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City of Westminster

Follow on Agenda

Title:	**Cabinet**
Meeting Date:	**Monday 12th December, 2016**
Time:	**7.00 pm**
Venue:	**Rooms 5, 6 & 7 - 17th Floor, Westminster City Hall, 64 Victoria Street, London, SW1E 6 QP**
Members:	**Councillors:**

Baroness Philippa Couttie (Chairman)
Heather Acton
Nickie Aiken
Daniel Astaire
Melvyn Caplan
Danny Chalkley
Robert Davis, MBE, DL
David Harvey
Tim Mitchell
Rachael Robathan

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. 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, Mick Steward, Head of Committee and Governance Services.

Tel: 7641 3134; Email: msteward@westminster.gov.uk
Corporate Website: www.westminster.gov.uk

FOLLOW ON AGENDA

PART 1 (IN PUBLIC)

Charlie Parker
Chief Executive
7 December 2016

City of Westminster

Cabinet Report

Decision Maker:	Cabinet
Date:	12 December 2016
Classification:	For General Release
Title:	Leicester Square: Huguenot House: Update
Wards Affected:	St James's
Key Decision:	No
Financial Summary:	See Paragraph 7
Report of:	Executive Director Growth Planning and Housing

1. Executive Summary

1.1. This paper is intended to provide the Cabinet with a note of progress on the study of potential development in Leicester Square, at the site of Huguenot House.

1.2. The finances are under review for this project and will be given consideration as part of capital programme budget setting process, to be approved by Council in March.

1.3. No further expenditure will be approved before consideration of the affordability of the project in the context of the capital programme.

1.4. Work will be undertaken on the various options(maintain the existing building/refurbishment/partial redevelopment and full redevelopment), a full and robust report will be provided, supported by a business case and delivery programme, for formal consideration by Cabinet in July 2017. This will provide full consideration of the affordability and financing of the project.

1.5. The future report will also provide a detailed equalities impact assessment to ensure that the rights of affected parties are being considered in any option being considered.

2. Recommendation

2.1 That the report be noted.

3. Background, including Policy Context

3.1. The Property is an important central London island site located just off Leicester Square. It incorporates mixed usage including a cinema, offices, a 247 space public car park and 35 residential flats within a 1960's building. The majority of the flats have been sold on long leases under the Right to Buy. The freehold interest in the property is held by the Council in the General Fund. It is located in the heart of the West End and is recognised as is in need of improvement so as to support its long term future and contribute positively to the wider area.

3.2 The Council has been exploring options for the long term future of the site and has met with residents and local interested parties to understand if their concerns and wishes can be accommodated in any future plans.

3.3 A multi-disciplinary team has been procured to explore high level options from do nothing to a full redevelopment. These options will be further tested as the design moves forward and against the local policies (see appendix 2 for a list of policies).

3.4 At this time no preferred option exists.

4. Additional design work to be undertaken

4.1. The multidisciplinary design team will carry out a review of potential mixed use schemes for the site and consider opportunities to make improvements having regard to the project objectives namely:-

4.1.1. Improvement to the social, economic and environmental well being of this area.

4.1.2. Securing a return on investment (through capital receipt or income generation) to contribute towards the funding of front line services

4.1.3. Deliver new high quality housing through the development of new residential accommodation

4.1.4. Promote and deliver new jobs through the creation of new office accommodation

4.1.5. Enhance the public realm environment around the Property, encouraging further regeneration and footfall in the vicinity and adding to the built environment, through redevelopment of the Property

4.2. Following this further design work, a pre-application dialogue will be started. The elements of the mixed use scheme will be tested against the latest market data and reports from commentators as to the future projections as well as risk.

4.3. Soft market testing will be carried out to ensure that the redevelopment options and preferred scheme are in line with the investment and development market appetite and risk tolerances.

4.4. The team will also seek to develop and present a proposed delivery model to suit the Council's requirements.

4.5. Other aspects associated with rights of light, daylight /sunlight and townscape matters will be explored.

4.6. This work will ensure that the site is comprehensively appraised and included with the formal Cabinet report in July 2017.

