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City of Westminster

Committee Agenda

Title:	**Housing, Finance and Corporate Services Policy and Scrutiny Committee**
Meeting Date:	**Monday 9th January, 2017**
Time:	**7.00 pm**
Venue:	**Rooms 5, 6 & 7 - 17th Floor, Westminster City Hall, 64 Victoria Street, London, SW1E 6 QP**
Members:	**Councillors:**

Brian Connell (Chairman)	Jacqui Wilkinson
Peter Freeman	Adam Hug
Richard Holloway	Barbara Arzymanow
Gotz Mohindra	Tim Roca

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 6.30pm. 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; Senior Committee and Governance Officer.

Tel: 020 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. MEMBERSHIP

The Director of Law to report any changes to the membership.

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 **(Pages 1 - 10)**

To sign the minutes of the previous meeting as a correct record of proceedings.

4. WORK PROGRAMME AND ACTION TRACKER **(Pages 11 - 18)**

5. UPDATE FROM CABINET MEMBERS **(Pages 19 - 36)**

Updates from the Cabinet Members on key areas within their portfolios are attached.

The Cabinet Member for Housing, Regeneration, Business & Economic Development will be in attendance to answer questions from the Committee.

6. LUXBOROUGH STREET DEVELOPMENT **(Pages 37 - 44)**

Report of the Director of Property, Investment and Estates

7. TREASURY PERFORMANCE HALF YEAR STATUTORY REVIEW **(Pages 45 - 58)**

Report of the City Treasurer

8. DRAFT TREASURY MANAGEMENT STRATEGY 2017/18 TO 2021/22 **(Pages 59 - 90)**

Report of the City Treasurer

Charlie Parker
Chief Executive
29 December 2016

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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 **Monday 7th November, 2016**, Rooms 5, 6 & 7 - 17th Floor, Westminster City Hall, 64 Victoria Street, London, SW1E 6 QP.

Members Present: Councillors Brian Connell (Chairman), Peter Freeman, Richard Holloway, Gotz Mohindra, Jacqui Wilkinson, Adam Hug, Barbara Arzymanow and Roca

Also Present: Councillor Tim Mitchell (Cabinet Member for Finance and Corporate Services), Martin Hinckley (Head of Centre, Corporate Finance), Barbara Brownlee (Director of Housing and Regeneration), Richard Cressey (Principal Policy Officer), Petra Salva (Director of Rough Sleepers Services, St Mungos), Vikki Everett (Senior Consultant at Garnet Consulting Ltd), Tara Murphy (Scrutiny Officer) and Reuben Segal, Senior Committee and Governance Officer

1 MEMBERSHIP

1.1 It was noted that there were no changes to the membership.

1.2 **RESOLVED**: That until the arrival of the chairman Councillor Richard Holloway be appointed to chair the meeting (Items 1-4).

2 DECLARATIONS OF INTEREST

2.1 Councillor Holloway declared that he is a board member of CityWest Homes.

3 MINUTES

3.1 A typographical error was noted in paragraph 6.6 of the minutes which related to the proposed satisfaction targets for CityWest Homes complaint handling. This should have read as “above 85%” and not above 50%.

3.2 **RESOLVED:** That the minutes of the meeting held on 12th September 2016 be signed by the Chairman as a correct record of proceedings subject to the correction as identified in paragraph 3.1 above.

4 WORK PROGRAMME AND ACTION TRACKER

4.1 **RESOLVED:**

1. That the agenda items for the next meeting on the 9th January 2017 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 The Cabinet Member for Finance and Corporate Services responded to questions on the following issues:

Business Rates

5.2.1 The Cabinet Member was asked about the government's feedback to the Council's consultation response to the proposed Business Rate Transitional Scheme. Martin Hinckley, Head of Centre, Corporate Finance, advised that the Council had yet to receive a reply although this was not unexpected as the consultation has only just closed. He believed that the government would put forward regulations to implement a transitional scheme in December.

5.2.2 The Cabinet Member was asked whether the Council had considered putting forward a proposal to government to take over responsibility for the valuation of local businesses as part of the government's ambition to deliver fiscal devolution. The Cabinet Member advised that whilst there had been some discussion regarding this, and the proposition sounded attractive, it would need to be supported by a fully worked up business case.

No PO No Pay and Sundry Debtor Recovery

5.2.3 Members asked about the level of compliance of the requirement for purchase orders to be provided as the principal means of requisitioning supplies and paying invoices. The Cabinet Member explained that No PO No Pay is being phased in incrementally. The aim is for full implementation by 1 December. Martin Hinckley advised that whilst some statistics are available a full picture will not be available until the New Year. The Cabinet Member was also asked about the risks of moving to such an approach when a service improvement plan for Agresso is still being delivered. The Cabinet Member stated that the Council would not be moving to No PO No Pay unless it was confident that the system was in working order.

5.2.4 Further details were requested about the programme of debt management recovery. The Cabinet Member explained that the aim was to prioritise the recovery of the largest debts. He indicated that a key issue was the large number of transactions that needed to be followed up rather than the overall value of unpaid invoices. Mr Hinckley advised that letters requesting payment had now been issued to all debtors.

Discretionary Housing Payment Fund

5.2.5 The Committee was informed that 900 Westminster households had been identified as being likely to be affected when the benefit cap is reduced. The City Council was in the process of writing to the households in question to forewarn them about the changes and signpost advice on dealing with their impact. The Cabinet Member was asked about the responses that had been received from households. The Committee also asked whether the Council's DHP funding for 2017/18 is likely to be of an equivalent amount to that received last year. In reply to the latter the Cabinet Member replied that it was hoped that an equivalent level of funding would be provided, although the Council would need to await the government's announcement (expected in December). Mr Hinckley advised that the Council was in the process of sending the letters and any responses will not be known for a couple of weeks.

Operational Property Strategy

5.2.6 The Cabinet Member was referred to the fact that at its last meeting the committee considered a report on Treasury opportunities. He was asked how the Operational Property Strategy linked with the Treasury Management Strategy. The Cabinet Member stated that there wasn't a direct link between the two strategies. He explained that the latter is agreed annually by the Full Council and compliance with it is reviewed on a regular basis. The development of an Operational Property Rationalisation Strategy will help the Council to better asset manage existing assets, make more efficient use of accommodation across the portfolio and, identify surplus property in order to deliver targeted savings. He advised that releasing surplus buildings and land as a result of rationalisation could create potential development opportunities resulting in revenue generation for the Council. He explained that the Council has retained the services of a number of professional advisers including property experts to advise the Council in such matters.

Staff "Your Voice" Survey

5.2.7 The Committee asked about the opportunities to scrutinise the results of the Staff "Your Voice" Survey. The Cabinet Member believed that a report was ordinarily presented to the Audit and Performance Committee. He advised that while generally the results were positive one area which did not score very highly was ICT. He highlighted that this may have been a consequence of the survey being run over a period where there happened to be a major IT issue that affected all users.

ICT

5.2.8 Members asked about the risks to the Council from emerging cyber attacks and its resilience against them following the move to "cloud computing". The Cabinet Member stated that there would always be some inherent risk around IT. He advised that earlier in the year the Council experienced two outages. These were caused by a new form of Ransomware which was not covered by WCC antivirus protections. These were shut down quite quickly. He considered that it was important to train staff to be aware of the risks as the incidents originated as a result of staff accessing infected data.

5.3 **ACTION:**

1. Councillor Hug would like details of the likely total financial shortfall that will be experienced by the 900 households following a reduction in the benefit cap. (**Action for: Martin Hinckley, Corporate Finance**)

2. Clarify whether the Audit and Performance Committee will be considering the results of the Staff 'Your Voice' Survey and/or whether there is an opportunity for the scrutiny committee to do so. (**Action for: Tara Murphy, Scrutiny Officer** and **Reuben Segal, Committee Officer**)

3. Provide Councillor Hug with details of the number of new affordable homes that are expected to be delivered in the Borough in 2017/18. (**Action for: Barbara Brownlee, Director of Housing & Regeneration**)

4. Provide Councillor Roca with details of the overall number of longer term unemployed people in Westminster. (**Action for: Greg Ward, Director of Economy and Infrastructure**)

5. The Committee would like details of any changes to the revenue targets relating to the procurement of a private market operator to run Berwick Street Market. (**Action for: Greg Ward, Director of Economy and Infrastructure**)

6 DRAFT ROUGH SLEEPING STRATEGY 2017-2020

6.1 Richard Cressey, Principal Policy Officer, introduced a report that outlined the proposed priorities for the Draft Rough Sleeping Strategy 2017-20 and the headline findings from the public consultation, which closed on 4 November 2016.

6.2 Mr Cressey informed the Committee that the headline findings since the agenda was published remain the same although a greater number of responses to the consultation had been received. During the consultation period the City Council engaged and received responses from over 400 people. This included a mix of residents, businesses and public and voluntary sector organisations who provided a breadth of views. Officers were now examining the responses in detail with the aim of working up final proposals in consultation with stakeholders.

6.3 He stated that from the responses received it was clear that rough sleeping is a polarising issue. Some consider that more help should be provided to those who sleep rough while others believe that there should be a more robust approach to tackling the problem. One clear message that came out of the consultation is that people wish to see more of the detail; how the strategy and its priorities will work in practice. Many respondees wish to see more action on tackling begging and anti-social behaviour. Many comments were received highlighting that rough sleeping is particularly acute in Westminster but is caused by national and international drivers. There were disparate views on how to tackle rough sleeping by non-UK nationals.

6.4 The Housing, Finance and Corporate Services Policy and Scrutiny committee was asked to:

- Reflect on the consultation and the views provided by residents, businesses, voluntary sector organisations and others engaged with.

- Comment on the draft strategy in light of consultation feedback gathered, and identify areas for further development ahead of final publication of the revised strategy early in 2017.

6.5 The committee heard from witness, Petra Salva, Director of Services (Rough Sleeper, Migrants and Ex-offender Services) at St Mungos, who had been invited to the meeting to provide an expert's view on the priorities. Ms Salva provided a brief summary of her career background. She stated that she had worked in a number of different roles. This included working as an Outreach Worker in Westminster. She was the instigator of the Government initiative No Second Night Out and has been instrumental in developing approaches to the challenges around rough sleeping by non-UK nationals. Over the course of her career she had been both an advocate and critic over the use of penalties and enforcement to address rough sleeping as well as the provision of day centres.

6.6 At the Committee's request Ms Salva provided her reflections on the draft strategy. She commended the Council for challenging the perceptions around rough sleeping. She considered that the Council was serious about tackling rough sleeping and that the consultation had been well run. She informed the Committee that Westminster has historically been a magnet for attracting rough sleepers. One of the reasons for this is that homeless people are aware that the Council provides rough sleepers with a good level of services. She went on to explain that rough sleepers do not respect borough boundaries and often do not know that they are in Westminster. The vast majority will not have a local connection to the borough. As a consequence tackling rough sleeping requires a pan London approach and is not an issue that the City Council can resolve on its own. This is something that is often missing in proposed solutions. She reflected that while there was a great deal of activity around tackling rough sleeping outcomes were often poor. Whilst this is recognised and addressed in the draft strategy she considered that there was a need for greater focus on this. She suggested there was a need for a whole range of services to assist those rough sleepers with complex needs as well as solutions for different cohorts.

6.7 The Committee then considered the proposals and in the ensuing discussion submitted a range of questions to Ms Salva and the officers present.

6.8 The Committee noted that while the strategy contained targets these did not include an overall target for the reduction of rough sleeping. The Committee asked whether it should. Ms Brownlee recognised that setting numerical targets can focus activity. However, she explained that rough sleeping is a continuous and complex problem where flows are hard to predict. Ms Salva supported setting numerical targets to eliminate chronic homelessness particularly for rough sleepers with a local connection to Westminster. However, she considered that it would be difficult to set such targets for reducing the number of new rough sleepers.

6.9 The Committee asked about the challenges of successfully helping long term, entrenched rough sleepers who identify with a “community” or lifestyle. Ms Salva explained that the reasons why many become caught in a “revolving door” of rough sleeping are numerous. Mr Cressey acknowledged that supporting such people to re-build their lives was particularly challenging. There is a need to draw in other services to tackle underlying, fundamental problems such as alcohol and drug abuse and mental and physical health issues. Officers were referred to the fact that the pathway through GPs to tackle mental health problems was not particularly effective and that many rough sleepers suffer from problems which may not fit into defined categories of mental illness or do not meet the statutory threshold for intervention. In response, Ms Brownlee advised that the Council was submitting a bid towards funding therapy for rough sleepers suffering with Personality Disorder.

6.11 The Committee asked for details of how the Council was participating on a pan London basis to reduce rough sleeping. Ms Brownlee informed members that a representative of the Council sat on the Mayor’s Strategic Homeless Group. The Council was also preparing on behalf of the GLA bids to Government for homeless funding. It was also working in partnership with a number of cities in the North of the country to help those rough sleepers from those towns to reconnect with their local area. Ms Salva was asked why she believed that a pan-London approach was not working. She was of the view that while Westminster was at the forefront of providing innovative solutions to the problem she was not sure that the Mayor’s Strategy was being well implemented. She was unsure that other London boroughs were playing their full part where reciprocal arrangements are important. She stated that although Westminster has put a lot of funding towards the enforcement of antisocial behaviour associated with rough sleeping other London local authorities had not. Ms Brownlee commented that some London local authorities had stopped providing services to rough sleepers which has resulted in a reduction in the problem in those areas.

6.12 The Committee noted that the new strategy would run until 2020. Officers were asked whether it was likely to be reviewed earlier given the possible impact of major changes such as Brexit. Mr Cressey advised that officers would invariably keep the strategy under informal review to ensure that it remained fit for purpose.

6.13 **RESOLVED:**

1. The Committee was pleased to hear from officers that over 400 people had participated in the consultation which is considered to be a comparably high response rate for a City Council Consultation. It noted that responses were received from a range of stakeholders including residents, businesses and public and voluntary sector organisations. The

Committee was further pleased to receive confirmation from the expert witness that the consultation had been well thought out and executed.

2. Members endorsed the targets within each of the priorities which it considered were acceptable. However, following consideration it concluded that the strategy would not benefit from incorporating specific numerical targets.

3. The Committee expressed a specific desire for the strategy to focus on improving rough sleepers' health and well-being, with a particular focus on addressing mental health issues. Members noted that 88% of those in the Council's accommodation services identified themselves as having a mental health support need. These are often the service users who move in and out of services because they abandon their placement or are evicted after serious or consistent antisocial behaviour. This results in rough sleepers becoming stuck in a 'revolving door' of rough sleeping which is unproductive for those involved and an ineffective use of resources.

4. Having noted Ms Salva's reflections that rough sleeping does not respect borough boundaries and that the vast majority of rough sleepers in Westminster are not connected to the borough, the Committee wish to see greater reference in the strategy to the importance of Pan-London working and connections with the Mayor of London's rough sleeping strategy.

5. Members would like further consideration to be given to whether different targets should be set for non-UK/Irish nationals to reflect that rough sleeping by this group in Westminster raises distinctive issues. It was noted that such individuals have No Recourse to Public Funds and with the exception of those with significant support needs or who are vulnerable the Council does not provide them with services.

6. The Committee has noted that rough sleeping is particularly acute in Westminster due to its unique location but also because of the good services it provides. The committee expressed concern at anecdotal information that this is exacerbated by the perverse effect of other London boroughs reducing services for rough sleepers.

7 RE-COMMISSIONING THE HOUSING OPTIONS SERVICE

7.1 Barbara Brownlee, Director of Housing & Regeneration, introduced a report that provided a background to the Council's Housing Options Service and its contract which is due to expire at the end of September 2017.

7.2 With the expiry of the existing contract, and the introduction of a new Rough Sleeper Strategy in 2017, the Council has an opportunity to review frontline service delivery and reshape the service to be more responsive to the needs of residents.

7.3 The purpose of the report was to inform and gain support from the Scrutiny Committee on the overall strategy for and reshaping of the service and its intended procurement.

7.4 Vikki Everett, Senior Consultant, Garnet Consulting Ltd, addressed the committee. She explained that she had been appointed by the Council to manage the procurement of the re-commissioned service and to deliver a realistic and successful mobilisation of the contract. She provided a brief summary of her background which included experience in outsourcing and the transformation of services.

7.5 Ms Everett highlighted that there are elements of the service where there are well developed and very mature markets i.e. frontline advice services, property management, rent collection, lettings etc. The element of service that is not typically outsourced by Councils and where there is a less developed market are the statutory housing/homelessness functions e.g. duty to make enquiries into cases of homelessness or threatened homelessness, duty to make arrangements to ensure social services are aware of cases where applicants with children are homeless or threaten with homelessness, duties to assist and accommodate those eligible cases. Typically, Council's have retained these services in house Hence, for these statutory elements of the service, there is not a developed market. This also informed the Council's approach of splitting the service into Lots to attract competition for those areas of service where there are providers already delivering these services elsewhere.

