m of flexible use capital receipts to fund revenue costs associated with City Hall, Network and Telephony Transformation and Technology Refresh projects as detailed in section 11.9 and 11.14 to 11.24 of the report attached as Appendix 2 ;
- (xi) Approve the Council's proposal to make use of £400m of forward borrowing to finance the capital programme and subsequently reduce the longer-term revenue impact;
- (xii) Approve the financing of the capital programme and revenue implications as set out in paragraphs 14.1 to 14.33 of the report attached as Appendix 2 ;
- (xiii) Approve the financing of the capital programme being delegated to the City Treasurer at the year end and to provide sufficient flexibility to allow for the most effective use of Council resources.

3. Housing Investment Strategy and Housing Revenue Account Business Plan (2019-2020)

- (a) We have considered the Housing Investment Strategy which updates the 30 year Housing Revenue Account Business Plan agreed last year. This continues the ambitious programme and aims at delivering a range of lasting benefits for the City, its residents and the Council. They will allow the Council to realise much of its "City for All" ambitions. Since last year the 30 year plan for capital investment in the Council's existing stock and regeneration schemes has decreased from approximately £1.08bn over 30 years to about £1.72bn as outlined in the report we considered which is attached as Appendix C.
- (b) The Council is asked to note the indicative HRA Capital Programme budgets and the Affordable Housing Fund to new supply programmes.
- (c) The plans outlined will enable the Council to continue to invest in maintaining and improving the existing stock of homes and neighbourhoods within its

management while also delivering wider benefits to the City's residents and businesses. The financial plans will ensure the housing stock continues to meet the housing needs with which the City is faced and ensures that the HRA remains sustainable and viable over the long term.

We recommend: That the report we considered (Appendix3) be noted.

4. Treasury Management Strategy Statement for 2019-2020 to 2023-2024

- (a) The Local Government Act 2003 requires the Council to "have regard to" the Prudential Code for Capital Finance in Local Authorities and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. These are contained within the report we considered which is attached as Appendix4.
- (b) The Act also requires the Council to set out a statement of its treasury management strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. The Treasury Management Strategy Statement and Annual Investment Strategy must both have regard to guidance issued by MHCLG and must be agreed by the full Council.
- (c) The report we considered (Appendix4) included the Council's proposed Treasury Management Statement (TMSS) for the period 2019-2020 to 2023-2024 and Annual Investment Strategy (AIS) for the year ended 31 March 2020, together with supporting information. These are submitted for the Council's approval.

We recommend:

That the Council approve:

- (i) The Treasury Management Strategy Statement attached as Appendix 4;
- (ii) The Prudential Indicators set out in section 8 of the report attached as Appendix D;
- (iii) The overall borrowing strategy and borrowing limits for 2019-2020 to 2023-2024 as detailed in sections 5 to 7 of the report attached as Appendix 4;
- (iv) Investment strategy and approved investments set out in Appendix 1 of the report attached as Appendix 4;
- (v) The Minimum Revenue Provision Policy set out in Appendix 2 of the report attached as Appendix 4.

5. Integrated Investment Framework

- (a) We have received a report which advised us that the Council maintains a comprehensive strategic framework for bringing together and managing all of its investments.
- (b) The Council holds £1.1bn of short term cash based investments, managed under the Treasury Management Strategy, which passes through Scrutiny, Cabinet and Full Council on an annual basis. The Council also owns a significant number of investment properties currently valued at £385m which are considered as part of the Capital Programme, and holds longer term investments, mostly Government Bonds and equity shareholdings. In addition, the Council is responsible for managing the Pension Fund which has net assets of £1.4bn and operates under the Investment Strategy set by the Pension Fund Committee.
- (c) In summary, the Council holds £1.1bn of treasury investments in high grade but very liquid investments generating a forecast return of 0.85% and £385m in much longer term liquid property investments generating around 3.1%. Compared to the current inflation rate as measured by CPI of 2.5% (as at July 2018) treasury investments are depreciating in value. The £1.1bn is diversified with a wide ranging list of counterparties and the property portfolio is concentrated within the borough.
- (d) The report we considered, which is attached as Appendix 5, sets out:
- The Council's strategic objectives in respect of risk management and its attitude towards investment risk;
 - Current levels of investment activity;
 - An updated Integrated Investment Framework for the Council going forward which seek to diversify the risk and thus future-proof the Council against possible future economic downturns;
 - Actions to be taken in connection with implementing this framework, if agreed.

We therefore recommend:

That the Council:

- (i) Approve and implement the Integrated Investment Framework set out in the report as attached Appendix 5 (to be reviewed on an annual basis).
- (ii) Approve that the target for the overall return on Council investments should aspire to match inflation.

- (iii) Approve that the benefits of investing in the Pension Fund should be used as a benchmark when evaluating other investments.
- (iv) Adopt the asset allocation percentages set out in the Framework and work towards achieving this.
- (v) Approve that the overarching objective of this Framework is to achieve an overall return on Council investments aspiring to match inflation, or to reduce costs and liabilities at an equivalent rate whilst maintaining adequate cash balances for operational purposes and not exposing the capital value of investments to unnecessary risk.
- (vi) Approve that investments allocated to out-of-borough property developments should be considered individually and should outweigh the benefits of investing in-borough (which can have a number of non-commercial benefits, e.g., place making) and in a diversified property fund. Individual decisions should be subject to Cabinet Member approval.
- (vii) Approve that the property and alternative asset allocation should focus on in-borough, with out of borough options being explored as and when they arise and subject to Cabinet Member approval.
- (viii) Approve that the Investment Executive implement, monitor and report on the investment strategy.

Nickie Aiken, Leader of the Council