5. Programme and timetable of activities

5.1 The following programme has been produced based on assumptions from the design team and officers' views. The pre-development period has been extended by a further 12 months to allow for additional work to be carried out on the design, to obtain necessary approvals and ensuring a robust case is made for redevelopment. The programme includes a period for the use of CPO powers, as a measure of last resort, if required.

No.	Item	Date
1	Update to Cabinet	December 16
2	Cabinet review of the preferred option prior to planning submission & CPO (if applicable)	July 17
3	Planning consent	December 17

6. Risk

6.1. As with all major mixed use developments in Central London, there are a variety of risks that may exist. These will be comprehensively managed by officers and the design team to largely eliminate business, service, legal and reputational risk to the Council. Market related risks, which are beyond the control of the project team will be continued to be monitored.

6.2. Residents and other interested parties will need to thoughtfully engaged. A full consultation process will be undertaken led by officers allied with effective PR communications to ensure all relevant stakeholders are well informed.

7. Financial comments

7.1. The finances are under review for the project. An estimated budget allocation will be included in the 5 year capital programme to be approved in March 2017 by Council. This is one of the key projects within the capital programme and affordability of the overall capital programme will be assessed as part of this paper.

7.2. No further expenditure will be incurred before consideration of the updated capital budget position. Expenditure approval on the project is c£400k to date, excluding acquisitions.

7.3. Work will be undertaken on the various redevelopment options to provide a full and robust report, supported by a business case and delivery programme, for formal consideration by Cabinet in July 2017. This will provide full consideration of the affordability and financing of the project.

8. Legal comments

8.1. The title of the property is clean with no restrictive covenants or easement which may prevent a redevelopment of the site.

8.2. Vacant possession of the commercial tenants is within the Council's control.

8.3. The Council is purchasing the residential leasehold interests for investment purposes and at this time has ownership of 34% of the total of all apartments.

9. Next Steps

9.1. A further report and a recommendation will be provided by officers in July 2017 for Cabinet to consider,

Appendix 1 – Other Implications

Appendix 2 - Policy Context

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

BACKGROUND PAPERS: None

Appendix 1

Other Implications

1. **Resources Implications** - None

2. **Business Plan Implications** – To be considered as part of the OBC and presented in the July 2017 paper

3. **Risk Management Implications**– To be considered as part of the OBC and presented in the July 2017 paper

4. **Health and Wellbeing Impact Assessment including Health and Safety Implications** – To be considered as part of the OBC and presented in the July 2017 paper

5. **Crime and Disorder Implications**– To be considered as part of the design process and already considered in the policy's appended

6. **Impact on the Environment** - To be considered as part of the design process and already considered in the policy's appended

7. **Equalities Implications -** To be considered as part of the OBC and presented in the July 2017 paper

8. **Human Rights Implications** – To be considered as part of the OBC and presented in the July 2017 paper

9. **Energy Measure Implications** – To be considered as part of the OBC and presented in the July 2017 paper

10. **Communications Implications** – To be considered as part of the OBC and presented in the July 2017 paper

Appendix 2 – Policy Context considered by the Development

Development Plan

- The proposed scheme has been developed in accordance with Westminster City Council's adopted development plan, which comprises the following documents:

    - Westminster City Plan: Strategic Policies, adopted November 2013;
    - Westminster Unitary Development Plan (UDP) saved policies, adopted January 2007; and
    - Further Alterations to the London Plan, adopted March 2015.

Westminster City Plan: Strategic Policies

- The relevant policies which have been taken into account in the development of the scheme are Policy S6 Core Central Activities Zone; Policy S14 Optimising Housing Delivery; Policy S15 Meeting Housing Needs; Policy S16 Affordable Housing; Policy S18 Commercial Development; Policy S20 Office Development; Policy S25 Heritage; Policy S28 Design; and Policy S34 Social and Community Infrastructure.