7.6 The Committee considered the proposals put forward which were as follows:

1. The creation of a more agile frontline advice service that enables greater mobile working, outreach advice, collaboration and integration with other related services such as Children and Adult services, promotion of and access to employment services, in addition to promoting self-serve and digital advice solutions.

2. The procurement of the service in four 'lots' that will encourage competition by appealing to experienced providers that are currently delivering specialist services within this and related sectors and encourage providers to consider the formation of partnerships and consortium arrangements to deliver the requirements of the Council.

3. The movement towards a partnering approach with providers that will enable the transformation of these services over time and ensure a more flexible service that can respond adequately to the changing demands and legislative framework in addition to the impacts that other broader Council initiatives such as the Integrated Customer Service, One Front Door and Digital Transformation initiatives will have on these services.

4. The re-shaping of the service that forms a clearer distinction between the 'people' and 'property' aspects of the service and places greater emphasis on frontline advice, homeless prevention and self-serve solutions.

7.7 The Committee explored the issues and in the ensuing discussion raised a number of issues.

7.8 Members noted that there is a medium term planning (MTP) saving target linked to homelessness for 2017/18 of £500,000. The committee asked whether there was confidence that splitting the contract into 4 lots will deliver the required savings given that some of the market is less developed. Ms Everett explained that there are undoubtedly some risks associated with this that will need to be effectively mitigated through the procurement process and contractual and governance arrangements that are put in place. This is why there is a preference to have a lead contractor that partners with specialist providers. As part of the reshaping of the contract contractors will be incentivised to implement innovative solutions and provide better value for money through a risk and reward mechanism. The Director of Housing & Regeneration explained that some service provision is duplicated within the Council. For example, the Council currently funds two different streams of homelessness prevention advice: The reshaping of the contract provides an opportunity to eliminate this duplication resulting in savings to the Council.

7.9 Ms Everett advised that the strategy had been informally tested with the market. Twenty three providers had expressed an interest in all or some of the lots, 15 organisations had participated in the soft market testing sessions and there was a high level of support for the overall strategy across all 4 lots.

7.10 The committee asked whether consideration had been given to whether some aspects of the service would be better delivered in-house or by CityWest Homes. The Director of Housing & Regeneration advised that the Council does not currently provide many elements of the service in-house including single person homeless services. In her view the latter would be better provided by experienced specialist providers. She considered that whilst the Council could deliver Lot 3 (housing assessment, allocations and nominations) itself she believed there was greater merit in accessing a well-developed, mature market as well as keeping all the services together in one procured contract.

7.11 The committee noted that emphasis will be placed in the new contract on shifting access to the Housing Options Service away from a traditional reception facility to a more streamlined and digitally informed environment. The Director of Housing & Regeneration was referred to the fact that the service users are likely to be the least digitally experienced and for some English may not be their first language. Ms Brownlee explained that while there is an intention to promote self-service and provide digital advice solutions there will still be a human element behind the processes which people can engage with where required. She advised that all local authorities were further digitalising their services and that the City Council was some way behind its peers in this respect.

7.12 Members reflected on the interdependencies between the services and were keen to know how the service would ensure that users will have a smooth transition between the different elements. Ms Brownlee informed members that to assist the successful contractor(s) the Council was mapping the customer journey in a pilot in conjunction with The Passage. She stated that the reshaped service should provide a better experience for users as there would be a greater emphasis in comparison with the current contract on early intervention and homeless prevention. Ms Everett also advised that work was taking place on developing common branding across the different elements of the service so that there is no difference from the perspective of the user.

7.13 **RESOLVED**: Following careful consideration, the Committee endorsed the overall strategic approach to the reshaping and procurement of the Housing Options Service. It has requested that a further update be provided to the committee as the procurement moves forward.

The Meeting ended at 9.15 pm

CHAIRMAN: ______________________ **DATE** ___________________

City of Westminster

Housing, Finance and Corporate Services Policy and Scrutiny Committee

Date:	Monday 9th January 2017
Classification:	General Release
Title:	Update on work programme and action tracker
Report of:	Julia Corkey-Director of Policy, Performance and Communications
Cabinet Member Portfolio	Cabinet Member for Housing, Regeneration, Business and Economic and Cabinet Member for Finance and Corporate Services
Wards Involved:	All
Policy Context:	City for Choice / Heritage / Aspiration
Report Author and Contact Details:	**Tara Murphy x2894** **tmurphy@westminster.gov.uk**

1. Executive Summary

This report provides an update on the work programme for committee to note and also an update on the action tracker.

2. Key Matters for the Committee's Consideration

Committee is asked to note the updates to the work programme at Appendix 1 and the action tracker at Appendix 2.

3. Background

The work programme is as noted and agreed by Committee at its last meeting on the 7 November 2016.

If you have any queries about this Report or wish to inspect any of the Background Papers please contact Tara Murphy x2894

tmurphy@westminster.gov.uk

APPENDICES:

Appendix 1-Work Programme
Appendix 2- Action Tracker

ROUND FOUR – 9 January 2017 Main Theme – Housing, Regeneration, Business and Economic Development		
Agenda Item	**Reasons & objective for item**	**Represented by:**
Cabinet Member Q&A Housing, Regeneration, Business and Economic Development	A Q&A session with the Cabinet Member for Housing, Regeneration, Business and Economic Development	Cllr Astaire
Draft Treasury Management Strategy 2017/18	A statutory assessment of the draft treasury management strategy prior to submission to Council for approval.	Steve Mair
Treasury Performance Half Year Statutory Review	A statutory review of treasury performance.	Steve Mair
Luxborough Street	A review of the Luxborough Street project	Guy Slocombe

ROUND FIVE – 6 March 2017 Main Theme – Finance and Corporate Services		
Agenda Item	**Reasons & objective for item**	**Represented by:**
Cabinet Member Q&A Finance & Corporate Services	A Q&A session with the Cabinet Member for Finance and Customer Services	Cllr Mitchell
Estate Regeneration Programme Review	A review of the Ebury Bridge Project/Church Street Regeneration Programme	Barbara Brownlee
HRA Business Plan	To review and comment upon the annual 30 year HRA business plan for 2017-18. To note the direction of travel and capital investment priorities.	Barbara Brownlee

ROUND SIX – 10 April 2017 Main Theme – Housing, Regeneration, Business and Economic Development		
Agenda Item	**Reasons & objective for item**	**Represented by:**
Cabinet Member Q&A Housing, Regeneration, Business and Economic Development	A Q&A session with the Cabinet Member for Housing, Regeneration, Business and Economic Development	Cllr Astaire
MSP Review – 1 year on	To analyse the progress of the re-launched Managed Services Programme.	John Quinn
IT/ O365 – review 1 year on	How well supporting agile working is going – change security/privacy; how to enable more customer-centric approach:	John Quinn

Other Committee Events & Task Groups		
Briefings	**Reason**	**Date**
Budget T/G	Standing task Group to consider the budget of Council	Jan/Feb 2017
City Hall T/G	Taskgroup to analyse the City Hall Refurbishment Programme	June 2016 -

Items for consideration at a later date

Affordable Housing Supply	A review of the delivery of affordable housing supply including social housing and intermediate housing.	Will be placed on June 2017 agenda to allow 1 year review (Barbara Brownlee)
Supply and Allocation of Social Housing	To scrutinise the supply and allocation of social housing in the City of Westminster.	Will be placed on June 2017 agenda to allow 1 year review (Barbara Brownlee)
Rationalisation of the Operational Property Portfolio	To analyse the strategy, which is due to be completed in August. This will follow up on the discussion at the meeting in June 2016.	Removed from November 2016 meeting Guy Slocombe
Major Projects	To update the Committee on Major Projects taking place in the borough.	Removed from November 2016 meeting Stuart Reilly

ROUND SIX (13 APRIL 16)		
Agenda Item	**Action and responsible officer**	**Update**
Item 7 – Total Facilities Management: Performance and Contract Support	Provide the Committee with a summary of the results of the annual staff survey to determine whether the perception of the service delivery resonates with members' own experiences. Provide the committee with details of what the additional cost would be to the City Council of paying service provider staff the London Living Wage.(**Action for: Debbie Morris, Head of Facilities Management, Tri-Borough**)	

ROUND ONE (13 JUNE 16)		
Agenda Item	**Action and responsible officer**	**Update**
Item 4 – Work Programme	Provide a briefing note updating the committee on government policy changes to the Private Rented Sector once published. (**Action for: Andrew Barry-Purssell**)	This will be included in the briefing note on changes being brought in through the Housing and Planning Act in the Autumn
Item 8 – Treasury Outturn for 2015/16	Provide the committee with details of how the Council's Treasury Outturn compares with that of comparable local authorities. (**Action for: George Bruce, Tri-Borough Director of Treasury and Pensions**)	The information will be provided as part of the Treasury Performance Half Year Statutory Review at the meeting in November

ROUND TWO (12 SEPTEMBER 16)		
Agenda Item	**Action and responsible officer**	**Update**
Item 5 – Update from cabinet Members	1. Provide the committee with an update on proposals for Berwick Street Market. 2. The Committee would like an update on which areas of Westminster would be the first to	Information on all 4 actions emailed to committee members on 15th November 2016.

	benefit from the rollout of the new Fibre to the Premises broadband. Members also want to know whether there are any residual planning issues that may affect the rollout. 3. With the joint Westminster/Camden BID by the Fitzrovia Partnership in mind, the Committee asked about the possibility of joint BIDs with other local authorities on the boundary with Westminster. **(Actions for: Councillor Daniel Astaire, Cabinet Member for Housing, Regeneration, Business & Economic Development)** 4. The Committee would like a note on the rollout of 1GB faster broadband on CityWest Homes Estates including whether there will be affordable packages for those on low incomes. **(Action for: Jonathan Cowie, CEO, CityWest Homes)**	
Item 7 – Treasury Opportunities	**RESOLVED** 1. The committee noted the initiatives set out in the report which were being evaluated alongside other options. It supported the objective of optimising the return on investments subject to maintaining a cautious approach to risk based on a principle of being risk aware rather than risk averse. 2. The committee requested that the City Treasurer provide: i) more detailed information on the Treasury opportunities being progressed by other local authorities, ii) the mechanisms employed by the Council for sourcing	To be included in the Draft Treasury Management Plan for 2017-18 for review by committee at January meeting.

	ideas and iii) how options being developed link to other Council strategies when the Draft Treasury Management Plan for 2017-18 is submitted to the committee for consideration in January. **(Steve Mair, City Treasurer)**	

ROUND THREE (7 NOVEMBER 16)		
Agenda Item	**Action and responsible officer**	**Update**
Item 5 – Cabinet Member Update	1. Councillor Hug would like details of the likely total financial shortfall that will be experienced by the 900 households following a reduction in the benefit cap. **(Action for: Martin Hinckley, Corporate Finance)**	Emailed to members 15.12.16
	2. Clarify whether the Audit and Performance Committee will be considering the results of the Staff 'Your Voice' Survey and/or whether there is an opportunity for the scrutiny committee to do so. **(Action for: Tara Murphy, Scrutiny Officer and Reuben Segal, Committee Officer)**	
	3. Provide Councillor Hug with details of the number of new affordable homes that are expected to be delivered in the Borough in 2017/18. **(Action for: Barbara Brownlee, Director of Housing & Regeneration)**	Emailed to members 15.12.16
	4. Provide Councillor Roca with details of the overall number of longer term unemployed people in Westminster. **(Action for: Greg Ward, Director of Economy and Infrastructure)**	Emailed to members 15.12.16
	5. The Committee would like details of any changes to the revenue targets relating to the procurement of a private market	Emailed to members 15.12.16

	operator to run Berwick Street Market. **(Action for: Greg Ward, Director of Economy and Infrastructure)**	
Item 7 – Re-commissioning the housing options service	**RESOLVED:** Following careful consideration, the Committee endorsed the overall strategic approach to the reshaping and procurement of the Housing Options Service. It has requested that a **further update be provided to the committee** as the procurement moves forward. (**Tara Murphy** identify suitable time for an update to be received by committee)	

AGENDA ITEM No:

City of Westminster

Housing, Finance and Corporate Services Policy and Scrutiny Committee Briefing

Committee date:	**9th January 2017**
Author:	**Cllr Daniel Astaire**
Portfolio:	**Cabinet Member for Housing, Regeneration, Business and Economic Development**
Please contact:	**Madeleine Hale x 2621** **mhale@westminster.gov.uk**

Please find below an update on key areas of activity from the Housing, Regeneration, Business and Economic Development portfolio since the committee last met.

Housing

1. Church Street Renewal

1.1 Feedback from the recent engagement on the emerging Church Street masterplan is being considered by the masterplanning team and being used to inform their emerging ideas. The masterplanners have been invited to run sessions with local students on the design process and these will happen in early 2017.

1.2 Following a successful consultation on the Green Spine proposals, the design team are now working on the detailed design for the project. The proposed start on site for the project is late 2017.

1.3 Discussions with UKPN have seen them commence their works at Lisson Arches. By late January we anticipate having a confirmed programme for the enabling works, including works to the bridge. Permission has been granted for out of hours working to accelerate progress.

1.4 The Regeneration Base at 99 Church Street continues to attract residents with access to employment support being the main reason for visits.

1.5 The Luton Street development is due to be submitted for planning in the New Year and the developer is meeting regularly with the residents' group to consider their input to the design process.

1.6 Discussions are taking place with the Met Police over them taking a long term void shop on Church Street as a base for their neighbourhood teams serving Westminster. This will bring between 50 -60 police officers and support staff to work in Church Street, secure investment in a property that has proved difficult to let and have an active frontage on to a key part of Church Street. We are discussing how to make the building open and welcoming. This will replace the facility at Paddington Green until new facilities are provided as part of that development.

2. Ebury Bridge

Dialogue with residents in the delivery of new and improved homes at Ebury Bridge continues through on-site meetings; drop in sessions and a regular newsletter. Both Soho Housing blocks have been acquired; and rehousing residents is currently underway. Work continues on developing options for delivery of the project in a way that meets the aspirations of residents.

3. Housing Zone

The Borough Investment Agreement for Lisson Arches has been delayed as GLA resources have been focused on the priorities of the new Mayor. Discussions continue on securing further investment in the Housing Zone from the GLA.

4. Tollgate Gardens

Affinity Sutton has taken possession of the Tollgate Gardens site. Following a recent merger with Circle, Affinity Sutton will now be called Clarion Group. Hoardings and safe access routes are in place for the residents of Tollgate House. The planning application for the re-cladding of Tollgate House was approved on 6th December 2016. Demolition works on the residential blocks has been completed. .

5. Infill programme

As the first phase of sites moves to works start on site a further group of opportunities are being considered. The programme is on track to deliver 25 new homes for rent and 8 units for disposal in the next 12 months.

6. Affordable Housing

6.1 Dolphin Living has taken handover of a new build scheme providing 12 affordable homes at Lanhill Road. Lanhill Road is the second of three schemes that will deliver at total of 50 intermediate rented homes under the Westminster Home Ownership Accelerator. The Accelerator scheme enables tenants to build up an equity stake in home ownership at the end of their 3 year tenancy in an intermediate rented home.

6.2 The Council has successfully completed the transfer of 10 tenanted homes at Wellesley House on the Ebury Bridge Estate from Soho Housing Association. The successful negotiation of the transfer of Wellesley House from Soho follows the earlier transfer of Wainwright House to the Council. These transfers will facilitate the regeneration of the Ebury Bridge Estate.

7. Housing and Planning Act 2016

We are still awaiting regulations to implement the key changes brought in by the 2016 Act. The Government has announced that the policy of charging higher rents to higher earning council tenants, that was due to be implemented in April, is now due to be discretionary rather than mandatory. The Government has also announced that the higher value void levy, expected to start in 2017/18 is to be delayed. Regulations on the phasing out of lifetime tenancies are expected shortly. On starter homes, there are indications that ministers are considering broadening the definition so that instead of an exclusive focus on homes for ownership, it also covers rent-to-buy products. More details are expected in the Housing White Paper in January. The Mayor of London is developing a product of this kind and we are in discussions with the Greater London Authority about this and the potential synergies between it and the Westminster Accelerator that we are delivering in partnership with Dolphin Living. Regulations relating to tackling rogue landlords are expected in late 2017.

8. Homelessness Reduction Bill

8.1 The Homelessness Reduction Bill, which is being taken forward as a Private Members' Bill by Bob Blackman MP, is supported by government. The Government has announced that local authorities will receive reasonable costs to implement the Bill, which is currently at Committee stage. The Bill places heavy emphasis on preventing homelessness and introduces a number of new duties on local authorities including:

- A duty to assess anyone that approaches them as homeless (including single people)
- A duty to prevent homelessness and to develop a personal housing plan with those who present as homeless
- A duty to help secure them accommodation if homelessness cannot be prevented.

