



CITY OF WESTMINSTER

MINUTES

Housing, Finance and Corporate Services Policy and Scrutiny Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Housing, Finance and Corporate Services Policy and Scrutiny Committee** held on **Wednesday 6th January, 2016**, Rooms 5, 6 & 7 - 17th Floor, City Hall.

Members Present: Councillors Brian Connell (Chairman), Peter Freeman, Gotz Mohindra, Adam Hug, Vincenzo Rampulla and Jacqui Wilkinson and Julia Alexander

Also Present: Steve Mair, City Treasurer, Nick Dawe, Interim Bi-borough Director of Corporate Services, Guy Slocombe, Director of Property, Investments and Estates, Barbara Brownlee, Director of Housing and Regeneration, Greg Ward, Director of Economy and Infrastructure, Carol Maduka, Finance Manager, Martyn Jones, Head of Asset Strategy and Regeneration, CityWest Homes, Jake Mathias, Private Sector & Energy Commissioning Manager, Sarah Monaghan, Principal Policy Officer, Jonathan Cowie, Chief Executive, CityWest Homes, Anne Pollock, Scrutiny Officer and Reuben Segal, Senior Committee and Governance Officer

Apologies for Absence: Councillor Tim Mitchell, Cabinet Member for Finance and Corporate Services

1 MEMBERSHIP

1.1 It was noted that Councillor Julia Alexander had replaced Councillor Richard Holloway.

2 DECLARATIONS OF INTEREST

2.1 The known standing declarations as tabled at the meeting were as follows:

Member	Organisation	Nature of Interest
Brian Connell	KPMG	Employee. KPMG were until recently the Council's

		auditors. They are completing a number of residual pieces of work which will conclude at the end of January.
Vincenzo Rampulla	CityWest Homes	Board Member

3 MINUTES

- 3.1 **RESOLVED:** That the minutes of the meeting held on 18th November 2015 be signed by the Chairman as a correct record of proceedings.

4 WORK PROGRAMME

4.1 **RESOLVED:**

1. That the agenda items for the next meeting on 9 March 2016 be agreed
2. That the responses to actions and recommendations as set out in the tracker be noted.

5 UPDATE FROM CABINET MEMBERS

- 5.1 The Committee received written updates from the Cabinet Member for Finance and Corporate Services and the Cabinet Member for Housing, Regeneration, Business & Economic Development on the key aspects of their portfolios.
- 5.2 In the absence of the Cabinet Member for Finance & Corporate Services officers responded to questions from committee members.

Finance

- 5.3 Steve Mair, City Treasurer, summarised the key updates on the finance element of the portfolio as set out in the report.
- 5.4 The City Treasurer was asked about the current revenue underspend relating to the Council's budget for 2015/16 and what this was likely to be at year end. He reported that there was currently a circa £2 million underspend and that there was likely to be a slightly increased underspend at the year end. He was unable to provide an exact figure as we are only part way through the year

- 5.5 The City Treasurer was referred to the fact that the Council had used some of its reserves in the current financial year to fund discretionary housing payments and he was asked whether the Council was likely to draw on its reserves to support Council services in the coming financial year. He stated that while it was extremely unlikely that the Council would do so he could not provide a definitive answer as the budget proposals for 2016/17 were still being finalised. He explained that the use of the reserves in the current financial year to fund discretionary housing payments was made on an exceptional basis. The Council had ameliorated the need to draw on the reserves to fund such payments in future years by revising the policy on determining claims for discretionary housing payments
- 5.6 Having noted that the average return of the investment portfolio for the first half of 2015/16 was circa 0.62% Mr Mair was asked about options to improve the Council's investment return. The City Treasurer recognised that the Council has a considerable sum of working capital and capital receipts and these could be invested more productively. He advised that alternative investment opportunities will be explored as part of the Council's medium term planning and budget process to help deliver additional revenue to meet required savings over the next few years. This could include using available capital to minimise the deficit in the Council's pension fund. He undertook to bring a paper on this subject to the committee in the coming months.
- 5.7 The City Treasurer was referred to the powers available to the Council to raise Council tax by an additional 2% to help meet the shortfall in social care funding. He was asked whether the money raised could be used for general council spending. He advised that government guidance has indicated that any money raised would be ring-fenced for use on Adult Social Care and that this would have to be in addition to the agreed budget.