- Following the proposed main modifications consultation, and in accordance with Paragraph 216 of the National Planning Policy Framework, the Council will now take the basement revision and mixed use revision into account as a material consideration with significant weight in determining planning applications, effective from 7th June 2016. Therefore, regard has also been had to Policy S1 Mixed Use in the Central Activities Zone in the Consolidated Draft Version of Westminster's City Plan, incorporating the basement revision, mixed use revision, Regulation 19 and main modifications.

Westminster Unitary Development Plan (UDP) saved policies

- The relevant saved policies which have been taken into account within the Westminster Unitary Development Plan include saved Policy CENT 1 Central Activities Zone; saved Policy COM 1 Office Renewal and Growth; saved Policy H3 To Encourage the Provision of More Housing; saved Policy H4 Provision of Affordable Housing; saved Policy TACE 5 Arts and Culture Uses; saved Policy DES 1 Principles of Urban Design and Conservation; and saved Policy DES 9 Conservation Areas.

Further Alterations to the London Plan

- The relevant policies included within the London Plan which are supportive of the redevelopment of this site are Policy 2.9 Inner London Policy Zone; Policy 2.10 Central Activity Zone (CAZ); Policy 4.1 Developing Economy; Policy 4.3

Developing Mixed Use; and Policy 4.6 Support for Arts, Sports, Culture and Entertainment.

Policy Assessment

- The scheme has been developed in accordance with adopted and emerging policy, having regard to the sensitivities of the site in relation to the various surrounding uses both immediately and in the wider area, including the setting within the Conservation Area and views from Trafalgar Square.

- The planning policy regime has now changed since June 2016. Offices have specific policy protection and WCC is encouraging provision of new office floor space. Current policy means that no affordable housing is required if the overall gross floor space increase is less than 30%. All options are less than this threshold.

- The New City Plan, for the first time, says some areas of the West End may not be suitable for residential. For the first time there is an opportunity to provide more offices than residential. But policy still requires retention of existing residential. Policy outlines an approach for the re-provision for residential – on site, off site, donor site, payment in a decreasing scale. There might be the option to obtain a tradable credit from another housing development elsewhere which will be developed further.

- Although it is accepted that the loss of the existing cinema will be resisted by through City Plan Strategic Policy CS22 and saved UDP Policy TACE 5, some consolidation may be considered acceptable. At present, the cinema occupies a large ground floor presence on the site which is not considered to be the most efficient use of the site and, given the nature of the use, does not create an active frontage. The current scheme proposes to relocate the cinema to lower ground floor level.

- Through redevelopment of the Property, the scheme will increase the quantum of residential floor space from the existing situation (depending upon which option is progressed). This complies with City Plan Policy S14 which supports the retention of existing residential floor space, stating that residential use is the priority across Westminster. City Plan Policy S16 seeks provision of affordable housing as part of any development introducing 10 residential units or more, or introducing 1,000 sq. m of residential floor space. Emerging policy seeks to incorporate a system of credits whereby affordable housing can effectively be banked elsewhere in the Borough.

- It is not possible to provide affordable housing on-site at the Property for a number of reasons including the reprovision of alternative uses, cost of delivering the scheme and layout of the residential units to the upper floors. However, alternative options are being reviewed within the Borough where affordable housing can be provided in lieu of the proposals on this site. These alternative options will be fully considered throughout the pre-application process with robust justification to be available for the planning submission.

- The proposed scheme is also in accordance with Policy S18 and Policy S20. Policy S18 which directs commercial development to the Core CAZ, whilst Policy S20 specifically directs offices to the area, subject to proposals being appropriate in terms of scale and intensity of land uses, as well as the character and function of the area.

City of Westminster

Cabinet Report

Decision Maker:	Cabinet
Date:	12 December 2016
Classification:	General Release
Title:	Berwick Street Market – Response to Petition
Wards Affected:	West End Ward
Key Decision:	No
Financial Summary:	No financial implication
Report of:	Executive Director for Growth Planning and Housing and the Executive Director for City Management and Communities

1. Executive Summary

1.1 The Council has decided to contract the Berwick Street Market to a professional operator. This is because an established and reputable market operator will be best placed to deliver a vibrant market that provides a strong focal point for Soho, its residents, workers and visitors.