8.2 It also redefines when someone is actually considered homeless – although some amendments from government are expected in this area. DCLG is currently working with the Local Government Association to identify the costs of the Bill; we are in touch with them and will be doing our own modelling when there is more information about the approach they will be taking.

9. Mayoral consultations

9.1 The Mayor of London has published two documents for public consultation. The first of these is the draft supplementary planning guidance on Affordable Housing and Viability. This seeks to give guidance on how the Mayor's policies on delivering affordable housing (particularly his "long-term strategic aim of half of new all new homes in London being affordable") can be given effect within the policy framework of the current London Plan. It sets out a recommended approach to development viability including a post-permission "overage" review mechanism. The Mayor has asked for comments by 28th February 2017 and we are currently considering the draft in detail. It is obviously important that any approach is sufficiently flexible to take account of the wide variation in circumstances between different parts of London.

9.2 A draft "Good Practice Guide" to estate regeneration is the second document currently out to public consultation. This sets out what the Mayor considers to be best practice in estate renewal, dealing with the aims and objectives of estate renewal (including the balance between refurbishment and rebuilding, ensuring no loss of affordable housing and improving the local environment); consultation and engagement with residents and ensuring a fair deal for tenants and leaseholders. Comments have been requested by 14 March 2017 and again, we are currently considering the detail of the Mayor's proposals.

10. CityWest Homes (CWH)

10.1 Performance

CWH continued to perform well in Quarter 3 against its Management Agreement targets. Approximately 60 households are now on Universal Credit, and this has resulted in a significant increase in the level of arrears. CWH are working through a plan to offer a range of support to households, including money management appointments via our contract with Westminster CAB, referrals to our employment programme and assistance in making Discretionary Housing Payment (DHP) applications. They have prioritised contact with the existing cases which transitioned to the new benefit cap level in the first instance to ensure they understand the changes to the rent tenants need to pay and support in paying it.

10.2 Intermediate housing service

The Homeownership Westminster Service is currently outsourced and the contract is ending in March 2017. The council has agreed that CWH will deliver this service from April 2017. This will be a minor variation to the existing Management Agreement. Services will include:

- Assessing service users' eligibility for Intermediate Housing schemes
- Providing advice and information about intermediate market opportunities in Westminster, and elsewhere if more appropriate
- Managing the waiting list and access to Intermediate Housing schemes

10.3 Board Recruitment
Following a successful recruitment campaign, CityWest Homes has appointed an independent non-executive director and a resident non-executive director to join the Board with effect from 2nd January 2017. An additional resident non-executive director has been appointed and will join the Board in April 2017 when another vacancy will arise.

10.4 Service Transformation
10.4.1 Work continues on the development of a new service delivery target operating model, supported by a digital programme.

10.4.2 Development of a multichannel contact centre is on track for full implementation in June 2017. A call handling pilot has now been rolled out across all areas. This has resulted in c40% of calls being diverted to the right team, first time.

10.4.3 CWH is working on a joint procurement exercise with the Council to purchase CRM software which the Council aims to pilot in 2017, with the ambition of improving service delivery and giving greater access through direct self-service.

10.4.4 To support the creation of the new target operating model CWH wishes to establish a subsidiary company. The target date for the creation of the new subsidiary company is January/February 2017 with a 'start date' of April 2017. All new staff will be employed by the new company and existing staff will continue on the same terms and conditions within the parent company, CityWest Homes Limited.

10.4.5 The letting of new repairs and major works contracts is on track for phased implementation over the spring and summer of 2017. Tenders have been invited for all seven of the new Term Partnering Contracts and the tender evaluation process commences in January 2017. Staff structures will be realigned early in 2017 to reflect the new contract arrangements

11. Rough Sleeping

11.1 The Rough Sleeping Team received great news in December 2016 of two successful bids. Firstly, their bid to the DCLG to remodel an existing hostel into a short stay assessment centre was successful. The service will be redesigned using leading edge practice, to provide a 'one stop shop' to get newer rough sleepers with complex needs, stabilised, focused and reconnected to their home areas within a maximum 1 month time scale. The quick turnaround time will provide the outreach teams with a much needed resource to reduce numbers on the street.

11.2 Also in December 2016 was an audit of provision of services for female rough sleepers. A comprehensive action plan was devised and will be delivered over the next six month period including remodelling a smaller hostel to focus on the needs of women and working more effectively with couples. Continued funding was also won from the GLA for the female entrenched rough sleeper project targeting older female rough sleepers with mental health needs moving around London boroughs, typically avoiding services. The project funds a dedicated mental health nurse who supports outreach teams to find these women and coordinate a route off the street, critically putting in place the right offer at the right time.

11.3 A bid has been submitted in partnership with the tri borough Violence Against Women and Girls Network to the DCLG for a small night centre providing a dedicated women's 'safe space' for female rough sleepers with complex needs.

Economic Development and Growth

12. Business Improvement Districts (BIDs)

The Heart of London Business Alliance's (HOLBA) renewal ballots for the occupier BIDs covering the areas of Piccadilly, St James's, Leicester Square and Piccadilly Circus have now been agreed by the council. The ballots will be run during February and March 2017 with the results being announced on the 24th March 2017.

13. Westminster Business Unit

The Business Unit continues to progress well since its inception. In excess of 217 enquiries have been handled to date with a resolution rate of 87%. Most common enquiries relate to business advice/support, licensing, business rates, investment and procurement. The unit is currently on track to achieve their annual target of 300 enquiries.

14. Westminster Enterprise Week (WEW) 2016

Westminster Enterprise Week achieved the following outputs with the percentages showing progress against targets:

- Number of young people engaged = 2,879 (288%)
- Number of enterprise learning hours = 3,188 (213%)
- Number of dedicated activities, events or workshops organised = 24 (80%)
- Number of enterprise volunteers engaged = 97 (162%)
- Twitter Reach = 787,000 (157%)

Although the number of events was below target the programme was developed with 30 events but for reasons outside of the Council's control some events were cancelled.

15. Employment

The Westminster Employment Service reports 499 residents have been supported into employment so far this financial year. Of those, 355 were previously long term unemployed, claiming benefits for 12 months or more. Employment Outcomes for long term unemployed residents in 2016/17 are projected to increase by 158% compared with 2015/16. In the 5 year period Feb 2011 to Feb 2016 long term unemployment in Westminster fell by 22%. Compared to 378 Local Authority districts in England, Wales and Scotland, Westminster achieved the 8th highest fall in the numbers of long term unemployed.

16. Broadband

In the last month confirmation has been received that the full business case for the Connect Westminster project has been approved. The £2.8m European Regional Development Fund (ERDF) project will support 1,000 SMEs in getting connected to super and ultrafast broadband through the provision of micro grants.

17. Markets – Berwick Street Market procurement

17.1 On the 25th November, 7 bidders were invited to submit a full tender. Following the weeks commencing the 28th November the Council invited the bidders to meet with the Council to ensure they know what we are expected at the invitation to tender stage and provide the opportunity for them to ask questions.

17.2 The closing date for the receipt of tenders is noon on the 16th January. The tenders will then be evaluated with an expected notification of contract award to follow the week commencing the 20th February 2017. The contract will be awarded in March with the market expected to launch in April 2017.

29th December 2016

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City of Westminster

Housing, Finance & Corporate Services Policy and Scrutiny Committee Briefing

Date: **9th January 2017**

Author: **Cllr Tim Mitchell**

Portfolio: **Cabinet Member for Finance & Corporate Services**

Please contact: **Madeleine Hale x 2621**
mhale@westminster.gov.uk

1. Finance

1.1. Business Rates

1.1.1 The key development since the last update to the Committee on 7th November is that the government has finalised their Transitional Arrangements for the new 2017 National Non Domestic Rates (NNDR) Valuation List implementation, i.e. the phasing in arrangements for rateable value increases and decreases resulting from the Revaluation. Whilst the Council's overall total rateable value has increased by 25% due to the 2017 Revaluation, there have been some much larger percentage increases for individual properties in the borough, particularly retail properties in the West End.

1.1.2 The government's consultation paper on their proposed NNDR Transitional scheme had a preferred option limiting increases to 45% in Year 1 of the scheme (2017/18) for "Large" properties (properties with a rateable value of at least £100,000). This has to be compared with the Transitional scheme for the 2010 Revaluation, which limited increases for Large properties to only 12.5%. The City Council sent a response to the consultation requesting that the government amend its preferred option to a fairer, more sustainable phasing in arrangement. Similar responses to the consultation were made by NWEC and other local Business Improvement Districts (BIDs) as well as by individual businesses.

1.1.3 The government has subsequently announced the final scheme. The final version shows a marginal improvement for Year 1 (from 45% to 42%), with a more significant reduction in Year 2. Whilst any movement from the original consultation is welcomed, it is clearly not the level requested by the City Council, the borough's BIDS or London businesses.

1.2 No PO NO Pay and Sundry Debtor Recovery

1.2.1 As part of the programme of continuous improvement and the efficiencies designed into the BT Managed Service Programme's Agresso system, one of the next steps in implementing "business as usual" for the Accounts Payable module is to make use of Purchase Orders (POs) as the principal means of requisitioning supplies and paying invoices. This promotes the automated matching of compliant invoices to purchase orders and facilitates the prompt processing and payment of invoices.

1.2.2 Stage two of the implementation plan is in progress, which is to return non-compliant invoices dated later than 17th October to service areas and to notify suppliers of the same. We aimed for full implementation of "No PO, No Pay" by the 1st December but will extend this to early January due to a combination of system and operational readiness.

1.2.3 Sundry debt recovery in line with contract terms has not commenced although local debt management has been in place, particularly in Adult Social Care. An interim debt recovery process approximating automation is in place until 1st April 2017 when BT is expected to resume operations in line with contractual obligations. The interim process includes the Council undertaking its own automated recovery of sundry debt, with BT being responsible for running the automated and scheduled batch programmes on Agresso and the subsequent printing and mailing of the recovery documentation. The Council will continue to be responsible for all other elements of the recovery process, including the handling of payment and service enquiries and the updating of sundry debtor accounts. The interim process is being jointly developed and delivered with RBKC and Hammersmith.

1.2.4 A series of statements, followed three weeks later by the first reminders, have been issued but due to a technical issue identified with reminders from Hammersmith, the reminders were suspended. The 2nd reminders will recommence on the 3rd January 2017 and full automation is expected to be achieved by 23rd January 2017.

1.3 Budget

Work continues on the budget preparation, both capital and revenue, and will be reported to Policy and Scrutiny, Cabinet and Council in the New Year. It is anticipated, subject to the Local Government Settlement, that we will be in a strong position to set a balanced budget for the 2017/18 period.

1.4 Accounts

1.4.1 In line with the Council's enhanced quality in the preparation of its accounts, accounts for Q2 have been prepared and preparations are well underway for Q3 and year end. This process reduces the year end risk, identifies opportunities at an earlier stage and frees up financial management expertise to support services at an earlier time in 2017/18 than would otherwise have been the case. External audit are routinely and regularly updated on progress and will be beginning their interim audit work on the Q3 accounts in January.

1.4.2 There is continuing liaison with external auditors to reduce the length of the accounts, making them more user-friendly to readers while maintaining compliance with accounting regulations. The Council aims to reduce the accounts significantly in 2016/17 with further significant simplification in 2017/18.

1.5 Budget Monitoring

The budget continues to be actively monitored, and as previously reported, an underspend is forecast for the full financial year. A number of enhancements have been made to the Monthly Financial Monitoring report in recent months.

1.6 Council Tax and NNDR Collection

Council Tax and Business Rate (NNDR) collection is going well, with both due to meet or exceed last year's collection figures (last year's collection figures were the best previously recorded for the City Council).

1.7 Discretionary Housing Payment Fund

The Council's DHP funding for 2017/18 is due to be announced by the Government by January 2017.

2 Corporate Property

2.1 Of 367 properties that make up the investment portfolio, 14 are currently vacant, a void rate of 4.1%. £350,000 of rent arrears was collected in November. The number of outstanding rent reviews and lease renewals on the portfolio has fallen from 16% in July to 12% in November and 15 cases were resolved in November.

2.2 City Hall Refurbishment

Planning permission has been granted for the refurbishment of City Hall and temporary decant accommodation has been secured at 5 Strand and Portland House in Victoria. Staff will start to move from City Hall in March 2017 and the refurbishment works will start on site in July. Stage 1 of the procurement process is complete and ISG has been appointed on a PCSA (Pre Construction Service Agreement) to develop the detailed design and finalise the cost and programme, before submitting its Stage 2 tender proposal in March 2017. ISG is now present in City Hall and pre-construction intrusive surveys will begin in December. The Policy & Scrutiny task group continues to receive progress updates and provide challenge sessions to the project team.

2.3 Operational Property Strategy

The Corporate Property Team is working closely with the Policy Team engaging with services to deliver the hub model and to determine WCC's specific future property needs and how this can be best delivered to support business needs. As part of this process we are commissioning a third stage report from BNP Paribas to focus on delivery of the Hubs strategy, drilling down into the detail to determine optimum hub locations to provide a fit for purpose operational estate while driving efficiencies and reducing the Council's operational footprint. This piece of work is expected to be completed by 31st March 2017. This in turn will give us a programme of three delivery streams: -

1. Asset management – property rationalisation and opportunities to deliver operational savings/new income over the next three years.
2. Hubs Delivery Plan – identify preferred locations, business efficiencies and financial benefits.
3. Review of Third and Voluntary Sector occupation of WCC property – reviewing how WCC assets can best be utilised to support these sectors going forward.

3 Corporate Services

3.1 People Services

3.1.1 The launch of the new Change Advocates Network took place on the 19th October in City Hall. This was a joint facilitated event with a number of different teams taking part including People Services, CPMU and PPC. Over 60 people who volunteered to become one of the new change advocates were in attendance to engage with, drive and facilitate change associated with our route map to success over the coming years and months.

3.1.2 Earlier in the year Westminster City Council successfully achieved Commitment Level under the London Healthy Workplace Charter. The GLA visited City Hall to film the initiatives that the Council are doing under the Wellbeing Agenda. The filmed material was used for the awards ceremony and highlighted the good work undertaken by the Council.

3.1.3 The Charter along with the Tri-borough Wellbeing Strategy (2015 – 2018) supports Westminster's vision on promoting a healthier workplace, supporting managers and empowering staff to take responsibility for their health and wellbeing. It provides an excellent framework for businesses to follow and accreditation is a positive step. We are now working towards achievement level (second level), along with H&F and RBKC.

3.1.4 The pilot of the 360 degree feedback tool was launched on Monday 14th November for 50 colleagues across the council's major directorates. This new bespoke 360 was developed to see how well our values and behaviours are embedded in day to day leadership of council officers. The pilot will take place over a 6 week period.

3.1.5 People Services presented the performance management report to Executive Management Team (EMT) highlighting the need for a step change in the way performance is managed in order to engage and motivate staff and achieve individual and collective goals. It provided an insight of the differences between directorates and benchmark information. Detailed guidance notes on mid-year reviews were cascaded across the council as a reminder to both staff and managers.

3.1.6 The Director also presented his analysis of the Your Voice Survey with benchmarks across Westminster, Tri-borough and other sectors, highlighting WCC's good performance against the benchmarks in co-operation (both intra and inter-teams).

3.1.7 A paper was discussed with Cabinet Members in December on the proposed approach to the Apprenticeship levy, addressing the financial challenge as well as the opportunity to up skill the current workforce and address skill gaps. Work plans are now underway to shape this work in conjunction with the economy team and tri-borough colleagues.

3.1.8 Identifying and developing talent is a key part of the People Strategy for 2017. Talent conversations are now underway across all Directorates with a view to map in the first instance our EMT and Corporate Leadership Team potential for the future. Once these conversations have been completed People Services will be going to EMT in January to calibrate all nominations and launch the talent programmes more formally. The Organisational Development team are meeting EMT directors jointly with Business Partners who are attending Senior Management Teams to identify talent at other levels within their Directorates.

3.2 Procurement

3.2.1 Ricoh – Print and Document Management Contract
The annual review of the Print and Document Management contract was held on the 18th October 2016 and overall is performing well with an annual spend of £1.1M against the original tendered cost of £1.4M. This means there is an underspend. Print volumes are on a downwards trend with a 20% reduction over the year. Print data will be used to try and reduce demand further. Camden and Hammersmith are in the process of calling off contracts from the Framework, OneSource (Newham/Havering) and others are further exploring utilising the Framework. Further development of the

contract to utilise archiving and digital and hybrid mail services is currently being explored.

3.2.2 City Hall Refurbishment Works

The Pre Construction Services Agreement has now been signed and approved by both parties and has been sealed. We are now actively in the second stage of the Design & Build requirement working towards the fixed cost for the works themselves. ISG were the most economically advantageous tenderer and presented a significant list of Social Value outputs that are planned as part of the project. The project remains in target with the programme timetables at a cost of £50-60m.

