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City of Westminster

Committee Agenda

Title:	**Housing, Finance and Corporate Services Policy and Scrutiny Committee**
Meeting Date:	**Wednesday 6th January, 2016**
Time:	**7.00 pm**
Venue:	**Rooms 5, 6 & 7 - 17th Floor, City Hall, 64 Victoria Street, London, SW1E 6QP**
Members:	**Councillors:**

Brian Connell (Chairman)	Gotz Mohindra
Antonia Cox	Adam Hug
Peter Freeman	Vincenzo Rampulla
Richard Holloway	Jacqui Wilkinson

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 Head of Legal & Democratic Services in advance of the meeting please.

AGENDA

PART 1 (IN PUBLIC)

1. MEMBERSHIP

The Head of Legal and Democratic Services 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 - 12)

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

4. WORK PROGRAMME — (Pages 13 - 16)

5. UPDATE FROM CABINET MEMBERS — (Pages 17 - 24)

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

The Cabinet Member for Finance & Corporate Services will be in attendance to answer questions from the Committee.

6. TREASURY MANAGEMENT STRATEGY MIDYEAR REVIEW — (Pages 25 - 34)

Report of the Interim Tri-Borough Head of Treasury

7. TREASURY MANAGEMENT STRATEGY FOR 2016/17 TO 2018/19 — (Pages 35 - 54)

Report of the City Treasurer

8.	**HOUSING POLICY DEVELOPMENTS: 1% SOCIAL RENT REDUCTION AND PAY TO STAY** Report of: Director of Housing and Regeneration and Director of Policy, Performance and Communications	**(Pages 55 - 84)**

Charlie Parker
Chief Executive
22 December 2015

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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 **Wednesday 18th November, 2015**, Rooms 5, 6 & 7 - 17th Floor, City Hall.

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

Also Present: Councillors Daniel Astaire, Cabinet Member for Housing, Regeneration, Business and Economic Development and Tim Mitchell, Cabinet Member for Finance and Corporate Services, Guy Slocombe, Director of Property, Investment and Estates, Nicholas Gill, Director of Investment, Corporation of London, Simon Latham, Principal, Brook Investment Partners, Fergus Coleman, Head of Affordable and Private Sector Housing, Jake Mathias, Private Sector and Energy Commissioning Manager, Barbara Brownlee, Director of Housing and Regeneration, Steve Mair, City Treasurer, Andrea Luker, CityWest Homes and Reuben Segal, Senior Committee and Governance Officer

1 MEMBERSHIP

1.1 It was noted that Councillor Adnan Mohammed’s name appeared on the front of the agenda in error and should have referred to Councillor Jacqui Wilkinson.

1.2 It was further noted that Councillor Robert Rigby had replaced Councillor Richard Holloway.

2 DECLARATIONS OF INTEREST

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

Member	Organisation	Nature of Interest
Brian Connell	KPMG	Employee. Whilst KPMG are no longer the Council's auditors they are completing some residual work which will conclude before the end of December.
Vincenzo Rampulla	CityWest Homes	Board Member

2.2 Councillor Wilkinson declared in respect of Item 5 that she is a member of the Steering Group that is working to promote Pimlico and Tachbrook Market and that part of her ward covers Tachbrook Street.

2.3 Councillor Mohindra declared that he is a member of the Steering Group looking at the refurbishment of City Hall.

3 MINUTES

3.1 **RESOLVED:** That the minutes of the meeting held on 16th September 2015 be signed by the Chairman as a correct record of proceedings.

3.2 **ACTION:** Re-circulate information requested at the last meeting on the proactive resettlement approaches of other London local authorities **(Anne Pollock, Scrutiny Officer)**

4 WORK PROGRAMME

4.1 The Chairman advised that Councillor Mohindra was representing the Committee at meetings being held between Cabinet Members and Executive Directors to develop budget proposals for the coming year. He further advised that the Budget Monitoring Task Group which scrutinises the budget proposals was expected to meet in the early New Year.