Corporate Services

- 5.8 Nick Dawe, Interim Bi-Borough Director of Corporate Services, provided an operational update on the Managed Services Programme. He explained that key activities on resolving outstanding issues had been programmed for the period from Christmas into early January and to the end of this month. Whilst there had been some progress in delivering the activities this had not been as good as expected. BT was deploying additional resources to deliver the programme and to help officers with the year-end finance audit activity. From a user and customer perspective, as many of the improvements to processes would need to be consolidated and introduced en masse a more responsive service would not be evident for another 2 to 3 weeks.
- 5.9 Mr Dawe was asked about the most challenging target that needed to be delivered in January. He explained that service improvements are focused on 5 major pieces of work - reconciling the organisational structure into the Agresso system and indexing, performing accurate payroll runs and reconciliations and resolving unallocated income. He indicated that there was a high degree of inter- connectivity between the pieces of work.

- 5.10 Mr Dawe stated that his major concern was BT's ability to recruit and retain additional resources on an on-going basis to deliver the programme. In response to questions on recruitment he reported that BT had recruited 80% of the required additional resources for the Shared Service Centre (SSC). A further two recruitment cycles were planned in January with the aim of filling all requirements by the end of the month. However he reported there continues to be a lack of experienced and appropriately skilled senior managers and specialists within BT to support the BT Shared Service Centre.
- 5.11 Committee Members asked whether the previously reported problem of issuing invoices to social care clients for residential care and home care services had been resolved. Mr Dawe advised that this had been addressed. Social Care Clients had been invoiced in accordance with the agreed timescales set out in the action plan. The executive director of the service had confirmed that the plan had been successfully delivered. He advised that additional costs had been accrued by the Council in resolving the problem and providing the necessary support to clients.
- 5.12 The Committee asked about the contract's performance over the last couple of months and in particular whether the performance targets set for delivery in November had been met. Mr Dawe advised that whilst BT had technically failed in delivering the agreed/defined outputs there was evidence of momentum and progress. It had performed well in a number of key areas including clearing the bulk of historical incidents attending to 8,000 issues in a 6 week period. He agreed to provide the committee with a written update on progress in delivering the programme including outstanding recruitment matters.

Corporate Property

- 5.13 Guy Slocombe, Director of Property, Investment and Estates, provided an update on corporate property as set out in the Cabinet Member's update. At the committee's request he provided a breakdown of the £150 million of assets that had been sold this year or which were under offer to be sold. This figure included revenue obtained through overage and selling rights to lights. He advised that the property investment portfolio had delivered its highest ever income receipt of £24 million per annum. The portfolio had a void rate of 1.6% which equated to 12 units, most of which were subject to refurbishment prior to being offered for re-letting. Unpaid debt was currently £380,000. He further advised that a request had been submitted to 3 consultants for proposals to rationalise the property portfolio.
- 5.14 Mr Slocombe was asked whether the corporate property service ever undertook a post-mortem of how assets that the Council had sold had been redeveloped and the opportunities that the Council could have embarked upon. He stated that this was not ever truly possible. He advised that the service provides the Council with a degree of protection in such respects by incorporating overage payments as a clause in contracts when selling property assets.

5.15 Barbara Brownlee, Director of Housing and Regeneration responded to questions in the absence of Cabinet Member for Housing, Regeneration, Business and Economic Development. She advised that the reference to the number of affordable housing units delivered since 1 April 2015 did not include the provision of housing delivered outside of the borough. She stated that this information would be included in future updates to the committee.

5.16 **RESOLVED:** That the update from Cabinet Members be noted.

5.17 **ACTION:**

1. Provide the committee with an operational update on the Managed Services Programme including details of BT's recruitment of required resources. **(Action for: Nick Dawe, Interim Bi-Borough Executive Director of Corporate Services)**
2. Submit a paper to a future committee meeting on alternative options for maximising the council's rate of return on its investments. **(Action for: Steve Mair, City Treasurer)**
3. Discuss with the Cabinet Member For Housing, Regeneration, Business & Economic Development the possibility of submitting a report to the next meeting on WAES, Skills & Area Reviews. **(Action for: Greg Ward, Director of Economy and Infrastructure)**

6 TREASURY MANAGEMENT STRATEGY MIDYEAR REVIEW

6.1 The Committee received the Council's Half Year Treasury report for 2015-16 in accordance with the Council's Treasury Management practices.

6.2 The City Treasurer provided a PowerPoint presentation that covered both the mid-year review as well as the draft Treasury Management Strategy 2016-17 which also featured on the committee's agenda.

RESOLVED:

1. That the Treasury position at 30 September 2015 be noted.
2. That the recommendation of the inclusion of Bonds within the category of UK Deposits and Certificates of Deposit be supported.