3.2.3 Meet the Buyer Event

Westminster City Council hosted a meet the buyer event for construction companies that would be seeking to work with Westminster in the future. We had moderate attendance from organisations, which provided positive feedback on the event itself as well as insights into the issues surrounding bidding for works at the moment. All of which will be able to inform strategies for procurement.

The direct call off agreement for City Hall Removals and Disposals requirement has been successfully approved and has been awarded to Harrow Green from the ESPO framework. This will cover the following:

- Removal of selected furniture and contents of City Hall to decamp spaces
- Sell or donate appropriate remaining furniture
- Disposal of remaining furniture
- Disposal of remaining IT infrastructure
- Bespoke Crating for Antiquities
- Safe transport and storage of antiquities
- Adhoc requirements as part of the programme

3.2.4 Language Services for WCC and RBKC

Assistant Director approval was given on the 1st December for WCC and standstill letters were issued on the 2nd December.

3.2.5 Genito Urinary Medicine (GUM) Procurement

We are in the process of amending our tender documents in order to align with the London School of Hygiene and Tropical Medicine (LSHTP) requirements. Once completed, a meeting will take place with the LSHTP to ensure that there are no misunderstandings and all parties are in agreement with the revised documents. It is proposed that a meeting will then take place with Chelsea and Westminster Hospital to discuss the changes to the original specification and contract documentation. Once agreed we will proceed to award and mobilise the contract. It is unlikely that the new contract will be in place by 31st March 2017, so we will be recommending a short direct award to extend the current contract.

3.2.6 Community Sexual Health Lot 1 & Lot 2
Cabinet Member approval for Hammersmith and RBKC was given on 7th December. Approval for Westminster should be received by 5pm on 16th December and once approved, we will proceed to award and commence mobilisation with the contract start date being 1st April 2017.

3.2.7 School Health
We are in the process of awarding the Framework and call off Contracts for RBKC & WCC only for the School Nursing Services, mobilisation has commenced and the contract start date is 1st April 2017.

3.3 ICT

3.3.1 ICT Restructure
Bi-borough Chief Information Officer has established an IT management team including a new Head of Operations, Pascal Inthavisay. The new IT structures are being established in Agresso, and issues with budgets and funding for permanent recruitment to replace longstanding vacancies confirmed. Issues with team morale following the prolonged recent reorganisations are reflected in YourVoice responses for IT, and these are being addressed through a focus on leadership, communications and trust.

3.3.2 City Hall Refurbishment Programme
Installation of resilient WCC network connections to the decant sites is progressing and despite some complications, expected to complete within timescales. Orders have been raised for new in-building WiFi services to the decant sites, this should help with the expected increase in Skype for Business calls taking place, as more staff adopt Agile working practices. Work continues with BT on the decommission of legacy servers at City Hall and Lisson Grove, ahead of the decant. The ICT Team has also identified a number of machines that are not Skype-ready, and a plan is in place to replace them prior to the decant.

3.3.3 Public Services Network Code of Connection (PSN CoCo) Submission
The Council is required to renew its certificate of compliance with the minimum network security standards for connection to the central Govt "Public Service Network" (PSN). A high number of compliance issues are being addressed across all three councils; WCC has 16 issues, 14 of those being related to servers running on legacy OS's. These are now being addressed, and the WCC and RBKC submissions were made on 16th December.

3.3.4 Mobile Working
Paperless trials using iPads for Members has now been completed and the team will be seeking feedback in order to improve the service offered to Members. Mobile

Apps development is continuing, and the Code of Construction Community Practice (COCP) app went live on 16th November. The app supports new legislation which makes the Council responsible for ensuring Construction Sites are operating in line with the COCP. This app encourages more agile working by allowing the onsite construction side inspectors to access live data from the backend systems and to update the information using a tablet, rather than coming back to the office to input data.

3.3.5 Collaborative Coffees
Over 90 staff across the organisation have now signed up, and the third wave of invitations have gone out. The feedback was overwhelmingly positive and the increasing number of signups is a testament to that.

3.3.6 Your Voice
Staff satisfaction with WCC IT services has emerged as an issue in both Your Voice staff survey and at the Staff Conference earlier in November. In response to this, the shared IT service will decommission legacy, unreliable IT infrastructure services before the City Hall decant (April-June 2017). It has also recruited an interim Head of Operations to improve customer support services, and IT communications, and will be running further focus groups to ensure the issues are being addressed.

3.3.7 Digital Services
The Shared ICT service in conjunction with RBKC Planning received an award for Resident Satisfaction as through the hard work of the Development Team, Pre-Applications at addresses were now available for customers to view online.

3.3.8 Office 365
Councillors were migrated to Office 365 in the week of the 12th December and feedback as of 15th December is positive. For officers, the shared IT service has been implementing additional phone and laptop security controls and commencing the migration from legacy Symantec Enterprise Vault to the new Office Email Archive.

<u>3.4 Legal Services</u>

3.4.1 Tri-borough Legal continues to deliver a high quality service at a low cost and provide its clients with better management information in order that they can make informed choices and manage their legal spend. More work is being done in-house to reduce external legal spend, however large and high risk projects are still outsourced.

3.4.2 Currently we are implementing and embedding Office 365 within our team and have made excellent progress with teams using O365 enhanced communication and collaboration tools to work smarter and in a more agile way. We will encourage the rest of the organisation by sharing our knowledge and experience.

3.4.3 We are reviewing our case management system to ensure we have a best in class system that delivers efficient case management process functionality supporting a modern and agile legal service.

3.4.4 The Your Voice survey has shown significant improvement in engagement, health and wellbeing, learning and development, all of which were areas of focus in our 2016 Your Voice action plan. We were very pleased with our 31% increase in response rate and a healthy increase of 3% in engagement particularly as during the survey period the service underwent two major IT changes with the upgrading of its key line of business system and the implementation of O365. Our 2017 plan is almost complete and this year will concentrate on three areas for improvement; Change management, communication and consultation, Working environment and Pay and benefits. Overall we have seen a strong improvement on many of the Your Voice themes since last year and believe we have a robust plan with which to improve even more.

3.5 Digital

3.5.1 The Digital programme was presented to EMT on the 29th November. Agreement was obtained from EMT around the scope, objectives and prioritisation of the programme as well as renewed board membership for the digital programme board.

3.5.2 Work is underway to ensure that the right procurement strategy is in place for the integrated contact services project and the team are reviewing the options to ensure a successful outcome with minimum risk is obtained in the right timeframe.
The Digital programme is also under taking the final selection process for the digital platform. Three suppliers Microsoft, Verint and Firmstep have now completed their evaluations with 10 evaluators from the service areas and the programme team. The team are now satisfied that there is a platform with the capability required, next steps are to arrange site visits to evaluate in more detail. A final decision is expected to be made early January 2017.

3.5.3 The programme team will now bring forward a list of proposed priority service areas which will form the basis of the prioritisation list for the platform. The criteria will weigh up cashable savings through efficiency creation, enhanced customer experience or strategic business priorities.

3.5.4 Ember solutions will provide some support for the integrated contact centre services procurement. Initially a 4 week assignment focussing on discovery, design and procurement.

19th December 2016

Policy and Scrutiny Committee

City of Westminster

Date:	Monday 9th January 2017
Classification:	General Release
Title:	Luxborough Street Development
Report of:	Tristan Samuels - Head of Development
Cabinet Member Portfolio	Cllr Mitchell - Cabinet Member for Finance and Corporate Services
Wards Involved:	Marylebone High Street
Policy Context:	City for Choice
Report Author and Contact Details:	**Dominic Wilde x1363** **dwilde@westminster.gov.uk**

1. Executive Summary

1.1. The Property and Projects team have been asked to provide a report on the events which led to the Council's decision to withdraw from proceeding with the development of the new Marylebone Library at Luxborough Street.

1.2. This report will focus primarily on the questions as raised by Policy & Scrutiny members.

1.3. The procurement of a development partner was terminated in September 2014 when Mace, the Council's preferred bidder to deliver the library project, withdrew their tender. Mace stated at the time that they were unable to meet the terms on which they had tendered the project, thus forcing the Council to declare their bid as non-compliant.

1.4. The Council at the time of Mace's withdrawal did consider the under-bidders initially. However the Council quickly agreed that due to changes in market conditions and the terms of the bids received, the under-bidders would have had similar difficulties complying with their bids. The project team, working with officers from procurement and lead members decided to progress with the project and to re-procure the project, this time, as a Design and Build (D&B) contract with Development Manager (DM) services.

1.5. In April 2015, following the second procurement for the D&B contractor, Mace was selected as preferred bidder.

1.6. In October 2015, Mace notified the Council of an unsubstantiated increase in the cost of the project of circa 23%. Despite detailed discussions to understand the cause and resolve this increase which included value engineering options to reduce elements of cost, Mace finally confirmed that they were unable to deliver the scheme within the commercial terms agreed at tender, thus making the scheme unviable.

1.7. Mace withdrew their tender and provided the council with the designs developed to date in July 2016.

Question 1) The purpose of the project?

1.8. The permanent library in Marylebone was previously located at Westminster Council House (Old Marylebone Town Hall), 97-113 Marylebone Road whose premises were part of the long lease disposal to London Business School. In July 2012, Cabinet reviewed locations for the new Marylebone Library, before deciding that the site at Luxborough Street was the preferred option.

1.9. In late 2012 CityWest Homes (CWH) was appointed as project manager to deliver the library project on behalf of the Council and the brief was for a new reference library and residential accommodation for private sale to cross fund the development.

Question 2) What the project is?

1.10. Planning permission was granted in March 2014 for 1,700m^2 of library space and nine residential units for private sale. This site was appropriated for planning purposes through S.122 of the Local Government Act 1972. This appropriation made powers available to the council under S.237 of the Town & Country Planning Act 1990.

1.11. The library facility was to be provided on the lower floors and was designed to deliver a separate children's library (including an activity zone), a lending area, meeting rooms, a dedicated study area and IT facilities. The first to the fifth floors comprised of residential apartments with a separate entrance and no on-site car parking. Please see Appendix A for the site location, site photographs and a CGI image of the scheme.

1.12. The Council submitted an additional planning application for improvements to the adjoining gardens demised to the residents of Luxborough Tower. This was to be provided to residents as a compensation for the loss of the use of their private amenity play space which formed the new library site.

Question 3) Project costs (original scheduled, actual and abortive)

a) An item by item schedule of the abortive costs involved:

1.13. From a total development budget of £16.8m (Cabinet Member decision, 19th May 2015), the project has incurred spend to date on delivering the new Marylebone Library of £1.387m. The majority of these costs have been incurred on professional fees, design work, development management costs and expenditure on the Pre Services Contract Agreement (PCSA).

1.14. A breakdown of these costs is located in Appendix B.

b) An explanation as to which costs are judged to be applicable to a future unspecified redevelopment scheme on the site?

1.15. Much of the works carried out will be re-used as part of any new development proposed. This is because the majority of this work carried out at the time the development ceased, related to the development of bulk massing and external design of the overall building and did not focus on detailed design stages. It's also of note that it is highly likely that the residential element of the design could be part of a future project and that the amount of work attributable solely to the library use at this site was small by comparison.

1.16. In agreement with the finance team and on this basis (see Appendix B), it is estimated that £832k of the expenditure to date would not be written off to revenue and could be re-used, subject to the Council's auditors agreement. Thus £555k is proposed to be written off to Council revenue as an abortive project cost.

c) An evaluation of whether the costs involved in digging a basement on this site for whatever use envisaged is considered a good use of public money?

1.17. When the planning application was submitted in August 2013, the Council's library requirements needed to be reflected in the scheme. To ensure viability, there needed to be a proportionate residential element of the scheme which was arranged most effectively and at the scale needed across the first to fifth floors. The site constraints including daylight and sunlight aspects which restricted the height of the development meant the space available for the library requirements necessitated a proposed excavation to create enough developable area.

1.18. The planning consent for the Luxborough Street site was delivered in a different financial climate and local requirements regarding what to provide in a library have since changed. The ongoing study of options for the site will determine whether excavation of a basement will be appropriate in the context of a new development.

d) An explanation as to why the project was not re-evaluated when the first contractor pulled out?

1.19. After the first procurement process failed, the Council's Gate 1 Panel met in September 2014 and recommended a change in delivery from the previous provision of a developer led project, to a Council led D&B contract.

1.20. As part of the Gate review process, before a recommendation to progress with the D&B procurement was made, the build costs, as produced by the developers in the first procurement and the risks of self-development were considered against the benefits, of delivering the new library as quickly as possible, in line with the Cabinet's request.

1.21. The design and build contract price received from Mace, fell within the Councils pre-agreed budget for the project and on that price officers' felt that they could demonstrate the project represented value for money. The tender was reviewed by the Gate Panel and on the basis that it was a robust price and it ensured the scheme was viable and deliverable the Gate panel recommended that the Cabinet Member should proceed and award the contract.

1.22. Mace was selected as preferred bidder by the Cabinet Member in May 2015.

Question 4) Lessons Learned – both in terms of costs and the process/project management including an outline of Cabinet member updates

1.23. Both procurements failed when the Council's preferred partner withdrew after failing to meet the terms and conditions laid out in their submitted and accepted tenders. In both cases the Council followed its governance protocols and while these are necessary, the Council should have acknowledged that the contractor holding its price for only 6 months from submission is not always sufficient.

1.24. It is noted that the first procurement started to fail before the 6 month period had expired.

1.25. A period of 6 months is a long duration during phases of significant cost inflation. During these procurements these cost rises were at unprecedented levels.

1.26. Officers have reviewed these procurements with colleagues from both legal and procurement. In order to overcome these failures in the future the following procedures have now been adopted:-

- Direction of travel meetings with third parties during the tender process, allows Officers to ensure that any clarifications post tender are minimised, thus saving time.
- Extensions to the period for which the tender terms are held, which are now considered on a project by project basis. Any cost implications from this facility will be reviewed as part of this process.

- An exclusivity period is being discussed whereby the tenderer would have a set period to enter into a development agreement on the terms tendered.
- Under the new procurement regulations, a post contract review mechanism will now be conducted for relevant new procurements. This is to ensure that third parties who repeatedly change their tendered position are unable to be considered for future projects until they have been cleared by the Council's procurement team.

1.27. Please find beneath an itemised breakdown of relevant Cabinet member updates from 2012.

Table 1 – Schedule of Cabinet & Cabinet Member decisions

Decision By	Title	Decision Date
Cabinet	Future of Council House and Registration Service	11/7/12
Cabinet	Marylebone Library – temporary & permanent relocations	11/7/12
Cabinet Members	Use of Westminster City Council's powers to facilitate the development of land at Luxborough Tower Gardens, Luxborough Street	9/9/14
Cabinet Member	Marylebone Library – Appointment of Developer	19/5/15

If you have any queries about this Report or wish to inspect any of the Background Papers please contact Report Author x1363
dwilde@westminster.gov.uk

APPENDICES:

Appendices

Appendix A – Site location, site photographs and CGI image of scheme

Appendix B – Itemised Luxborough Street development costs

BACKGROUND PAPERS (available on request)

Cabinet & Cabinet Member decisions

Appendix A

Location earmarked by red shaded areas

Photos of former private amenity play space

CGI Image of Scheme

Appendix B *

Cost Type	Costs	% Re-used	Re-used Proportion	Commentary
Site Investigations	£42,081	100%	£42,081	All investigations are transferrable to a new scheme.
Architects	£115,874	65%	£75,318	Amount for RIBA Stages 1-3 (planning) was £75,311. The balance of this total is for RIBA Stage 4 works (detailed design) and unrecoverable
Community Space Architect	£15,000	100%	£15,000	Amount for RIBA Stages 1 - 3 of £15,000 represents planning work
Landscape	£33,299	100%	£33,299	Amount RIBA Stages 1- 3+ represents planning work
Internal Designer	£77,400	0%	£0	Ordered amount is for RIBA Stage 4 library detailed design therefore not recoverable
Building Surveying	£10,460	100%	£10,460	RIBA Stages 1-3 so recoverable
CDM	£1,349	100%	£1,349	CDM advice on RIBA 3 planning designs
Public Consultation / Comms	£8,800	25%	£2,200	This was predominantly linked to the library
QS	£2,575	0%	£0	Independent tender analysis of second tender for library scheme
M&E	£8,200	75%	£6,150	On RIBA Stages 1-3
Party Wall	£2,500	0%	£0	Expired, as expires within 12 months of issue.
Planning	£23,572	80%	£18,858	On overall scheme including residential. Small proportion linked solely to the library
Structural Engineer	£2,000	75%	£1,500	Cost based off Finance cost download
Research (Use)	£12,000	75%	£9,000	Visitor Demand Analysis and Urban Analysis
Project Manager (City West)	£368,351	50%	£184,176	Time spent on RIBA Stages 1-3, RIBA Stage 4 re-useable on Residential element only
Site Hoarding	£7,998	100%	£7,998	Hoarding in situ to keep site secure
Rights of Light paid compensation	£47,000	100%	£47,000	Paid to date. WCC Legal have confirmed RoL claims & compensation could be utilised if a similar building envelope continues going forward

Rights of Light Legal & Surveyor fees	£130,084	100%	£130,084	WCC legal have confirmed legal and surveyor work for both WCC and third parties can be included if building envelope continues going forward
Procurement Legal fees	£19,384	0%	£0	Pinsent Mason and any other legal procurement costs are non-recoverable
Expenses (Planning, Printing)	£2,723	0%	£0	
WCC Salary	£26,435	50%	£13,218	Time spent on RIBA Stages 1-3, RIBA Stage 4 Residential Only
PCSA	£376,324	50%	£188,162	Residential design costs recouped to RIBA Stage 4
Management of BT Asset	£1,990	0%	£0	Previous management cost
Surveyor	£1,640	0%	£0	LSH Surveyor cost
Other Professionals	£93,584	50%	£46,792	Miscellaneous fees some applicable to RIBA Stages 1-3
Total Costs	**£1,430,623**		**£832,644**	
Less Miscodings Transferred	-£42,782		0	
Actual Spend (as per Agresso)	**£1,387,841**			
Re-useable	£832,644			
Write Off to Revenue	£555,197			This includes £22,859 professional costs for temporary library
Variance	**£0**			

* As agreed with Finance, subject to Auditor's review and on a basis a scheme will proceed on this site.