4.2 **RESOLVED:**

1. That the agenda items for the next meeting on the 6th January 2016 be agreed

2. That the responses to actions and recommendations as set out in the tracker be noted.

4.3 **ACTIONS**: Add an item on economic development to the Committee's Work Programme **(Anne Pollock, Scrutiny Officer).**

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. A written update from the Cabinet Member for Finance and Corporate Services was circulated following the publication of the agenda.

Questions to the Cabinet Member for Finance and Corporate Services

5.2 The Cabinet Member was asked about the implementation of the new IT contract. He advised that the service was provided by BT which operates a similar contract in Cornwall. Unlike that contract, which it was reported was experiencing difficulties, the Tri-Borough Service was operating well. He reported that staff satisfaction with the Council's IT had increased significantly in the last year.

5.3 The Cabinet Member was asked about economies of scale opportunities across Tri-Borough services. With regards to procurement, he explained that a number of contracts had been developed on a framework model which enables other local authorities to "buy-in" and use the systems or technology. Where this occurs the Council will be reimbursed a proportion of its costs. Procurement was not delivered on a Tri-Borough level. Whether there was merit in moving to such an arrangement was still a matter for consideration. He highlighted a range of examples where authorities were working together at a sub-regional cluster level. This included the London Borough of Wandsworth entering into an arrangement with London Borough of Richmond. The London Borough of Hammersmith and Fulham was part of the West London Alliance while the City Council was a member of the Cross River Partnership which focused on economic development opportunities. Some of the partnerships were driven by financial considerations while others involved sharing expertise or were based on geographical practicalities.

Cabinet Member for Housing, Regeneration, Business & Economic Development

5.4 The Cabinet Member supplemented his written paper with a verbal update on key activities within his portfolio. This included details of a Federation of Small Business award for the Council's work on Maida Hill market, activities associated with Westminster Enterprise Week, a recent meeting with the city's BIDs and an update on the progression of the Housing Bill and the Council's lobbying activities in relation to it.

5.5 With regards to the renewal of Tollgate Gardens, the Cabinet Member was asked whether the temporary accommodation residents being decanted from the estate would be provided with alternative accommodation within the borough. He informed the committee that the affected families would be offered accommodation which is both suitable and affordable in line with the council's policies.

5.6 The Cabinet Member was asked which elements within the draft housing strategy would be taken forward in the Direction of Travel document. He advised that the document would incorporate the theme on people such as improving health by investing £12 million in tackling cold/damp in over 5800 council homes and the economic opportunities and work programmes included in the theme on prosperity. The aspects of the draft housing strategy that focused on intermediate housing would be put to one side until there was greater clarity about the implications of the Housing Bill.

5.7 The Cabinet Member was asked about the requirement of CityWest Homes to reduce its operating costs by £5.2m. He explained that the savings were needed to balance the HRA account which would be affected by the government's housing/welfare changes where there would be an annual 1% cut in social rents for 4 years. The Altair report also identified areas where CityWest Homes could deliver savings. These included opportunities for improving IT and developing online services and introducing a new procurement operating model.

5.8 The Cabinet Member was referred to the fact that the Roughsleeper's Strategy was due for renewal next year. He was asked what joint working would be undertaken in the development of the strategy with the Cabinet Member for Public Protection. The Cabinet Member clarified that he was responsible for all aspects of rough sleeping with the exception of addressing on-street rough sleeping. He explained that the Council was looking to re-commission the service.

5.9 In relation to the City's BIDS, the Cabinet Member was asked about the liaison arrangements at a senior level between the Council and the executive teams running the BIDs. He explained that while the BIDs involved and impacted upon a number of Cabinet Member portfolios he coordinated this relationship with the aim of addressing issues and resolving blockages within the Council. In the last year he had developed a new method of working with the city's BIDS. Quarterly meetings were now held between members of the Council's executive and BID chairmen. Additionally, the Cabinet held an annual meeting with representatives of the BIDs. In response to supplementary questions, the Cabinet Member advised that any decision on extending the BID's enforcement powers was a matter for the Cabinet Member for Public Protection. He explained in relation to measuring performance that the BIDs were held to account by those businesses that pay the running costs. The Cabinet, however, has responsibility for approving the bid proposal so that a ballot on establishing a BID may take place. In considering a proposal the Council will expect plans to align with the Council's priorities.