1.2 On the 30th September 2016 the Council received a petition from the Berwick Street Market Traders which had been signed by 35,000 people. However, as between 500 and 10,000 of these were based in Westminster a requirement for a report to the Cabinet has been triggered. The petition asks the Council to bring an end to the on-going procurement process for a professional operator to run the market. This report responds to the issues raised in the petition and advises on the action taken as a result (appendix C).

1.3 The council is resolved to continue the procurement process for the selection of a market operator for Berwick Street Market. The selected operator will manage the market, while the strategic direction will be overseen by a board comprised of the council, trader representatives, the new operator, and local stakeholders.

1.4 This is a pilot which will run for 12 months from spring 2017. If successful, there is the option of extending the contract for another four years.

1.5 Potential operators will need to demonstrate the necessary experience and skills to ensure the market reaches its full potential. Bidders will also be required to submit a strategy for supporting start-up businesses and providing future opportunities for Westminster residents.

1.6 The council will actively encourage the shortlisted operators to engage with the existing market traders and to meet with key stakeholders to better understand the local community's vision for the market.

2. Recommendations

2.1. That the Cabinet

a. **Note** the receipt of a petition relating to the Council's plans for Berwick Street Market.

b. **Confirm** that the decision is made in accordance with the terms of reference of the Cabinet Member for Housing and Regeneration. The Executive Director for Growth, Planning and Housing holds the delegated authority for this decision as the contract value falls below £1.5m. The Cabinet Member will be consulted before a final decision is made.

c. **Endorse** the response to the petition as set out in this report.

3. Reasons for Decision

3.1 The report seeks confirmation that the Cabinet is confident in the decision making process that is in place in relation to appointing an operator for the Berwick Street Market. The contents of the petition will be considered when making this decision. The next stage is the awarding of the contract.

4. Background, including Policy Context

4.1 Berwick Street Market is not performing at its full potential, either in terms of occupancy or offer. The market has a significant opportunity to support the investment being made in the area and create a strong focal point for Soho.

4.2 The Council believes that a market operator would be best placed to deliver this ambition. The rationale is as follows:

- The management of the market requires retail and business skills not present within the authority. These skills go beyond enforcement and the street management functions the council currently provides.

- There has been rapid growth of markets across London. This has created a deep pool of trader talent which an experienced operator would able to tap into so as to enrich the offer of the Berwick Street Market.

- A professional operator will introduce a new commercial understanding of the demand for products and services by residents and the local workforce and will enhance the relationship with existing retailers. These are all areas outside the council's area of expertise.

4.3 The Council launched the Pre-Qualification Stage on the 23rd July and received seven expressions of interest. To ensure selection of the best possible operator, all seven of the bidders have since been invited to tender.

4.4 The timetable is set out below:

	Completed by
Invite Tenders	25th November 2016
Bidder Briefings	W/C 28th November 2016
Closing date for submission of Tenderers' questions	5th January 2017
Answers to Tenderers' questions circulated to all Tenderers	9th January 2017
Closing date for receipt of Tenders, noon on:	16th January 2017
[Post-tender clarification meetings – if required]	W/C 23rd January 2017
Notification of proposed award of Contract	W/C 20th February 2017
Voluntary Standstill period commences on or around	W/C 20th February 2017
Contract Award	March 2017

5. Response to the petition

5.1 In May 2016, the council received the appended letter from the Berwick Street Traders (Appendix B). The Council has responded to the questions posed in the traders' letter (Appendix C). The letter was then re-presented to the council in September as a petition containing 35 000 signatures.

5.2 As recommended above, Cabinet is asked to note the petition and the response made on behalf of the Cabinet Member for Housing and Regeneration through the delegated authority held by Ed Watson, Executive Director for Growth, Planning and Housing. The Cabinet is asked to endorse the response to the petition as set out in this report.