City of Westminster

Policy and Scrutiny Committee

Date:	**9 January 2017**
Classification:	**General Release**
Title:	**Treasury Management Strategy Mid-Year Review 2016-17**
Wards Affected:	**All**
Policy Context:	**City for All**
Cabinet Member	**Cabinet Member for Finance 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 to date and allows for any changes to be made depending on market conditions.**
Report of:	**Steven Mair, City Treasurer**

EXECUTIVE SUMMARY

1.1. This report presents the Council's Half Year Treasury Report for 2016/17 in accordance with the Council's Treasury Management practices. It is a regulatory requirement for this Half Year report to be presented to Cabinet and Full Council.

1.2. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

1.3. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.4. Accordingly, treasury management is defined by the CIPFA Code of Practice as ‘The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.’

1.5. There are two aspects of treasury performance – debt management and cash investments. Debt management relates to the City Council’s borrowing and investments of surplus cash balances.

1.6. This mid-year report has been prepared in compliance with CIPFA’s Code of Practice on Treasury Management, and covers the following:

- A review of the Council’s investment portfolio for 2016/17 to include the treasury position as at 30 September 2016.
- A review of the Council’s borrowing strategy for 2016/17.
- An economic update for the first part of the 2016/17 financial year.
- A review of compliance with Treasury and Prudential Limits for the first six months of 2016/17.

1.7 The Council complied with all elements of the Treasury Management Strategy Statement (TMSS) except for placing two tranches of investments with the National Bank of Abu Dhabi (NBAD) and Qatar National Bank (QNB) and exceeding the counter party limit with Lloyds Bank because of overnight balances. Action has been taken to rectify the position at no loss to the Council and new management arrangements have been put in place. The investments with NBAD and QNB met the Council’s required counterparty credit rating, the banks are included on the list of approved counterparties issued by the Council’s treasury advisor, Capita, have high credit ratings which would more than meet the ratings required in the current TMSS and exceed most UK banks. They were not though included in the permitted country of domicile for banks

1.8 There are various areas in which the TMSS can be widened to increase the opportunities available while still investing in traditional financial instruments and retaining the emphasis on security and liquidity.

Those recommended to be added, subject to due diligence, are:

- Green Energy Bonds
- Building Societies
- Local Government Association
- Other Loans

2. RECOMMENDATIONS

Committee is asked to comment on the:

a) Annual Treasury Strategy 2016-17 Mid-Year Review, noting where the TMSS has been exceeded and the action taken to rectify this

b) The new opportunities to be added to the TMSS for investment purposes as set out in paragraphs 3.14-3.20.

3. TREASURY POSITION AS AT 30 SEPTEMBER 2016

3.1. The borrowing amounts outstanding and cash investment for the 30th September 2016 period are as follows;

	30 September 2016 £m	**31 March 2016 £m**
Total Borrowing	251.3	251.5
Total Cash Balances	(911.1)	(629.3)
Net Surplus	**(659.8)**	**(377.8)**

3.2. The above table shows that during the first six months of the year, net cash inflows of £281.8m have been received. This significant movement reflects the expected pattern of the Authority's cash position and largely relates to the timing of grants, Council Tax and NNDR received.

3.3. The authority is in a significant cash positive position and as such, the peaks and troughs of cash movements are reflected in changes to the investment balance.

Investments

3.4. The Annual Treasury Management Strategy for 2016-17 was approved by the Council on 2 March 2016. The Council's Annual Investment Strategy, which forms part of this document, sets out the Council's policy for giving priority to the security and liquidity of its investments, rather than yield. The Council's agreed policy objective is the prudent investment of treasury balances.

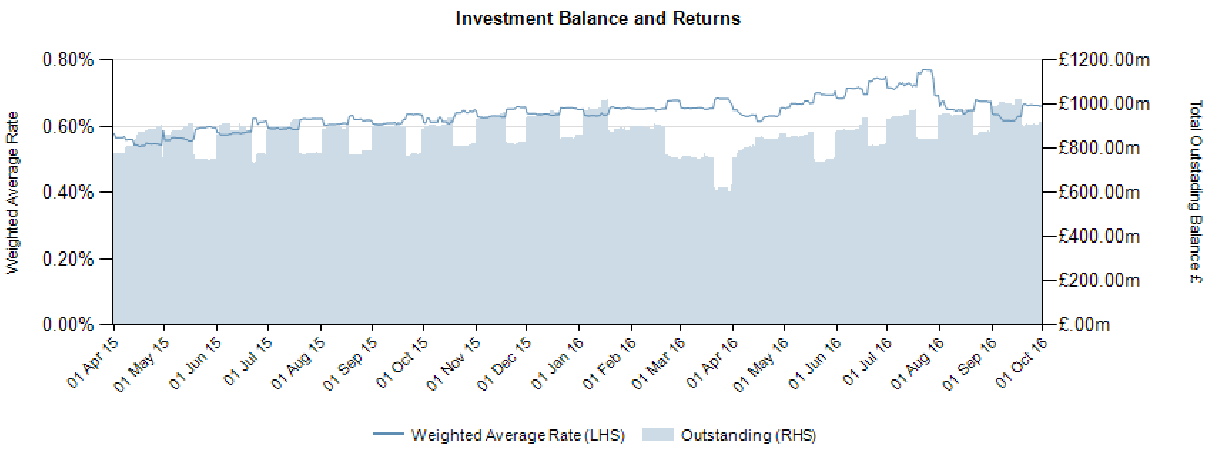
3.5. The Council's investment priorities are to achieve optimum returns on investments subject to a very high level of security of capital and a level of liquidity in its investments appropriate to the Council's projected need for funds over time.

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

	30 September 2016 £m	31 March 2016 £m
Money Market Funds	132.2	79.9
Call Accounts	-	6.0
Notice Accounts	49.2	78.9
Term Deposits	237.0	44.0
Tradable Securities	455.8	388.8
Enhanced Cash Funds	36.9	31.7
Total	**911.1**	**629.3**

3.7. Liquid balances are managed through Money Market Funds which offer 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 the first six month of 2016-17 was £882.6m

3.8. The shaded area in the chart below shows the daily investment balance from April 2015 to September 2016. The line shows the weighted average return of the investment portfolio, which has fluctuated throughout the period but remained relatively stable increasing by 0.01%



3.9 The 2016/17 investment strategy was complied with in the first half-year of 2016/17 except for two tranches of investments placed between May and July 2016 with the National Bank of Abu Dhabi (NBAD) and Qatar National Bank (QNB) totalling £59.8m and exceeding the counterparty limit on the Lloyds bank account since August 2016 because of overnight balances.

3.10 Whilst the investments with NBAD and QNB met the Council's required counterparty credit rating and are included on the list of approved counterparties issued by the Council's treasury advisor, Capita, they were not included in the permitted country of domicile for banks. Nonetheless both banks have high credit ratings which more than meet the ratings required in the current TMSS and exceed most UK banks.

3.11 Since the matters above came to light £49.8m of the investments with NBAD and QNB have been sold at a gain of £0.1m to the Council. The remaining £10m investment is fixed until May 2017 when it will be sold at a further gain of £0.1m. Overnight limits with Lloyds will be managed by not re-investing maturing funds with this bank. A fixed term deposit will mature on the 13th January 2017, at which point the Council will not exceed limits on a daily basis.

3.12 Treasury management practices have also been reviewed and improved to prevent recurrence of the above matters

3.13 **Appendix 1** provides a full list of the Council's limits and exposures as at 30th September 2016.

New Treasury Opportunities

3.14 An update to the Annual Investment Strategy for 2016-17 has been presented to the Council's senior management and the Housing, Finance and Corporate Services Policy and Scrutiny Committee detailing ways in which the return from the Council's short-term cash portfolio can be enhanced while maintaining security and liquidity. This is due to be reviewed by Cabinet and Full Council.

3.15 The opportunities presented include; Green Energy Bonds, Building Societies, Local Government Association and Other Bonds.

3.16 Green Energy Bonds

Investments in solar farms are a form of Green Energy Bonds that provide a secure enhanced yield. The investments are structured as unrated bonds and secured on the assets and contracts of solar and wind farms. Before proceeding with any such investment, internal and external due diligence will be undertaken in advance of investments covering the financial, planning and legal aspects.

3.17 The following limitations will apply when investing in green energy bonds;

- Maximum duration of 10 years
- Maximum investment of £20 million per bond representing less than 25% if the aggregate project investment. Maximum of £50 million in Green Energy Bonds.

3.18 Building Societies

Building Societies are mainly smaller institutions than high street banks that focus on retail customers. Investment types that refer to rated UK banks have been extended to building societies. This will enable building societies with credit ratings of A- to be utilised, including the largest society, Nationwide. A limit of £10m per counterparty and £50m in total for building societies is proposed.

3.19 Local Government Association

The Local Government Association (LGA) approached Westminster City Council to act as an intermediary to enable the LGA to effectively borrow from the soon to be operational Municipal Bond Agency (MBA). The LGA is unable to borrow directly, as it is not a local authority, and is thus seeking to use three local authorities to borrow from the MBA and lend on. The borrowing will be secured on properties owned by the LGA and is to be used to refurbish the properties. A limit of £20m is proposed. If agreed the return on this borrowing will be 0.5% above the rate that the Council will be charged by the MBA. The amount would be secured via a separate agreement with the LGA against Layden House, 76-86 Turnmill Street, London, EC1M 5LG as the first Legal Mortgage against the property

3.20 Other Loans

The Council will allow loans (as a form of investment) to be made to organisations delivering services for the Council where this will lead to the enhancement of Services to Westminster Stakeholders. The Council will undertake due diligence checks to confirm the borrower's creditworthiness before any sums are advanced and will obtain appropriate levels of security or third party guarantees for loans advanced. A limit of £50 million for this type of investment is proposed. The operator of Westminster's leisure centres is seeking to borrow £1.25 million to finance a refurbishment of the leisure centres and this would be the first call on this type of investment opportunity

Borrowing

3.21 The Council's capital financing requirement (CFR) for 2016-17 was agreed at £612.35. The CFR denotes the Council's underlying need to borrow for capital purposes. The outstanding debt as at 30th September was £251.3m.

3.22 Where the CFR exceeds borrowing the Council may choose to cover the difference by borrowing either from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

3.23 As anticipated in the Strategy for 2016/17, to date the Council has undertaken no new borrowing due to the high level of cash holdings. It is anticipated that no borrowing will be undertaken during the financial year; however officers are monitoring market conditions and although it remains highly unlikely, may choose to borrow at current low rates if a requirement is identified for either the General Fund or Housing Revenue Account (HRA).

3.24 The table overleaf shows the details around the Council's external borrowing as at 30th September 2016, split between the General Fund and HRA.

	30th September 2016		31st March 2016	
	Balance (£m)	**Average Rate**	**Balance (£m)**	**Average Rate**
HRA External Borrowing	226.0	4.9%	226.0	4.9%
General Fund External Borrowing	25.3	4.1%	25.5	4.1%
Total Borrowing	251.3	4.8%	251.5	4.8%

3.25 There has been little activity during the first half of 2016-17. A reduction in General Fund External Borrowing of £0.2m has occurred as a result of the early repayment of a mortgage annuity loan as well as small repayments of principal on other General Fund annuity loans.

3.26 As part of the Strategy the Council sets a number of prudential limits for borrowing;

- The Capital Financing Requirement which is the underlying need to borrow for capital purposes.
- The Authorised Limit which is the expected maximum borrowing need with some headroom for unexpected movements; and
- The Operational Boundary which is the expected normal upper requirement of the capital programme were it to be funded by borrowing.

3.27 The limits set for 2016-17 as shown in the tables below and are still considered to be appropriate and no changes are proposed at this time.

4 THE ECONOMY AND INTEREST RATES

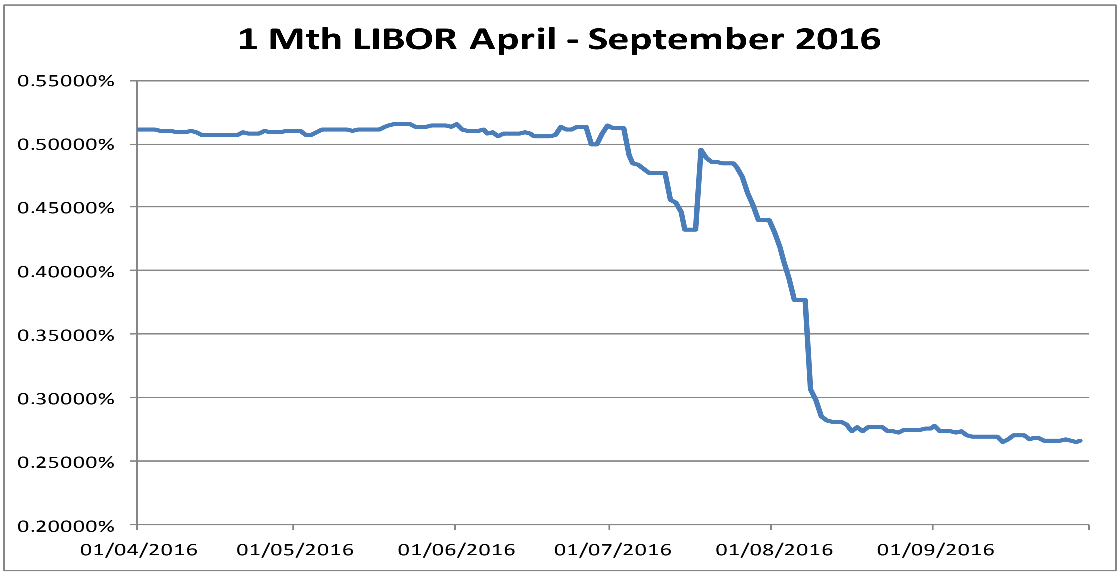
4.1 UK Gross Domestic Product (GDP) rose in the first quarter of the financial year, showing a 2.2% year on year increase. Following the referendum vote to leave the European Union, the Organisation for Economic Cooperation and Development (OECD) reduced its forecast for growth in 2017 to 1%. However, the Office for National Statistics suggested the result had not had a major effect on the UK economy so far.

4.2 Consumer Price Inflation (CPI) is running at 0.6% year on year. However the forecast is that inflation will rise over the next few years, rising above the Monetary Policy Committee’s (MPC) 2% target in 2018. This is mainly due to the recent fall in the value of Sterling following the referendum result.

4.3 Bank Rate remained at 0.5% until the August meeting of the MPC when the committee voted to cut Bank Rate to 0.25% and increase quantitative easing by £60 billion. This was in response to the immediate aftermath of the referendum result. The Governor of the Bank of England also indicated further measures would be taken if required.

4.4 Long term interest rates have also fallen with 20 to 30 year Public Works Loan Board rates lower by around 70 basis points.

4.5 The chart below shows movements in the 1 month London Interbank Offer Rate during the first half of the financial year:



UK data releases over the last few weeks were little different from that forecasted. They showed that many sectors of the economy have exceeded their performance expectations following the UK's decision to leave the European Union in June.

5 COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

5.1 During the financial year to September 2016, the Council has operated within the Prudential Indicators set out in the Annual Treasury Strategy and in compliance with the Council's Treasury Management Practices. The table below sets out the limits on borrowing required under the Prudential Code (namely the authorised limit and the operational boundary) and approved by Council in the TMSS on 2 March 2016. The actual level of Council borrowing was well within both limits during the first half of 2015/16 reaching a maximum level of £251.5m as shown in the table below:

External debt indicator	Approved Limit (£m)	Maximum Borrowing in the period to date (£m)	Days exceeded
Authorised limit	612	251.5	None
Operational boundary	270	251.5	None

5.2 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.