5.10 How the council promotes apprenticeships and engages on this subject with local businesses was raised with the Cabinet Member. He was informed that some businesses had found it difficult to obtain information and assistance in recruiting apprentices. The Cabinet Member stated that there was a team within the Council dedicated to promoting the Council's various work programmes. Officers promoted apprenticeships directly with local businesses and advertised opportunities in the young person's magazine. On some occasions activities were outsourced to the London Apprenticeship Company. He accepted that the wide range of routes could be confusing and that the process needed simplifying and this was being looked into.

5.11 The Cabinet Member was asked about the cost per placement achieved through the Council's employment and skills projects. He advised that there may be other metrics that are more relevant to focus on when assessing project outcomes and performance such as the benefits and savings of helping the long-term unemployed into work.

5.12 **RESOLVED**: That the updates from Cabinet Members be noted.

5.13 **ACTION**:

Provide the committee with details of the alternative accommodation offered to temporary accommodation residents vacated from Tollgate Gardens once all relocations are complete. (**Action for: Barbara Brownlee, Director of Housing & Regeneration**)

6 THE COUNCIL'S CORPORATE PROPERTY STRATEGY AND CURRENT SITUATION

6.1 The Committee received a report that outlined the Council's Corporate Property Strategy and the current situation and aspirations for growth over the next five years.

6.2 The paper outlined the breadth of the Council's property assets – the corporate portfolio, that is the real estate the Council occupies to provide its services, and the investment portfolio from which the Council generates revenue and to highlight the strategic approach to its management.

6.3 Guy Slocombe, Director of Property, Investment & Estates, provided a PowerPoint presentation highlighting the key issues.

6.4 The Committee heard from Nicholas Gill, Director of Investment, Corporation of London and Simon Latham, Principal, Brook Investment Partners, who had been invited to the meeting to assist the Committee in its deliberations.

6.5 At the Committee's request Mr Gill summarised his professional experience. He stated that he had worked in the property investment market for 35 years, 30 years of which had been in private practice. Since October 2010 he had been employed by the Corporation of London as its Director of Investment managing £3 billion of property assets with an objective of maximising revenue and delivering performance.

6.6 Mr Gill provided the following information about the Corporation of London's investment portfolio:

- It was benchmarked by Investment Property Databank and was a top quartile performer over 20, 15, 10, 5 and 3 year terms.

- Investment was only made in property located in central London; 60% of the portfolio was located in the city of London with 20% based in Westminster and the remainder in Tower Hamlets, Southwark, Camden and Islington.

- The investment portfolio's objective is to assist the Corporation in being the foremost global financial centre in the world. The directorate also aims to utilise the portfolio to provide accommodation for the areas small and medium enterprises.

- The portfolio was diversified consisting of 60% offices, 35% retail and 5% industrial.

- The property management function consists of directly managed short term lets and other properties where the Corporation is a landlord and collects ground rent.

- It has pools of available capital to reinvest in the portfolio. In the last few years it has actively invested capital by undertaking major refurbishments to future proof properties. This has included installing air conditioning, showers and bike facilities that office tenants are looking for. This has resulted in an increase in rental growth.

- The investment portfolio has a five-year strategy which is reviewed annually. Business plans are developed for each property and are examined forensically on a regular basis to ensure that the best outcomes are being achieved.

- The investment and corporate property portfolios at the Corporation are managed by different people. Similarly to the City Council, the Corporation was looking to reduce its corporate property footprint.