5.3 The next stage of the Berwick Street Market procurement is the Invitation to Tender. The Council will then evaluate the tenders it receives and determine who to award a contract to for the management of Berwick Street Market.

5.4 This petition along with other stakeholder feedback will be taken into account when making the final decision on the award of the contract for the management of the Berwick Street Market.

6. Financial Implications

6.1 This report has no financial implications.

7. Legal Implications

7.1 This report has no legal implications

8. Outstanding issues

8.1 None

If you have any queries about this Report please contact:

Greg Ward, Director of Economy

at gward@westminster.gov.uk

Appendix A

Other Implications

1. **Resources Implications** – the tender is managed through internal council resources.
2. **Business Plan Implications** – no implication
3. **Risk Management Implications** – no implication
4. **Health and Wellbeing Impact Assessment including Health and Safety Implications** – no implication
5. **Crime and Disorder Implications** – no implication
6. **Impact on the Environment** – no implication
7. **Equalities Implications** – no implication
8. **Staffing Implications** – the tender is managed through internal council resources.
9. **Human Rights Implications** – no implication
10. **Energy Measure Implications** – no implication
11. **Communications Implications** – no implication

Appendix B

Berwick Street Market Petition Letter

KEEP BERWICK STREET MARKET INDEPENDENT

After a formal meeting of Berwick Street Traders on the 14th April 2016, and in the absence of any further update from Westminster City Council (WCC), it was agreed unanimously that I write to you to express our deep concern and anxiety regarding the privatisation of Berwick Street Market and, in particular, the stated privatisation date June 30th 2016 - The date on which all short term licences will be terminated, despite the fact that some have been running for as long as 8 years, some carry very heavy set-up and investment costs (up to ￡25,000) and all support jobs, livelihoods, families and serve the community.

While there has been some talk of delay, there has been nothing in writing. Neither has there been any official consultation with market traders as to the council proposals. It appears we are being presented an official decision without prior notice or consultation. The effect is to damage confidence in the market as a whole and jeopardise any chance of a satisfactory and sustainable outcome. The timing of your actions could not be worse as the market is trying to operate in the most adverse conditions at the moment in any event. The situation is measurably worse because of our Major Change in Circumstances (MCC), with the demolitions running on two sides of Berwick Street – PMB Holdings and Soho Estates, both of which come hard on the heels of the road resurfacing that took a whole year and the subsequent closure of the Co-operative Supermarket and other shops, cafes, restaurant and stores that drove footfall and business into Berwick Street Market.

Together the works will run for 4 years with the added issue of Broadwick Street being taken up twice and the absence of parking and storage facilities that are the consequence, further damaging both environmental and economic trading conditions. You will appreciate the net result of these changes is to damage the operation of the market which has not been protected and drive out traders and customers alike.

Since the road works and over the period to date, many established traders have lost two thirds of their turnover, as access to the street becomes increasingly problematic and sometimes impossible. The current demolition works run at the market’s busiest times; morning footfall, lunchtime footfall and hometime footfall are all seriously effected with a consequent impact on trade. By comparison, and in the experience of Berwick Street Traders, it is possible to make £1000 per day on Brick Lane and Camden arkets but it is not possible to turnover anything like that in a week on Berwick Street, in part due to the lack of infrastructure and services, in part due to the nature of Berwick Street (shut-off, working neighbourhood and wind tunnel) and in large part due to the ongoing works and developments. Yet this is where our businesses and investment are and where they do business and have clients. For the majority it is not possible to uproot and go somewhere else, so we need to find a solution.

Meanwhile, it seems that there is privatisation consultation going on behind the scenes despite the privatisation not being formally advertised, giving advantage to those engaged in this closed process. Commercial organisations have, we understand, expressed interest and others have walked away having visited the site because of the ongoing demolition and redevelopment works that make Berwick Street Market an extremely difficult proposition for the next two years. The idea that organisations unknown but widely rumoured to be Shaftesbury PLC, Joe Lewis and Candy further undermines the confidence of locals that they will be served by privatisation. The people who understand Berwick St Market best are the traders who work it, but we have not been consulted and therefore any conclusions drawn will be spurious assumptions based on irrelevant knowledge.