5.3 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 foreseeable future.

5.4 The maturity structure of borrowing shows the proportion of loans maturing in each time period. The purpose of this indicator is to highlight any potential refinancing risk that the authority may be facing if any one particular period had a disproportionate level of maturing loans

5.5 The table below shows the maturity structure as at 30th September 2016 was within the limits set and does not highlight any significant issues.

Maturity structure of borrowing	Upper Limit (%)	Lower Limit (%)	Actual as at 30 September 2016 (%)
Under 12 months	40	0	0
12 months and within 24 months	35	0	12
24 months and within 5 years	35	0	8
5 years and within 10 years	50	0	11
10 years and above	100	35	69

5.6 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 limits for 2016/17 were set sufficiently wide as to permit all loans to be at fixed rates and all investments to be at variable rates. If the portfolios were managed on this basis, it would expose the Council to the risk of interest rates being low for an extended period of time.

Upper limits on Interest Rate Exposure	**Approved maximum limit**	**Actual as at 30 September 2016 (£m)**
Fixed Rate Debt	258	251
Variable Rate Debt	0	0

5.7 The final treasury management prudential indicator relates to containing investment risk by setting a maximum amount which can be invested for more than 364 days. As referred to earlier in this report, the short duration of the portfolio demonstrates that the current position is within the approved limits.

	Approved maximum limit (£m)	**Actual as at 30 September 2016 (£m)**
Limit on investments for periods over 364 days	200	24.9

6 BACKGROUND AND FINANCIAL AND LEGAL IMPLICATIONS

6.1 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.

6.2 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. The Annual Investment Strategy must have regard to guidance issued by CLG and must be agreed by the full Council.

7 BACKGROUND PAPERS

Full Council Report

Treasury Management – Annual Strategy for 2016/17, including Prudential Indicators and Statutory Borrowing Determinations – 2nd March 2016.

If you have any queries about this Report or wish to inspect any of the Background Papers, please contact:

Peter Carpenter, Director of Treasury & Pensions

Tel: 020 7641 2832

Email: pcarpenter@westminster.gov.uk

Appendix 1 – Limits and exposures as at 30th September 2016

Category	Limit per Counterparty (£m)	Duration Limit	Counterparty Name	Current Exposure (£m)
UK Government (Gilts/ T-Bills/ Repos)	Unlimited	Unlimited	Treasury Bills	19.9
			Gilt	24.9
European Agencies	£200m	5 years	European Investment Bank	45.8
			Kunta (Municipal Finance Ltd)	8.8
			KBN (Kommunalbanken)	10.0
			FMS Wertmanagement	5.2
Network Rail	Unlimited	Oct 2052	Network Rail Infrastructure PLC	10.0
UK Local Authorities	£50m per local authority; £100m in aggregate	3 years	Leeds City Council	10.0
Money Market Funds	£70m per fund. £300m in total	Three day notice	Aberdeen Sterling Fund Flexible Income F130 Fund	70.0
			Deutsche Managed Sterling Platinum	15.0
			Federated Prime Rate Sterling Liquidity 3	47.2
Enhanced Cash Funds	£25m per fund. £75m in total	Up to seven day notice	Deutsche Sterling Ultra Short Fixed Income Fund	5.0
			Federated Prime Rate Cash Plus	15.2
			Payden & Rygel Sterling Reserve	16.6
UK Banks (AA-/ Aa3/ AA-)	£75m	5 years	HSBC Bank Plc	49.2
UK Banks (A-/ A3/ A-)	£50m	3 years	Barclays Bank Plc	50.0
			Lloyds Bank	50.0
			Santander UK Plc	20.0
			Standard Chartered	40.0
			Sumitomo Mitsui Banking Corporation	20.0
UK Bank (BBB+)			The Royal Bank of Scotland Plc	14.0
Non-UK Banks (AA-/ Aa2/ AA-)	£50m	5 years	Canadian Imperial Bank of Commerce	30.0

			Commonwealth Bank of Australia	48.0
			National Australia Bank	10.0
			National Bank of Abu Dhabi	10.0
			Nordea Bank AB	10.0
			Qatar National Bank	26.8
			Toronto Dominion Bank	50.0
			Svenska Handelsbanken AB	50.0
Non-UK Banks (A/ A2/ A)	£35m	3 years	Credit Industriel et Commercial	30.0
			Helaba	35.0
			ING Bank NV	20.0
			UBS AG	30.0
			Skandinaviska Enskilda Banken AB	14.2

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City of Westminster

HOUSING, FINANCE AND CORPORATE SERVICES POLICY AND SCRUTINY

Date:	9 January 2017
Status:	For General Release
Title:	Draft Treasury Management Strategy Statement for 2017/18 to 2021/22
Wards Affected:	All
Policy Context:	To manage the Council's finances prudently and efficiently.
Financial Summary:	The Annual Treasury Management Strategy Statement sets out the Council's strategy for ensuring that: 1. Its capital investment plans are prudent, affordable and sustainable; 2. The financing the Council's capital programme and ensuring that cash flow is properly planned 3. Cash balances are appropriately invested to generate optimum returns having regard to security and liquidity of capital.
Report of:	Steven Mair, City Treasurer

1. EXECUTIVE SUMMARY

1.1 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.

1.2 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 CLG and must be agreed by the full Council.

1.3 This report sets out the Council's proposed Treasury Management Strategy Statement (TMSS) for the period 2017/18 to 2021/22, and Annual Investment Strategy (AIS) for the year ended 31 March 2018, together with supporting information.

1.4 The TMSS and AIS form part of the Council's overall budget setting and financial framework, and will be finalised and updated as work on the Council's 2017/18 budget is progressed in January and February 2017.

2. RECOMMENDATIONS

2.1 The Committee is asked to review in advance of further work as noted above and approval by Cabinet and then Full Council:

(i) The Treasury Management Strategy Statement set out in sections 5 to 7;
(ii) The prudential Indicators set out in section 8;
(iii) The overall borrowing strategy and borrowing limits for 2017/18 to 2021/22 as detailed in section 6;
(iv) Investment strategy and approved investments set out in Appendix 1;
(v) The Minimum Revenue Provision Policy set out in Appendix 2.

3. REASONS FOR DECISIONS

3.1 To comply with the Local Government Act 2003, other regulations and guidance and to ensure that the Council's borrowing and investment plans are prudent, affordable and sustainable and comply with statutory requirements.

If you have any queries about this Report or wish to inspect any of the Background Papers, please contact:

Steven Mair, City Treasurer

Tel: 020 7641 2904

Email: smair@westminster.gov.uk

BACKGROUND PAPERS

Treasury Management Strategy Statement 2016/17 (Approved by Council March 2016) and Amendment to Investment Strategy 2016/17 (Approved by Council November 2016)

1. Section 3 Local Government Act 2003
2. Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended
3. DCLG Guidance on Minimum Revenue Provision 2012
4. DCLG Guidance on Local Government Investments – March 2010
5. CIPFA Prudential Code for Capital Finance in Local Authorities, 2011
6. CIPFA Treasury Management Code of Practice, 2011

4. BACKGROUND INFORMATION

4.1 The Council is required to operate a balanced budget, which broadly means that monies received during the year will cover expenditure. The function of treasury management is to ensure that:

(i) The Council's capital programme and corporate investment plans are adequately funded;

(ii) Cash is available when it is needed on a day to day basis, to discharge the Council's legal obligations and deliver Council services;

(iii) Surplus monies are invested wisely.

4.2 The Council has formally adopted CIPFA's Code of Practice on Treasury Management, and follows the key requirements of the Code as set out in Appendix 3.

4.3 The TMSS covers three main areas summarised below:

4.3.1 Capital spending

- Capital spending plans and other investment opportunities
- CFR projections and affordability
- The Minimum Revenue Provision (MRP) policy (Appendix 2)

4.3.2 Borrowing

- Overall borrowing strategy
- Expected borrowing rates
- Limits on external borrowing
- Maturity structure of borrowing;
- Policy on borrowing in advance of need;
- Debt rescheduling.

4.3.3 Managing cash balances

- The current and forecast cash position
- Council policy on investing and risk
- Expected return on investments
- Short and long term investments.

4.4 The Annual Investment Strategy (AIS) at Appendix 1 provides more detail on how the Council's surplus cash investments are to be managed in 2017/18. Approved schedules of specified and non-specified investments will be updated following consideration by Members and Schedules of approved and finalisation of 2017/18 budget plans.

TREASURY MANAGEMENT STRATEGY STATEMENT

5. SECTION 1 - CAPITAL SPENDING

Capital spending plans

5.1 Table 1 summarises the Council's capital expenditure plans, both in terms of those agreed previously, and those forming part of the current budget cycle. The table sets out the Council's current expectations about whether these plans are to be financed by capital or revenue resources.

5.2 Compared with the forecast in the 2016/17 TMSS General Fund capital spend has slipped back by around £100m in 2016/17 to 2017/18 and future years, and the HRA capital programme reflects an increase of £100m per annum over the period 2017/18 to 2020/21. The risks are that:

(i) continued slippage in new starts will push borrowing requirements to later years when interest rates are forecast to be higher than currently;

(ii) slippage in the programme of capital receipts may increase the need to borrow in the medium-term.

Table 1 Capital spending and funding plans

2015/16 Actual £m		2016/17 Forecast £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	Total £m
	Expenditure							
69	General Fund	187	323	282	215	158	166	**1,331**
55	HRA	71	138	189	142	137	93	**770**
124	**TOTAL**	**258**	**461**	**471**	**357**	**295**	**259**	**2,101**
	Funding							
	General Fund							
30	Grants & Contributions	93	116	103	31	44	5	**392**
12	Capital receipts applied	20	93	32	26	104	52	**327**
	HRA							
2	Grants & Contributions	3	18	5	9	13	13	**61**
10	Capital receipts applied - RTB	6	46	127	90	68	49	**386**
23	Major Repairs Reserve (MRR)	24	24	24	24	24	24	**144**
17	Revenue financing	8	44	18	15	9	6	**100**
94	**TOTAL**	**154**	**341**	**309**	**195**	**262**	**149**	**1,410**
30	**Net financing need for the year**	**104**	**120**	**162**	**162**	**33**	**110**	**691**

Other investment opportunities

5.3 As well as investing in assets owned by the Council and used in the delivery of services, the Council also invests, where appropriate, in:

(i) Infrastructure projects, such as green energy;

(ii) Loans to third parties;

(iii) Shareholdings in limited companies and joint ventures.

5.4 Such investments are treated as expenditure for treasury management and prudential borrowing purposes even though they do not create physical assets in the Council's accounts. Appropriate budgets in respect of these activities will be agreed as part of the Council's budget setting and ongoing monitoring processes and considered as part of the Investment Strategy.

5.5 In addition the Council has a substantial commercial property portfolio which forms part of the investment strategy. In previous years, the Council has invested in traditional asset classes of offices, retail and industrial/logistics, which meet the Council requirements for the income to be secure and reliable and the investments low risk.

5.6 Following a Cabinet decision in late 2015, the Council allocated funds to invest in commercial property commencing 2016/17 The aim is to diversify the property portfolio into sectors that have historically been considered alternatives but are increasingly being viewed as mainstream. The strategy focuses on increasing the income generated by the Council from its property holdings while also improving the quality of the Council's current portfolio. This will be further progressed in 2017/18 within the overall context of the Council's annual investment strategy.

Capital Financing Requirement (CFR)

5.7 The CFR measures the extent to which capital expenditure has not yet been financed from either revenue or capital resources. Essentially it measures the Council's underlying borrowing need. Each year, the CFR will increase by the amounts of new capital expenditure not immediately financed.

5.8 Table 2 below shows that the CFR will increase over the medium term. Consequently, the capital financing charge to revenue will increase, reflecting the capital spending plans.

Table 2 Capital Financing Requirement forecast

2015/16 Actual £m		2016/17 Forecast £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
	CFR as at 31 March						
215	General Fund	286	398	539	688	688	782
256	HRA	286	292	307	311	334	335
471	**TOTAL**	**572**	**690**	**846**	**999**	**1,022**	**1,117**
	Annual change in						
12	General Fund	71	111	142	149	(1)	94
2	HRA	30	6	15	4	23	1
14	**TOTAL**	**101**	**117**	**157**	**153**	**22**	**95**
	Reasons for Change						
30	Net financing	104	119	162	162	33	110
(4)	Less MRP	(3)	(2)	(5)	(9)	(11)	(15)
(12)	Less Capital Receipts	0	0	0	0	0	0
14	**TOTAL**	**101**	**117**	**157**	**153**	**22**	**95**

5.9 Table 3 below confirms that the Council's gross debt does not exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for current year and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

Table 3 Borrowing compared to the Capital Financing Requirement

2015/16 Actual £m		2016/17 Forecast £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
251	Gross Projected Debt	251	251	331	559	585	764
471	Capital Financing Requirement	572	689	846	999	1,022	1,117
220	**Under / (over) borrowing**	**321**	**438**	**515**	**440**	**437**	**353**

Affordability

5.10 The objective of the affordability indicators is to ensure that the level of investment in capital assets proposed remains within sustainable limits, and in particular, the impact on the Council's "bottom line" as reflected in the impact on council tax and rent levels. Table 4 below sets out the expected ratio of capital financing costs to income for both General Fund and HRA activities:

Table 4 Ratio of capital financing costs to income

2015/16 Actual %		2016/17 Forecast %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %
1.37	General Fund	0.32	(0.55)	2.03	7.07	7.78	12.11
35.86	HRA	31.25	32.21	31.57	32.02	32.42	32.30

5.11 For 2016/17 and 2017/18, gross capital financing charges (loan interest, MRP and finance and PFI payments) for the General Fund capital programme are largely outweighed by income from investments and the commercial property portfolio. However in future years the Council will begin to incur increasing capital financing charges in line with the forecast increase in the General Fund CFR in Table 2.

5.12 The capital financing charges arising from the HRA capital programme increase in line with the forecast increase income, hence capital charges as a proportion of the HRA net revenue stream remain in the range 31% to 32%.

5.13 Table 5 below sets out the Incremental impact of the capital programme on council tax and housing rents.

Table 5 Impact of capital investment decisions on council tax and housing rents

2015/16 Actual £		2016/17 Forecast £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £	2021/22 Estimate £
(11.56)	Increase/(decrease) in Council Tax (band D) per annum	(13.63)	(2.84)	41.26	60.56	15.18	45.97
6.68	Increase/(decrease) in average housing rent per week	(1.19)	0.76	(0.22)	0.86	1.93	1.71

5.14 For the General Fund capital programme, although the ratio of capital financing costs to income is relatively low as shown in Table 4 above, there is a much greater impact on council tax as shown in Table 5, because the Council has a very low council taxbase. The decrease in 2017/18 of £2.84 per Band D council tax reflects the reduction in capital financing costs in 2017/18 compared to 2016/17, and the subsequent increase reflects the increase in capital charges as the capital programme progresses.

5.15 The capital charges from the HRA capital programme increase is gradual and therefore there is relatively little impact on housing rents between years as shown in Table 5.

6. SECTION 2 - BORROWING

Overall borrowing strategy

6.1 The Council's main objective when borrowing money is to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required. Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. The key factors influencing the 2017/18 strategy are:

(i) forecast borrowing requirements,

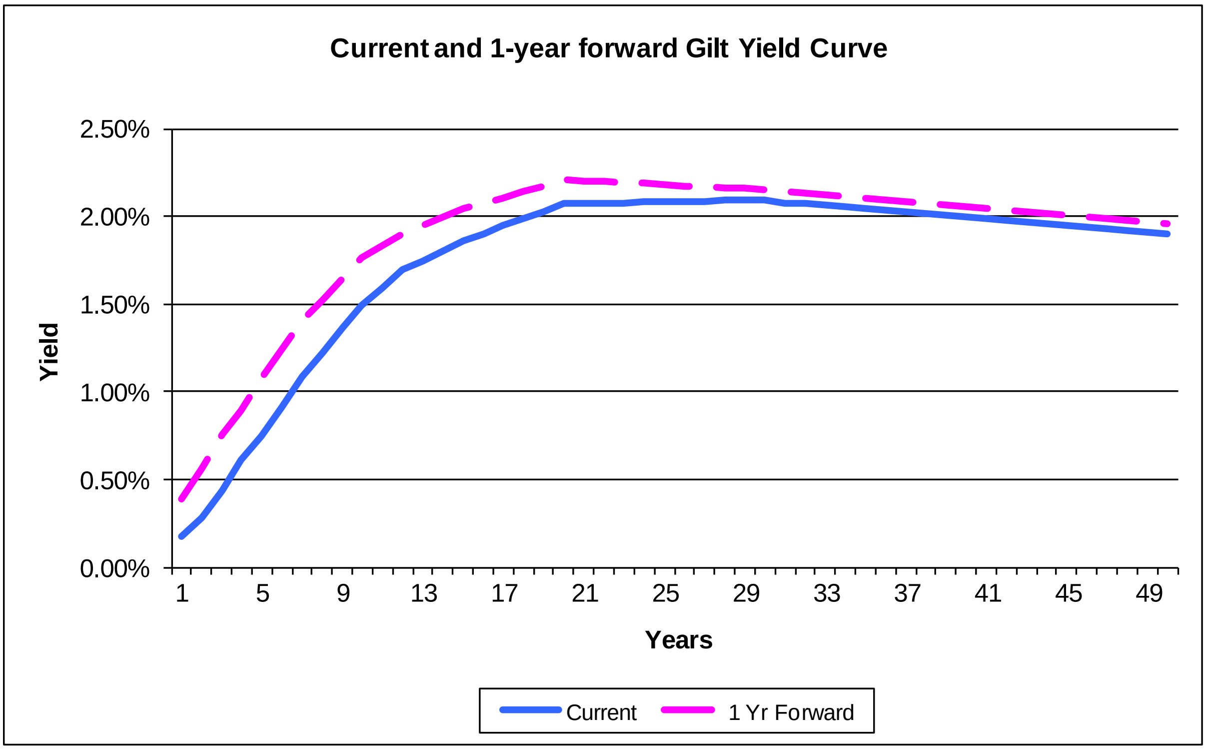
(ii) the current economic and market environment, and

(iii) interest rate forecasts.