7 TREASURY MANAGEMENT STRATEGY FOR 2016/17 TO 2018/19

7.1 The Council is required under the Local Government Act 2003 (as amended) and other regulations to approve an Annual Treasury Management Strategy to cover: Borrowing Strategy, Investment Strategy and set Prudential Indicators together with borrowing limits for the next three years. In addition, the Council must approve an annual Minimum Revenue Provision Statement.

- 7.2 The City Treasurer, provided a Powerpoint presentation on the key issues set out in the report.
- 7.3 The Committee considered the draft strategy and asked questions and explored options in relation to the proposed investment and borrowing strategies.
- 7.4 The Committee noted that the average rate of return on investments for the first half of 2015/16 was 0.62%. Members asked whether the current approach to risk control limited the Council's investment return. The City Treasurer advised that the Council's current approach was to be very prudent where it might be more advantageous to adopt an approach of being appropriately risk aware. He advised that officers had been actively considering a variety of initiatives, predominantly focusing on active risk management of the portfolios.
- 7.5 The City Treasurer was asked whether such an approach could include developing the Council's property assets in partnership with commercial operators or lending funds to other local authorities at a better rate of return than it was currently achieving. He stated that the Council had yet to explore the alternative investment options but that initiatives such as the former should be explored. He was aware that other local authorities did participate in inter-local authority lending given the relative security that such organisations offer.
- 7.6 The City Treasurer was referred to the fact that other public sector organisations such as Transport for London (TfL) have more diverse investment strategies and it was suggested that the Council would benefit from examining some of these approaches. Mr Mair informed the committee that he was due to meet with TfL in the near future and that he would take the opportunity to speak to them about their strategy.
- 7.7 Mr Mair was asked how the government's proposed changes relating to the devolution of business rates to local authorities would affect the strategy. He explained that the proposals would be taken into account in developing the strategy. He advised that the government aimed to end core funding to local authorities by 2020. Councils would be expected to be fully self-funding. One of the ways that this was to be achieved would be by allowing councils nationally to retain all locally raised business rates. The Council currently collected nearly £2 billion of business rates annually which accounted for 8% of all business rates collected in England. He stated that in reality the changes would be phased in from 2020 and that there would still be redistribution of the rates collected. Therefore, the proposals were unlikely to significantly assist the Council in its savings requirements over the next 4 years. He advised that the Council was working with the Department for Communities and Local Government to inform the process and would apply to be granted pilot status should this prove possible. If granted this could provide a one-off benefit for the authority
- 7.8 **RESOLVED:**

1. That the report be noted.
2. That it be noted that the Council will be asked to approve:
 - (i) The proposed Treasury Management Strategy including Borrowing and Annual Investment Strategy;
 - (ii) The Minimum Revenue Provision Policy;
 - (iii) The Prudential Indicators; and
 - (iv) The Investments schedule (Appendix 1).

8 HOUSING POLICY DEVELOPMENTS: 1% SOCIAL RENT REDUCTION AND PAY TO STAY

- 8.1 The Committee received a report that outlined the Government's current proposals on the 1% social rent reduction and the introduction of a mandatory Pay to Stay scheme, considered the potential impacts of these proposals for Westminster and set out the Council's response so far.
- 8.2 Barbara Brownlee, Director of Housing & Regeneration, introduced the report and explained that the paper had been submitted to the committee meeting following the cancellation of the first Housing Task Group meeting. The Task Group had been established to scrutinise the implications for the Council of the Housing and Planning and Welfare Reform and Work Bills. She informed the committee that the next two meetings of the Task Group would consider supply (Right to Buy, Starter Homes and High Value Voids) and welfare reforms respectively.
- 8.3 Carol Maduka, Finance Manager, introduced a PowerPoint presentation on the financial consequences of the 1% social rent reduction. Martyn Jones, Head of Asset Strategy & Regeneration, CityWest Homes, outlined the impacts to the housing capital programme and the related risks and implications.
- 8.4 The Committee considered the information and submitted questions to officers.

Financial Consequences

- 8.5 Officers were asked in relation to service charges whether enough was being done to recoup and maximise costs. Miss Maduka informed the committee that the Council's policy was to recover costs only and not to apply additional charges to generate revenue. She explained that a detailed analysis of expenditure on the Council's housing stock was undertaken each year and that CityWest Homes set service charges for the following year to cover these. Miss Brownlee informed the committee that the process for setting service charges was complex and she suggested that it would be useful for the Council and CityWest Homes to review the process to ensure that all costs were being properly recouped.