Berwick Street Traders have been loyal to the market, local businesses and residents through thick and thin over the decades and particularly in recent years - serving this community through major changes including road closures, resurfacing, redevelopments and the demolitions on two sides that have been continuous and very disruptive. Our reward is the termination of the majority of traders on the market, some of which you have actively encouraged to invest in the market only to be told that we are no longer welcome. It strikes us as unfair and unreasonable to say the least. While the immediate impact is on temporary license holders, some of which have been trading here for more than 8 years, your decision to privatise affects us all.

We ask that any decision on the privatisation or even start of the process of privatisation be halted until such time as an alternative sustainable plan is put forward, that takes into account the livelihoods and amenities that will be lost, is presented and rejected by you. Although the letter did not go to hereditary/long-term licence holders, all Berwick Street Traders will be impacted by the plans should they be executed, with potential costs increases that will close every business in no time, and bring this historic market to a close, because there is no time to prepare for dramatic changes or to propose a solution to the considerable issues now presented.

I repeat, jobs and livelihoods are at stake, community stakeholders will be negatively impacted, and there is high probability that the community will lose a 300 year old asset.

To save time and any unnecessary expenditure, please will you confirm:

1. The validity of the notice to terminate - the City Of Westminster Act 1999 may impose certain condition and ought to be reviewed

2. Whether or not passing the market from public ownership to a private operator is incompatible with rights and obligations of the Council

3. What pitch price/annual revenue you are trying to achieve and how you came to those numbers

4. What terms are being offered to the private sector, why there is no public consultation, is it not possible for the operation of the market to be handed to a not for profit organization?

5. Whether or not you are willing to halt progress of privatisation and/or postpone the date of the execution of short licence to enable a proper consultation period and explore options

6. Whether or not there is to be a stay and if so, what date is being proposed?

We have not stopped developing a realistic economic plan for Berwick Street Market, remain confident that there is a solution that serves the best interests of the community, residents, businesses, traders, developers and Westminster City Council and, with that in mind, ask you to consider a proposal from an independent organisation with community and economic interests at its heart, that will promote a sustainable solution for all.

Best Regards

Robin Smith
On behalf of Berwick Street Traders
Co-signed

Appendix C

Response to Trader Questions

Ed Watson
Executive Director, Growth, Planning and Housing

Please reply to: Roger Austin

Direct Line / Voicemail: 020 7641 7061
Email: raustin@westminster.gov.uk

Date: 10th May 2016

Robin Smith
Berwick Street Traders
Berwick Street Market
Soho
London W1

Dear Robin,

Thank you for your letter dated the 20th April 2016. I regret to hear you feel that you have not been sufficiently informed about the changes to Berwick Street Market. Our genuine intent has always been to keep local stakeholders up to date, and we have been communicating with the local community and traders since February. However, I would be happy to offer another meeting with if you feel this would be of benefit.

The council's decision to move to an operator led model for part of Berwick Street Market is because it is currently not reaching its full potential.

Under the proposed new model, the selected operator would run and manage the market, while a board comprised of the council, trader representatives, the new operator, and key local stakeholders will oversee strategic direction. We believe this will give traders greater ownership over the future overall direction of the market, allowing them to hold the operator to account, and generate wider benefits for the local community.

Please find clarifications to the six points you specifically mention:

1. **The validity of the notice to terminate – the City of Westminster Act 1999 may impose certain conditions and ought to be reviewed.**

   On 2 March, the council notified all temporary licence holders of the decision to pilot an operator led model for part of Berwick Street market. All temporary licences are for a maximum of six months, and as such the council cannot provide any guarantees that these will be renewed. Permanent licence holders will not be affected by the change.

The council will ensure that any trader interested in trading under the new model is referred to potential operators and that this is taken into consideration. Details for registering an interest will be communicated to all temporary licence holders in writing on Tuesday 10th May. For more information about this process, please contact Roger Austin on raustin@westminster.gov.uk.