6.2 The Council is currently maintaining an under-borrowed position. This means that capital expenditure has not been fully funded from loan debt as other funding streams (such as government grants and 3rd party contributions, use of Council reserves and cash balances and capital receipts) have been employed where available. This policy has served the Council well over the last few years while investment returns have been low and counterparty risk has been relatively high.

Prospects for Interest Rates

6. 3 However, the borrowing position needs to be kept under review to avoid incurring higher borrowing costs in future years when the Council may not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt. Market commentators are forecasting an increase in interest rates across all maturities (see graph below) – though a limited increase rather than a material change. More detail on their interest rate forecasts is at Appendix 4.



Source: Bloomberg

6.4 Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 treasury operations. The Treasury Management team will continue to monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances (within their approved remit).

6.5 If it were considered that there was a significant risk of a sharp fall in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

6.6 In the event that interest rates rose beyond the forecast used in the capital programme the revenue interest cost to the Council would increase. A rise of an extra 1% would cost £6m a year at peak external borrowing requirements of the capital programme for the period 2016/17 to 2021/22.

Borrowing limits

6.7 The Prudential Code requires the Council to set two limits on its total external debt, as set out in Table 6 below. The limits have been reduced by 10-20% per annum compared with the 2016/17 TMSS to reflect slippage in the capital programme. The limits are:

(i) **Authorised Limit for External Debt (Prudential Indicator 7a)** – This is the limit prescribed by section 3(1) of the Local Government Act 2003 representing the maximum level of borrowing which the Council may incur. It reflects the level of external debt which, while not desired, could be afforded in the short term, but may not be sustainable in the longer term.

(ii) **Operational Boundary (Prudential Indicator 7b)** – This is the limit which external debt is not normally expected to exceed. The boundary is based on current debt plus anticipated net financing need for future years.

Table 6 Overall borrowing limits

2015/16 Actual £m		2016/17 Forecast £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
	Authorised Limit for external						
471	Borrowing and other long term liabilities	572	689	846	999	1,022	1,117
	Operational Boundary for						
251	Borrowing	251	251	331	559	585	764
15	Other long term liabilities	12	11	11	11	10	10
266	**Total**	**263**	**262**	**342**	**570**	**595**	**774**

6.8 In addition, borrowing for the HRA has to remain within the HRA Debt Limit (prescribed in the HRA Self-Financing Determinations 2012) as detailed in the table below. Borrowing for the HRA is measured by the HRA CFR.

Table 7 HRA borrowing

2015/16 Actual £m		2016/17 Forecast £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
333	HRA Debt Limit	334	334	334	334	334	334
256	HRA CFR	286	292	307	311	334	334
77	**Headroom**	**48**	**42**	**27**	**23**	**0**	**0**

6.9 The City Treasurer reports that the Council complied with these indicators in the current year and does not envisage difficulties for the future.

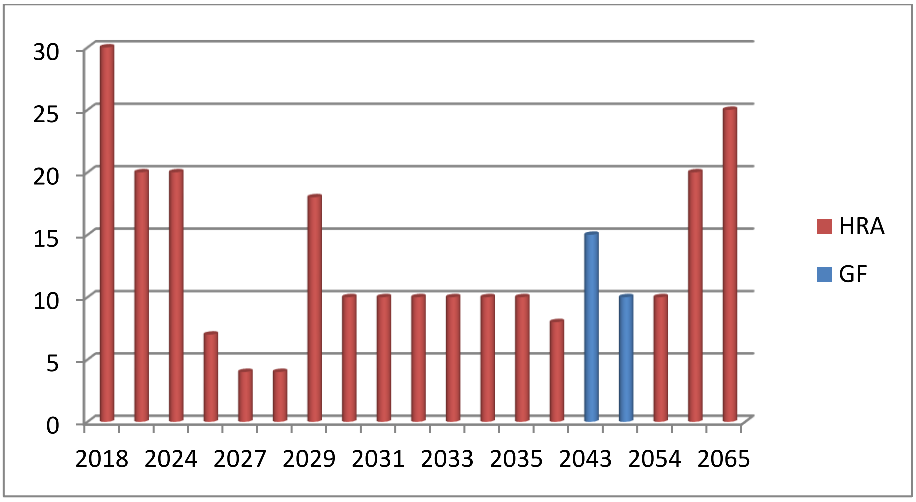
Maturity structure of borrowing (Prudential Indicator 10)

6.10 Managing the profile of when debt matures is essential for ensuring that the Council is not exposed to large fixed rate sums falling due for re-financing within a short period, and thus potentially exposing the Council to additional cost. Table 8 below sets out current upper and lower limits for debt maturity which are unchanged from 2016/17. The chart below shows the principal repayment profile for current council borrowing remains within these limits.

Table 8 Debt maturity profile limits

Actual maturity at 30 Sept 2016 %		upper limit %	lower limit %
0	under 12 months	40	0
12	12 months and within 24 months	35	0
8	24 months and within 5 years	35	0
11	5 years and within 10 years	50	0
69	10 years and above	100	35

Maturity profile of long-term borrowing



6.11 The Council has £70 million of LOBO (Lender Option Borrower Option) debt, none of which matures in the near future. Were the lender to exercise their option, officers will consider accepting the new rate of interest or repaying (with no penalty). Repayment of the LOBO may need to be considered for re-financing.

6.12 In the event that there is a much sharper rise in long and short term rates than currently forecast, then the balance of the loan portfolio will be re-visited with a view to taking on longer term fixed rate borrowing in anticipation of future rate rises.

Policy on Borrowing in Advance of Need

6.13 The Council has the power to borrow in advance of need in line with its future borrowing requirements under the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003, as amended. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

6.14 Risks associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt Rescheduling

6.15 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the cost of debt repayment (premiums incurred).

6.16 The reasons for any rescheduling to take place will include:

(i) generating cash savings and / or discounted cash flow savings;
(ii) helping to fulfil the treasury strategy; and
(iii) enhancing the balance of the portfolio by amending the maturity profile and/or the balance of volatility.

6.17 Consideration will also be given to identifying the potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

6.18 Any rescheduling will be reported to Housing, Finance & Customer Services Policy and Scrutiny Committee, in accordance with the usual monitoring cycle.

7. SECTION 3 - MANAGING CASH BALANCES

Current cash position and cash flow forecast

7.1 Table 9 below shows that cash balances have increased by £282m in the past six months which is mainly due to income such as council tax, business rates and grants received in advance.

Table 9 Cash position at 30 September 2016

As at 31 March 2016 Principal £m	Average Rate %		As at 30 September 2016 Principal £m	Average Rate %
		Investments		
585		Specified	886	
44		Non - specified	25	
629	**0.59**	**Total Investments**	**911**	**0.66**
		Borrowing		
181	4.75	Public Works Loan Board	181	4.75
70	5.08	Market Loans	70	5.08
251	**4.84**	**Total Borrowing**	**251**	**4.84**

7.2 The medium-term cash flow forecast (see below) shows that the Council has a substantial positive cashflow position with an average cash position of more than £600m for the medium-term. The reason for the high cash balance is largely due to business rates and the amount held pending rating appeals.

Table 10 Medium-term cashflow forecast

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Balance at 1 April	**820**	**700**	**587**	**652**	**630**
Movement in Cash					
Capital Receipt	139	159	116	172	101
Grants & Contributions	134	108	40	57	18
Revenue Financing/ MRR	68	42	39	33	30
Cash In	**341**	**309**	**195**	**262**	**149**
Capital Programme	(461)	(472)	(357)	(295)	(259)
Cash Out	**(461)**	**(472)**	**(357)**	**(295)**	**(259)**
Borrowing	0	80	227	26	180
Repayment of debt		(30)		(15)	(5)
Balance 31 March	**700**	**587**	**652**	**630**	**693**
Average Balance	**760**	**644**	**620**	**641**	**661**

7.3 Approved Council policy is to set aside £150m to provide working capital and cover day to day contingencies. Therefore an average of £450m is available to be invested over the longer-term without impacting on the Council's need for liquidity.

Prospects for Investment Returns

7.4 Investment returns on cash-based deposits are likely to remain low during 2017/18 and beyond. Borrowing interest rates have been on a generally downward trend during most of 2016; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of August when a new package of quantitative easing purchasing of gilts was announced.

7.5 Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. The Council is therefore committed to investigating and pursuing alternatives to cash-based investments where it is considered prudent to do so.

Council policy on investing and managing risk

7.6 The aim is to manage risk and reduce the impact of any adverse movement in interest rates on the one hand but at the same time not setting the limits to be so restrictive that they impair opportunities to reduce costs or improve performance.

Balancing short and longer term investments

7.7 During the first half of 2016/17 investment of surplus funds for more than 364 days totalled £24.9m which was well within the upper limit for such investments of £200m.

Table 11 Investment limits

2015/16 Actual £m		2016/17 Forecast £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
	Upper limit for fixed interest rate exposure						
251	Net principal re fixed rate borrowing	251	251	331	559	585	764
	Upper limit for variable rate exposure						
0	Net principal re variable rate borrowing	0	0	0	0	0	0
25	Upper limit for principal sums invested for more than 364 days	200	450	450	450	450	450

7.8 In view of the limited investment returns currently being experienced on short term cash-based investments and the substantial positive cashflow position over the medium-term (see paragraph 7.2 above), it is suggested that for 2017/18 and future years the Council consider increasing its limit on longer term investments (i.e. non-specified investments) to £450m for the next 5 years.

8. SUMMARY OF PRUDENTIAL INDICATORS (PIs)

8.1 The purpose of prudential indicators (PIs) is to provide a reference point or "dashboard" so that senior officers and Members can:

(i) easily identify whether approved treasury management policies are being applied correctly in practice and

(ii) take corrective action as required.

8.2 As the Council's s151 officer, the City Treasurer has a responsibility to ensure that appropriate PIs are set and monitored and that any breaches are reported to Members.

8.3 The City Treasurer has confirmed that the PIs set out below are all expected to be complied with in 2016/17 and he does not envisage at this stage that there will be any difficulty in achieving compliance with the suggested indicators for 2017/18.

PI ref	Para ref		2015/16 actual	2016/17 forecast	2017/18 proposed
1	5.2	Capital expenditure	£30m	£104m	£120m
2	5.8	Capital Financing Requirement (CFR)	£471m	£572m	£690m
3	5.9	Net debt vs CFR	£220m underborrowing	£321m underborrowing	£438m underborrowing
4	5.10	Ratio of financing costs to revenue stream	GF 1.37% HRA 35.86%	GF 0.32% HRA 31.25%	GF (0.55%) HRA 32.21%
5	5.12	Incremental impact of new capital investment decisions on council tax	£11.56 decrease in Band D council tax charge per annum	£13.63 decrease in Band D council tax charge per annum	£2.84 decrease in Band D council tax charge per annum
6	5.12	Impact of new capital investment decisions on housing rents	£6.68 increase in average rent per week	£1.19 decrease in average rent per week	£0.76 increase in average rent per week
7a	6.7	Authorised limit for external debt	£471m	£572m	£689m
7b	6.7	Operational debt boundary	£266m	£263m	£262m
7c	6.8	HRA debt limit	£333m	£334m	£334m
8	7.3	Working capital balance	£150m	£150m	£150m
9	7.7	Limit on surplus funds invested for more than 364 days (i.e. non-specified investments)	£25m	£200m	£450m
10	6.10	Maturity structure of borrowing	Upper limit under 12 months - 40% Lower limit 10 years and above - 35%	Upper limit under 12 months - 40% Lower limit 10 years and above - 35%	Upper limit under 12 months - 40% Lower limit 10 years and above - 35%

ANNUAL INVESTMENT STRATEGY

1. The Council holds significant invested funds, representing income received in advance of expenditure, balances and reserves. During the first half of the current year, the Council's average investment balance has been around £882m and the cash flow projections shows this pattern is expected to continue in the forthcoming year. Investments are made with reference to the core balance, future cash flow requirements and the outlook for interest rates.

2. The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Investment Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

3. In accordance with the above guidance and to minimise the risk to investments, the Council applies minimum acceptable credit criteria to generate a list of highly creditworthy counterparties which will provide security of investments, enable diversification and minimise risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Investment returns expectations

4. Bank Rate was cut in August 2016 from 0.50% to 0.25%. It is forecast there will be a further cut during 2017 bringing the base rate down to 0.10% and it is not expected to rise back to 0.25% until quarter 2 2019. Bank Rate forecasts for financial year ends (March) are:

2016/17	0.25%
2017/18	0.25%
2018/19	0.25%
2019/20	0.75%

5. The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows

2017/18	0.40%
2018/19	0.60%
2019/20	1.25%
2020/21	1.50%
2021/22	1.50%

Investment time limits

6. This limit is set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment. For the year 2017/18, the proposed limit of investments for over 364 days is £450m as set out in table 11 of the TMSS.

Investment Policy

7. The Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to assess continually and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

8. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Creditworthiness Policy

9. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

   (i) It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security; and

   (ii) It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

10. The City Treasurer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to those which determine which types of investment instrument are either specified or non-specified as they provide an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

11. The Council takes into account the following relevant matters when proposing counterparties:

   (i) the financial position and jurisdiction of the institution;
   (ii) the market pricing of credit default swaps[1] for the institution;
   (iii) any implicit or explicit Government support for the institution;
   (iv) Standard & Poor's, Moody's and Fitch's short and long term credit ratings;
   (v) Sovereign ratings to select counterparties from only the most creditworthy countries; and
   (vi) Core Tier 1 capital ratios[2].

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[1] Credit Default Swaps (CDS) are tradable instruments where the buyer receives a pay-out from the seller if the party to whom the CDS refers (often a financial institution) has a "credit event" (e.g. default, bankruptcy, etc.). The price of the CDS gives an indication to the market's view of likelihood – the higher the price the more likely the credit event.

[2] The Tier 1 capital ratio is the ratio of a bank's core equity capital to its total risk-weighted assets (RWA). Risk-weighted assets are the total of all assets held by the bank weighted by credit risk according to a formula

12. Changes to the credit rating will be monitored and in the event that a counter party is downgraded and does not meet the minimum criteria specified in Appendix 1, the following action will be taken immediately:

(i) no new investments will be made;

(ii) existing investments will be recalled if there are no penalties; and

(iii) full consideration will be given to recall or sale existing investments which would be liable to penalty clause.

Specified and Non-specified investments

13. The DCLG Guidance on Local Government Investments made under section 15(1) of the Local Government Act 2003, places restrictions on Local authorities around the use of specified and non-specified investments. A specified investment is defined as an investment which satisfies all of the conditions below:

(i) The investment and any associated cash flows are denominated in sterling;
(ii) The investment has a maximum maturity of one year;
(iii) The investment is not defined as capital expenditure; and
(iv) The investment is made with a body or in an investment scheme of high credit quality; or with the UK Government, a UK Local Authority or parish/community council.

14. A non-specified investment is any investment that does not meet all the conditions above. In addition to the long-term investments listed in the table at the end of Appendix 1, the following non-specified investments that the Council may make include:

(i) **Green Energy Bonds** - Investments in solar farms are a form of Green Energy Bonds that provide a secure enhanced yield. The investments are structured as unrated bonds and secured on the assets and contracts of solar and wind farms. Before proceeding with any such investment, internal and external due diligence will be undertaken in advance of investments covering the financial, planning and legal aspects.