6.7 Simon Latham then summarised his property investment experience. He had spent 30 years working in real estate, predominantly in the commercial sector. 17 years of this was spent working as a fund manager overseeing a portfolio with a value of £3.5 billion. This consisted of collective investment schemes involving a multiplicity of fundholders. The management of the schemes was predicated on two key objectives; i) using the best advice available at the appropriate price to ensure that assets were delivering to their full potential to meet the requirements of stakeholders and ii) constantly questioning how assets can be managed better. In managing the portfolios consideration was given not just to increasing revenue and driving rents but also to understanding the requirements of tenants who in some cases had occupied premises for many years. The portfolios were built by design and without the constraints of political considerations unlike some of the Council's portfolio which has been inherited and is to some degree run passively.

6.8 The committee then considered the issues set out in the report and submitted questions to officers and witnesses.

6.9 Mr Gill was asked about the separate management arrangements of the corporate property and investment portfolios at the Corporation of London and whether he would recommend this arrangement to the City Council. He explained that he worked in the City Surveyor's Department where the senior management team included the City Surveyor, Corporate Property Director and Property Projects Director as well as himself. All of the property was managed in-house which contrasted with Westminster whose investment portfolio is managed by external agent, Bilfinger GVA. He considered that the management arrangements at the Corporation of London worked extremely well.

6.10 Mr Slocombe informed members that the Council's internal Corporate Property Service consists of different teams which have specific responsibilities similar to that at the Corporation of London. He advised that the management contract with Bilfinger GVA was very cost-effective and that it would likely be more expensive to undertake the work in-house given the number of property managers it would require to undertake all the duties associated with managing the investment property assets.

6.11 Mr Slocombe was asked about the criteria used to measure the value of a building. He explained that every building within the investment portfolio is measured against a number of criteria, its lease term, location, condition and income. This will identify its capitalisation rate (or yield) which is multiplied against the revenue it generates and what it could generate on reversion. The Council will wherever possible avoid selling assets however where there is a clear rationale for doing so it will go through the necessary governance processes.

6.12 The Committee asked Mr Slocombe whether the Council looks to improve the investment portfolio when disposing of an asset that is not delivering a competitive yield. He stated that this was the case. The Council's Corporate Property Strategy is to restructure the investment portfolio incrementally. This will include refurbishing office buildings to optimise revenue generation as well as ensuring the portfolio is sufficiently diversified so as not to be overexposed in any one area or location. In response to a supplementary question about risk management he explained that the Corporate Property team work closely with the City Treasurer to manage risk and that contingency was built into business plans. As a long-term asset holder the Council was able to withstand short term fluctuations in the market.

6.13 Reassurance was sought from Mr Slocombe that any review of retail parades which are secondary in nature (family run corner shops and hairdressing salons, for example) would be considered in the round. He was informed that some of the tenants were struggling and an increase in rents would prove critical to their businesses viability. Mr Slocombe explained that historically each shop within a parade had been considered individually. He advised that in future retail parades would be considered holistically, though individual tenancies remain integral to a combined strategy. Fundamental to the Council's property asset management strategy is a need to consider a range of factors including socio- economic factors. He advised that whilst secondary retail does not provide the prospect of high levels of revenue or capital growth it does provide a low risk from revenue void. Some of the businesses had been run by generations of the same family providing a continuity of income to the Council as well as services to the local community and Westminster would not want to lose this.

6.14 The expert witnesses were asked how the Council could best pursue commercial development opportunities with private sector investors as equitable partners. Members commented that there were various political and statutory obligations incumbent upon the Council which impacted upon and sometimes conflicted with the requirements and speed desired by private investors. Mr Latham highlighted that the Council had a greater diversity of opportunities than other local authorities in that its assets were located in one of the most highly desirable and valuable geographical areas of the country where there was a finite amount of land. He stated that there were a number of private sector bodies who were hugely experienced in the areas that the Council is looking to increase the value of its investment portfolio. For a fee the Council could enter into a joint venture structure. Raising capital, pursuing compulsory purchase orders and meeting planning policy requirements were all in the Council's control. He considered the Council needed to be more transparent with equity partners about these processes which also needed to be streamlined to combat private sector concerns that a significant amount of time and effort would be involved for little gain.