2. **Whether or not passing the market from public ownership to a private operator is incompatible with the rights and obligations of the council.**

The existing legislation does not prevent the council from granting a licence to a market operator. As stated above and outlined in letters to traders, local residents and businesses, the decision is based on our strong desire to ensure that Berwick Street market reaches its full potential, providing a sustainable and vibrant environment for the residents, workers and visitors in Soho.

We do have vacancies at our other markets in Westminster and, should any market trader wish to relocate, we will facilitate the transfer of their licences and waive any variation fees that would normally apply. For more information about this process, please contact Rosalind Hick on rhick@westminster.gov.uk.

3. **What pitch price/revenue you are trying to achieve and how you came to those numbers?**

The costs per pitch to the selected operator are being finalised. These costs will be based on the council's own costs relating to the market, including officer time, administration, enforcement, maintenance costs relating to electricity and water, commercial waste and street cleansing.

4. **What terms are being offered to the private operator, why there is no public consultation, why it is not possible for the operation to be handed to a not for profit organisation.**

As stated towards the beginning of this letter, the selected operator would run and manage part of the market, while the strategic direction would be overseen by a board comprised of local stakeholders. New operators will be required to take account of affordability for traders while also ensuring the market is financially sustainable. Should the 12 month pilot be deemed successful by the council and key local stakeholders, the contract will be extended for a further four years. Based on the revised launch date we feel that 12 months is the right amount of time to assess the success of the contract and allow the trading cycle to be tested robustly.

There has been engagement with traders and key stakeholders on this decision and we are currently seeking views from the local community as to what they would like to see from their market here: www.westminster.gov.uk/berwick-street Please note that we are not limiting bids to a certain type of operator. Not for profit organisations with the necessary experience in operating a market are welcome to submit a bid proposal. As part of the selection process, any potential operator will need to demonstrate an ability to manage the market effectively. They will also obviously be required to submit their plans for supporting start-up businesses and providing future opportunities for Westminster residents.

5. **Whether or not you are willing to halt progress of privatisation and/or postpone the date of execution of a short licence to enable a proper consultation period and explore options.**

   As previously communicated to traders and other local stakeholders, the council will progress with the procurement as it strongly believes that this would be the best option to ensure a flourishing market.

   Advertisement of the opportunity is now likely to be towards the end of May. The council follows strict procurement guidelines and interested operators who have approached the council have been advised that we will contact them with more information once the notice has been advertised.

6. **Whether or not there is to be a stay and if so, what date is being proposed.**

   I believe you are referring to the date when the current temporary traders' licences will cease. We have taken account of your feedback and that of other traders. We will launch the new market in April 2017. Temporary licences will continue to be granted for street trading up to the 31st March 2017, subject to the standard licensing process. This will ensure the successful launch of the new market in collaboration with the new operator (and any existing traders they recruit), the existing permanent traders, and key local stakeholders. We will notify all traders of this decision on Tuesday 10th May 2016.

I hope this letter provides the clarification that you and your fellow traders are seeking. Again, I am very happy to arrange for you to meet with me and my team to discuss this matter further.

Yours sincerely,

Ed Watson
Executive Director, Growth Planning and Housing

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Cabinet

City of Westminster

Decision Maker:	**Cabinet**
Date:	**12 December 2016**
Classification:	**General Release**
Title:	**Treasury Management Strategy Mid-Year Review 2016-17**
Wards Affected:	**All**
Policy Context:	**Better City Better Lives Priority**
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

Cabinet is asked to recommend that:

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

b) Council approve that the new opportunities are added to the TMSS for investment purposes

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.