(ii) **Loans** - The Council will allow loans (as a form of investment) to be made to organisations delivering services for the Council where this will lead to the enhancement of services to Westminster Stakeholders. The Council will undertake due diligence checks to confirm the borrower's creditworthiness before any sums are advanced and will obtain appropriate levels of security or third party guarantees for loans advanced. The Council would expect a return commensurate with the type and duration of the loan. A limit of £50 million for this type of investment is proposed with a duration of over the life of the asset and Council's cash flow requirements. The operator of Westminster's leisure centres is seeking to borrow £1.25 million to finance a refurbishment of the leisure centres and this would be the first call on this type of investment opportunity. All loans would need to be in line with the Council's Scheme of Delegation and Key Decision thresholds levels

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determined by the Regulator (usually the country's central bank). Most central banks follow the Basel Committee on Banking Supervision (BCBS) guidelines in setting formulae for asset risk weights.
The Core Tier 1 ratios for the four UK banks that WCC uses are: Barclays: 10.2%, HSBC: 11.2%, Lloyds: 12.0% and RBS: 10.8%.

(iii) **Shareholdings in limited companies and joint ventures** – The Council invests in three forms of company:

- Small scale businesses funded through the Civic Enterprise Fund aimed at promoting economic growth in the area. Individual investments are no more than £0.5m and the aim is for the Fund to be self-financing over the medium-term

- Trading vehicles which the Council has set up to undertake particular functions. These are not held primarily as investments but to fulfil Council service objectives. For example, CityWest Homes is a company limited by guarantee to run the housing arms-length management organisation. Any new proposals will be subject to due diligence as part of the initial business case. As these are not to be held primarily as investment vehicles, then there is an expectation that they will break-even.

- Trading vehicles held for a commercial purpose where the Council is obliged to undertake transactions via a company vehicle. These will be wholly owned subsidiaries of the Council with the aim of diversifying the investment portfolio risk.

15. For any such investments, specific proposals will be considered by the Director of Treasury and Pensions, and approved by the s151 Officer after taking into account:

(i) cash flow requirements

(ii) investment period

(iii) expected return

(iv) the general outlook for short to medium term interest rates

(v) creditworthiness of the proposed investment counterparty

(vi) other investment risks.

16. The value of non-specified investments will not exceed their Investment allocation. The Council must now formulate a strategy that allocates it's cash in the most effective manner to short, medium and long term non-specified investments.

Country of Domicile

17. The current TMSS allows deposits / investments with financial entities domiciled in the following countries: Australia, Canada, Denmark, Finland, France, Germany, Japan, Luxembourg, Netherlands, Norway, Singapore, Spain, Sweden, Switzerland, UK and USA. This list will kept under review and any proposed changes to the policy reported to the next meeting

Schedule of investments

18. The criteria for providing a pool of high quality short, medium and long-term, cash-based investment counterparties along with the time and monetary limits for institutions on the Council's counterparty list are in the table overleaf:

All investments listed below must be sterling denominated

Investments	Minimum Credit Rating Required (S&P/Moody's/Fitch)	Maximum Individual Counterparty Investment Limit (£m)	Maximum tenor
DMO Deposits	Government Backed	Unlimited	6 months
UK Government (Gilts/T-Bills/Repos)	Government Backed	Unlimited	Unlimited
Supra-national Banks, European Agencies	LT: AA+/Aa1/AA+	£200m	5 years
Covered Bonds	LT: AA+/Aa1/AA+	£300m	10 years
Network Rail	Government guarantee	Unlimited	Oct 2052
TfL	LT: AA-/Aa3/AA-	£100m	5 years
GLA UK Local Authorities (LA) Local Government Association (LGA)	N/A	GLA : £100M	5 years
		LA : £50m per LA £100m in aggregate	3 years
		LGA : £20m	12 years
Commercial Paper issued by UK and European Corporates	ST: A-1/P-1/F-1	£40m per name, £200m in aggregate	6 months
Money Market Funds (MMF)	LT: AAA/Aaa/AAA By at least two of the main credit agencies	£70m per Fund Manager £300m in aggregate	3 day notice
Enhanced Money Funds (EMF)	LT: AAA/Aaa/AAA By at least one of the main credit agencies	£25m per fund manager, £75m in aggregate	Up to 7 day notice
Collateralised Deposits	Collateralised against loan	£60m	50 years
UK Bank (Deposit or Certificates of Deposit)	LT: AA-/Aa3/AA- ST: F1+	£75m	5 years
UK Bank (Deposit or Certificates of Deposit)	LT: A-/A3/A ST: F1	£50m	3 years
Non-UK Bank (Deposit or Certificates of Deposit)	LT: AA-/Aa2/AA- ST: F1+	£50m	5 years
	LT: A/A2/A ST: F1	£35m	3 years
Green Energy Bonds	Internal and External due diligence	Less than 25% of the total project investment or maximum of £20m per bond. £50m in aggregate	10 years
Rated UK Building Societies	LT: A-/A3/A ST: F1	£10m per Building Society, £50m in aggregate	1 year
Loans to organisations delivering services for the Council	Due diligence	£50m in aggregate	Over the life of the asset
Sovereign approved list: Australia, Canada, Denmark, Finland, France, Germany, Japan, Luxembourg, Netherlands, Norway, Singapore, Spain, Sweden, Switzerland, UK and USA			

Minimum Revenue Provision (MRP) Policy

1. Capital expenditure is generally defined as expenditure on assets that have a life expectancy of more than one year. The accounting approach is to spread the cost over the estimated useful life of the asset. The mechanism for spreading these costs is through an annual MRP. The MRP is the means by which capital expenditure, which is financed by borrowing or credit arrangements, is funded by Council Tax.

2. Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended (Statutory Instrument (SI) 3146/2003) requires full Council to approve a Minimum Revenue Provision (MRP) Statement setting out the policy for making MRP and the amount of MRP to be calculated which the Council considers to be prudent. In setting a level which the Council considers to be prudent, the Guidance states that the broad aim is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits to the Council.

3. The Council is recommended to approve the following MRP Statement:

   (i) For capital expenditure incurred before 1 April 2007, MRP will be calculated using Option 1 (the 'Regulatory Method') of the CLG Guidance on MRP. Under this option MRP will be 4% of the closing non-HRA CFR for the preceding financial year.

   (ii) For all capital expenditure incurred after 1 April 2007 financed from unsupported (prudential) borrowing (including PFI and finance leases), MRP will be based upon the asset life method under Option 3 of the DCLG Guidance.

   (iii) In some cases where a scheme is financed by prudential borrowing it may be appropriate to vary the profile of the MRP charge to reflect the future income streams associated with the asset, whilst retaining the principle that the full amount of borrowing will be charged as MRP over the asset's estimated useful life.

   (iv) A voluntary MRP may be made from either revenue or voluntarily set aside capital receipts.

   (v) Estimated life periods and amortisation methodologies will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

   (vi) As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

(vii) Charges included in annual PFI or finance leases to write down the balance sheet liability shall be applied as MRP.

(viii) Where borrowing is undertaken for the construction of new assets, MRP will only become chargeable once such assets are completed and operational.

(ix) If property investments are short-term (i.e. no more than 4 years) and for capital appreciation, the Council will not charge MRP as these will be funded by the capital receipt on disposal.

4. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made. For the Council this is componentised based on the life of component and the gross replacement cost within the overall existing use value – social housing of the HRA stock.

Appendix 3

CIPFA requirements

The Council has formally adopted CIPFA's Code of Practice on Treasury Management (updated November 2011) and complies with the requirements of the Code as detailed below:

- Maintaining a Treasury Management Policy Statement setting out the policies and objectives of the Council's treasury management activities

- Maintaining a statement of Treasury Management Practices that sets out the manner in which the Council will seek to achieve these policies and objectives

- Presenting the Full Council with an annual TMSS statement, including an annual investment strategy and Minimum Revenue Provision policy for the year ahead (this report) a half year review report and an annual report (stewardship report) covering compliance during the previous year

- A statement of delegation for treasury management functions and for the execution and administration of statement treasury management decisions. (see below).

- Delegation of the role of scrutiny of treasury management activities and reports to a specific named body. At Westminster City Council this role is undertaken by the Housing, Finance and Corporate Services Policy and Scrutiny Committee.

Treasury Management Delegations and Responsibilities

The respective roles of the Council, Cabinet, Housing, Finance and Corporate Services Policy and Scrutiny committee and Section 151 officer are summarised below. Further details are set out in the Treasury Management Practices.

Council

Council will approve the annual treasury strategy, including borrowing and investment strategies. In doing so Council will establish and communicate their appetite for risk within treasury management having regard to the Prudential Code

Cabinet

Cabinet will recommend to Council the annual treasury strategy, including borrowing and investment strategies and receive a half-year report and annual out-turn report on treasury activities.

Cabinet also approves revenue budgets, including those for treasury activities.

Housing, Finance and Corporate Services Policy and Scrutiny Committee

This committee is responsible for ensuring effective scrutiny of the Treasury strategy and policies.

Section 151 Officer

Council has delegated responsibility for the implementation and monitoring of treasury management decisions to the Section 151 Officer to act in accordance with approved policy and practices. The s151 Officer has full delegated powers from the Council and is responsible for the following activities:

(i) Investment management arrangements and strategy;
(ii) Borrowing and debt strategy;
(iii) Monitoring investment activity and performance;
(iv) Overseeing administrative activities;
(v) Ensuring compliance with relevant laws and regulations;
(vi) Provision of guidance to officers and members in exercising delegated powers.

Director of Treasury and Pension Fund

Has responsibility for the execution and administration of treasury management decisions, acting in accordance with the Council's Treasury Policy Statement and CIPFA's 'Standard of Professional Practice on Treasury Management'.

Treasury Team

Undertakes day to day treasury investment and borrowing activity in accordance with strategy, policy, practices and procedures.

Training

The CIPFA code requires the s151 officer to ensure that Members with responsibility for making treasury management decisions and for scrutinising treasury functions to receive adequate training. The training needs of all officers are reviewed periodically as part of the Learning and Development programme. Officers attend various seminars, training sessions and conferences during the year and appropriate Member training is offered as and when needs, and suitable opportunities, are identified.

Appendix 4

Prospects for Interest Rates

1. The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view.

Capita Asset Services Interest Rate View													
	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Dec-19	Mar-20
Bank Rate View	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.75%	0.75%
3 Month LIBID	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.40%	0.50%	0.60%	0.80%	0.90%
6 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.50%	0.60%	0.70%	0.90%	1.00%
12 Month LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.80%	0.90%	1.00%	1.10%	1.30%	1.40%
5yr PWLB Rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	2.00%	2.00%
10yr PWLB Rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%
25yr PWLB Rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%
50yr PWLB Rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%
Bank Rate													
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.75%	0.75%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.75%
5yr PWLB Rate													
Capita Asset Services	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	2.00%	2.00%
Capital Economics	1.60%	1.70%	1.80%	1.90%	1.95%	2.05%	2.20%	2.30%	2.40%	2.60%	2.80%	3.20%	3.30%
10yr PWLB Rate													
Capita Asset Services	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%
Capital Economics	2.30%	2.35%	2.45%	2.50%	2.55%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.60%	3.70%
25yr PWLB Rate													
Capita Asset Services	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%
Capital Economics	2.90%	3.00%	3.05%	3.10%	3.15%	3.25%	3.30%	3.35%	3.45%	3.55%	3.75%	4.15%	4.35%
50yr PWLB Rate													
Capita Asset Services	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%
Capital Economics	2.80%	2.85%	2.95%	3.00%	3.05%	3.10%	3.15%	3.20%	3.30%	3.50%	3.70%	4.10%	4.20%

2. The above forecasts indicate the impact that the Brexit vote on 23rd June has had in as much as Bank Rate was consequently cut on 4th August from 0.50% to 0.25% as the Monetary Policy Committee (MPC) took action to stimulate economic growth when business surveys, at that time, were strongly indicating a sharp economic downturn. The MPC also said that it was very likely that they would cut Bank Rate again before the year-end so the above forecast therefore includes a further cut to 0.10% in November 2016. However, economic statistics since August have indicated stronger growth than the MPC expected in August; also, inflation forecasts have risen substantially as a result of the sharp fall in the value of sterling since early August. This increases the possibility that Bank Rate may not be cut again in November, though another cut cannot be ruled out. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects already adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases

within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

3. Economic forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

4. The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities.

5. The overall balance of risks to economic recovery in the UK remains to the downside.

6. PWLB rates and gilt yields have been experiencing exceptional levels of volatility that are highly correlated to geo-political, sovereign debt crisis and emerging market developments.

7. Apart from the above uncertainties, downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

    (i) Monetary policy action by central banks reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some major developed economies, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.

    (ii) Major national polls:

    - US presidential election 8.11.16;
    - Italian constitutional referendum 4.12.16;
    - Spain has held two inconclusive general elections and is still unable to form a workable government with a coalition holding a majority of seats; if this impasse continues beyond 31 October, a third general election will have to be held – currently tentatively scheduled for 25.12.16

    (iii) Dutch general election 15.3.17;

    (iv) French presidential election April/May 2017;

    (v) French National Assembly election June 2017;

(vi) German Federal election August – October 2017.

(vii) A resurgence of the Eurozone sovereign debt crisis.

(viii) Weak capitalisation of some European banks.

(ix) Geopolitical risks in Europe, the Middle East and Asia, increasing safe haven flows.

(x) UK economic growth and increases in inflation are weaker than we currently anticipate.

(xi) Weak growth or recession in the UK's main trading partners - the EU and US.

8. The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates, include: -

(i) UK inflation rising to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium in gilt yields.

(ii) A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.

(iii) The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.

(iv) A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

Economic Background

UK

9. GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme.

10. The referendum vote for Brexit in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will

post positive growth numbers through the second half of 2016 and in 2017, albeit at a slower pace than in the first half of 2016.

11. The Monetary Policy Committee (MPC) meeting on 4th August was dominated by consideration of the initial shock fall in business surveys and the expected sharp slowdown in growth. The result was a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing for banks to use to lend to businesses and individuals. The Bank of England quarterly Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8% and the forecast for 2018 to 1.8%. However, some forecasters think that the Bank has been too pessimistic with its forecasts; since then, later statistics and the sharp recovery in business surveys have provided support for this view. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor, Phillip Hammond, announced, after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on 23rd November.

12. The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. CPI had already started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 18% fall in the value of sterling on a trade weighted basis, (as at late October), is likely to result in additional upward pressure on CPI. However, this further increase in inflationary pressures will take 2-3 years to gradually work its way through the economy so is unlikely to cause major concern to the MPC unless the increases are stronger than anticipated. The MPC is, therefore, on balance, expected to look thorough this one off upward blip in inflation from the devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures arising from within the UK economy. The Bank of England will most probably have to revise its inflation forecasts significantly higher in its 3rd November quarterly Inflation Report: this rise in inflation expectations has caused investors in gilts to

demand a sharp rise in longer term gilt yields, which have already risen by around fifty basis points since mid-August. It should be noted that 27% of gilts are held by overseas investors who will have seen the value of their gilt investments fall by 18% as a result of the devaluation of sterling, (if their investments had not been currency hedged). In addition, the price of gilts has fallen further due to a reversal of the blip up in gilt prices in early August after further quantitative easing was announced - which initially drove yields down, (i.e. prices up). Another factor that is likely to dampen gilt investor sentiment will be a likely increase in the supply of gilts if the Chancellor slows down the pace of austerity and the pace of reduction in the budget deficit in the Autumn Statement - as he has already promised. However, if there was a more serious escalation of upward pressure on gilt yields, this could prompt the MPC to respond by embarking on even more quantitative easing, (purchases of gilts), to drive gilt yields back down.

USA

13. The American economy had a patchy 2015 with sharp swings in the quarterly growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to a lacklustre +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The Fed embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December 2016. Overall, despite some data setbacks, the US is still probably the best positioned of the major world economies to make solid progress towards a balanced combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis.

Eurozone

14. In the Eurozone, the ECB commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to

zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016, (1.7% y/y), but slowed to +0.3%, (+1.6% y/y), in quarter 2. Forward indications are that economic growth in the EU is likely to continue at moderate levels with Germany continuing to outperform other major European economies. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

15. There are also significant political risks within the EZ in as much as Spain has held two general elections since December 2015 and still been unable to form a functioning government holding a majority of seats, while the Netherlands, France and Germany face general elections in 2017. A further cause of major political tension and political conflict, is one of the four core principals of the EU – the free movement of people within the EU, (note – not in just the Eurozone common currency area). In addition, Greece has been a cause of major concern in terms of its slowness in delivering on implementing fundamental reforms required by the EU to reduce its budget deficit in exchange for the allocation of further bailout money.

16. Another area of major concern is that many Italian banks are exposed to substantial amounts of underperforming loans and are undercapitalised. Some German banks are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also ‘too big, and too important to their national economies, to be allowed to fail’.

Asia

17. Economic growth in China has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit

compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures which further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

18. Economic growth in Japan is still anaemic, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

Emerging countries

19. There are also concerns around the vulnerability of some emerging countries which are particularly exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. Financial markets could also be vulnerable to risks from major sovereign wealth funds of those countries that are highly exposed to the falls in commodity prices from the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.