- 8.6 Concern was expressed about the rent assumption in the Housing Revenue Account (HRA) Business Plan. Officers were asked whether the Council had undertaken modelling based on a number of possible inflationary outcomes for comparison. Miss Maduka advised that the 30 year business plan was developed in line with the Bank of England's objective of a Consumer Price Index (CPI) of 2% plus 1% based on the Government's previous Guarantee issued in 2014.
- 8.7 The Committee asked for details about the internal loan protocol between CityWest Homes and the Council including future projections. Miss Brownlee agreed to provide the committee with a note on this matter.

Implications for the Housing Capital Programme

- 8.8 Miss Brownlee advised that the previously advertised programme would go ahead as planned. Any re-profiling or reduction to the Capital Programme would take effect from the fourth year of the 30 year programme.
- 8.9 The Committee questioned whether the Council could make its regeneration and renewal projects less ambitious in order to reduce some of the possible implications arising from the 1% social rent reduction. Miss Brownlee advised that while this was possible, it was not desirable as the renewal programme will generate capital receipts for the HRA and General Fund through the delivery of new developments.
- 8.10 Miss Brownlee was asked whether forward projections of income included estimates of future numbers of social housing units. She clarified that this was the case and that the business plan included assumptions on the number of social units that would be sold each year under the Right to Buy provisions. Similarly, the business plan included assumptions on the number of high value void properties that will be sold. This will result in fewer kitchens and bathrooms that will require refurbishment in future years.
- 8.11 The Committee asked whether the financial impact was likely to result in a reduction in the ability to manage ad-hoc repairs. Martyn Jones, informed Members that there was no intention to change the budget for repairs. He also informed the Committee that there was no intention to change the operating model for cyclical renewal/replacements, merely an intention to extend life cycles by approximately five years. CityWest Homes would undertake an analysis of the stock and its life span and ensure that the fabric of buildings and fittings would be replaced before they failed. He confirmed that the consideration of using cheaper replacement components would be considered in addition to when renewal takes place.
- 8.12 Sarah Monaghan, Principal Policy Officer, provided a Powerpoint presentation on the mandatory Pay to Stay scheme. This would require social landlords to charge tenants with incomes over a set figure equal to or a proportion of the market rent.

- 8.13 Miss Monaghan was asked how the definition of a market rent was to be determined. She explained that the Government had published very limited information about how the scheme will operate in practice. The City Council agreed its own discretionary policy in 2013. In its consultation submission to Government on the mandatory scheme, the Council had used the GLA Rents Map to define market rents in Westminster in comparison to social rent levels.
- 8.14 In response to further questions, Miss Monaghan advised that the Council had not tabled any amendments to the Housing and Planning Bill. It was lobbying for a taper system that increases rents as incomes grow to prevent excessive rent increases in high value areas, which would result in tenants becoming eligible for Housing Benefit. The Council has referenced its own scheme as an example of how a Pay to Stay scheme may work in a central London context.
- 8.15 It was noted that tenants will be required to provide information about their household income to a social landlord and that Her Majesty's Revenue and Customs (HMRC) may disclose this information. The Committee asked what plans the Council had to provide assistance to elderly and other vulnerable residents in calculating and providing details of their annual income. Miss Brownlee clarified that it was unclear whether the legislation would apply to all social housing tenants or would be limited to those of working age. She advised that the Council had not lobbied for the exemption of any particular group. Jonathan Cowie, Chief Executive, CityWest Homes advised that the legislation could affect up to 3,500 Westminster tenants who don't claim Housing Benefits. 950 these were over 65 years old. CityWest Homes would aim to support tenants through the process. However, he highlighted as a concern, the challenging timetable for its implementation which was currently April 2017.
- 8.16 Members expressed concern about the challenging timetable for the policy's implementation and the administrative challenge this was likely to pose for CityWest Homes staff.
- 8.17 The Committee also raised the issue of fraud in relation to the disclosure of tenant income and asked about the Council's liability for failing to detect such fraud. Officers stated that there was currently no information about this particular aspect of the policy.
- 8.18 **RESOLVED:**
1. That the current legislative proposals and the Council's response to them to date be noted.
 2. That the Committee and Housing Task Group be kept updated on future lobbying and changes to the Bills as they progress through Parliament.
- 8.19 **ACTION:**

1. Provide the Committee with a written note on internal loans between CityWest Homes and the Council including any future projections **(Action for Barbara Brownlee, Director of Housing and Regeneration)**.
2. Provide the Committee with details of the Council's Discretionary Pay to Stay policy **(Action for: Sarah Monaghan, Principal Policy Officer)**.

The Meeting ended at 9.08 pm

CHAIRMAN: _____

DATE _____