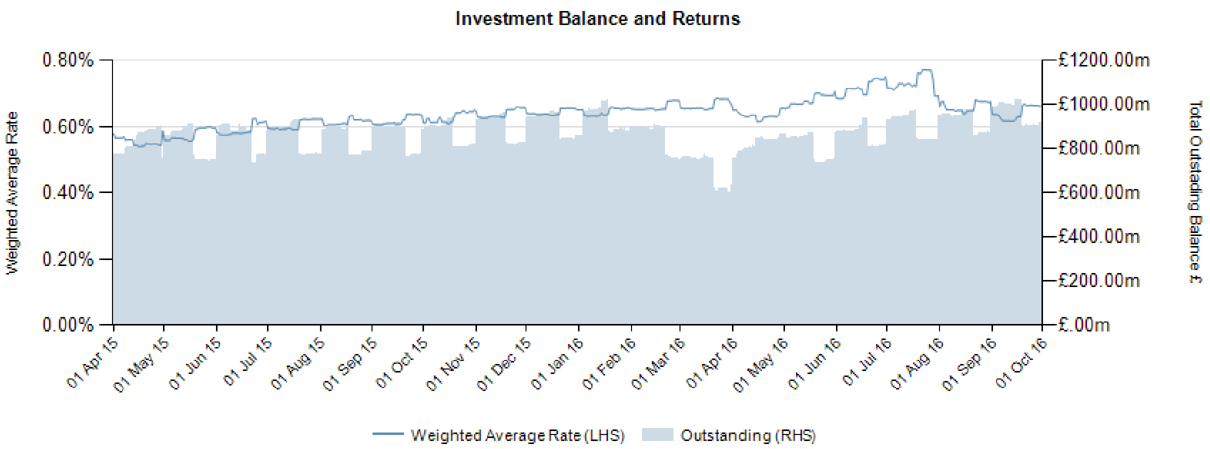
3.5. The Council's investment priorities are to achieve optimum returns on investments subject to a very high level of security of capital and a level of liquidity in its investments appropriate to the Council's projected need for funds over time.

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

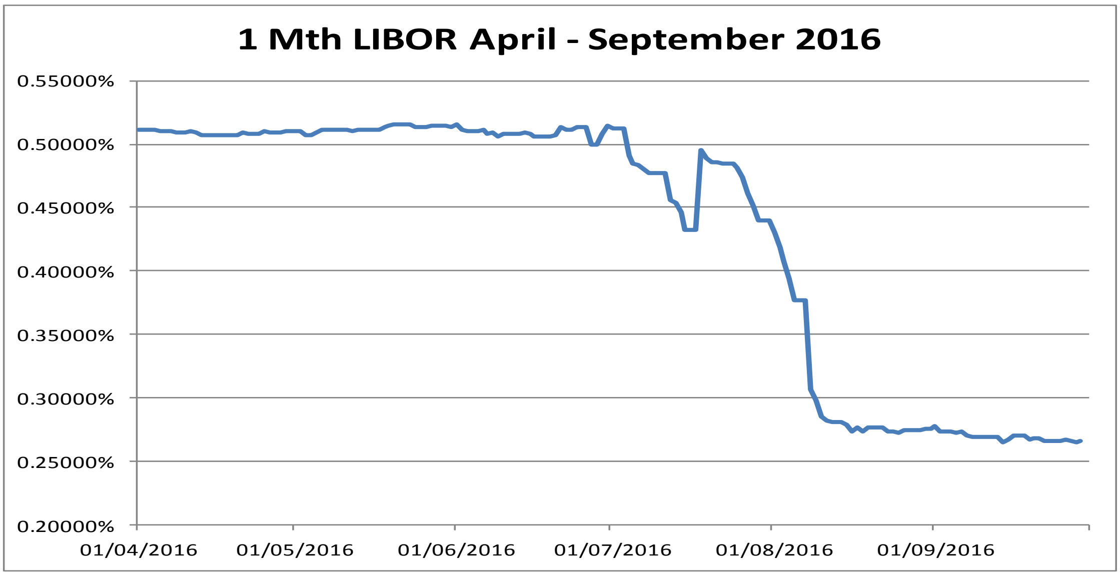
4.1 UK Gross Domestic Product (GDP) rose in the first quarter of the financial year, showing a 2.2% year on year increase. Following the referendum vote to leave the European Union, the Organisation for Economic Cooperation and Development (OECD) reduced its forecast for growth in 2017 to 1%. However, 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:

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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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