6.15 Mr Slocombe was asked about the membership of the Property Investment Panel and whether there was room on the membership for a member of the minority party. He explained that the councillors that sit on the panel (Councillors Tim Mitchell, Ian Rowley and Jean-Paul Floru) were selected as they have direct private sector experience in property portfolio investment or have responsibility as Cabinet Member, or Deputy, for Property. He undertook to raise the matter with the Cabinet Member for Finance & Corporate Services.

6.16 The Committee asked whether the examples in the presentation around reducing the operational portfolio were based on intended projects. Mr Slocombe clarified that they were illustrative. Members commented that any proposals to co-locate other services within libraries would require extensive community consultation. Mr Slocombe explained that every asset within the portfolio would be carefully reviewed. The corporate property team was embarking on a very detailed analysis of how the operational portfolio was being used. As an example he highlighted that some of the Council's schools were not fully used and were largely empty after 3:30pm whereas other buildings close by might only be occupied by community groups for a couple of hours per day. There were opportunities to match users to assets in a much more productive manner.

6.17 Mr Slocombe was asked about the 10% of the investment portfolio that was let to voluntary & community services. It was suggested to him that it might be preferable for those organisations that were funded by the Council to pay market level rents to determine which were viable. Mr Slocombe explained that there were 35 voluntary and community services tenants. Many of the tenancies were historic, gifted by the City Council some 40 to 50 years ago and would be expensive to take back. Currently tenancies are awarded as part of a commissioning structure where the Council provides a grant and accommodation to an organisation that is providing a useful community service. These tenancies are on more flexible terms than would be given to a commercial tenant. However, if the commissioned service failed to deliver the structure could be reviewed.

6.18 **RESOLVED:**

1. The Committee welcomed the witnesses' observations and felt reassured that the Council's decision to desist from funding its capital programme from asset sales is appropriate and that the organisation has the ability and professional expertise to manage its property investment portfolio.

2. The committee agreed that the Council should use its General Fund land and property assets more effectively to grow income lines to support front line services.

3. The committee noted the witnesses' advice about how the Council can best pursue commercial development opportunities with private sector investors as equitable partners.

4. The committee endorsed the aim of reducing costs and increasing revenue from the rationalisation of the operational portfolio in order to contribute to the Council's budget arrangements. It considered that in principle no asset should be exempt from review to ensure that all properties were being used to their maximum potential. The review of some sites will require sensitivity and any proposal for change will need wide consultation due to the nature of the use(s). However, it considered that it was important that the Council explores the use of its assets in line with its fiduciary duty to the council's taxpayers.

5. The Committee welcomed the establishment of the Property Investment Panel which provides expert advice to the Council on the investment portfolio which included, as part of its membership, external, professional Fund Managers, Dr Robin Goodchild of LaSalle Investment Management and Simon Latham of Brook Investment Partners.

ACTION: Advise whether a member of the minority party can join the membership of the Property Investment Panel (**Councillor Tim Mitchell, Cabinet Member for Finance & Corporate Services**).

7 REGISTERED PROVIDER PERFORMANCE AND CITYWEST HOMES RESIDENT SATISFACTION

7.1 The Committee received a report that detailed i) the performance and tenant satisfaction of registered providers (RP) and other social landlords who have housing stock in Westminster and ii) CityWest Homes Customer Satisfaction.

7.2 Members were informed that RP landlords are independent of the City Council and are regulated by the Homes and Communities Agency. Being independent, the City Council does not have direct control over RP’s but works in partnership with them to meet the needs of Westminster residents.

7.3 The Committee had previously raised a concern that the CWH customer satisfaction surveys do not get responses from all of the target audience and may exclude the hard-to-reach and discontented. The paper provided further detail on the methodologies employed by CWH and commentary on the reliability of the results and their plans for supplementing the present approach.

7.4 The Committee discussed the issues of RP performance. Members considered there to be a mismatch between the social landlord performance and tenant satisfaction data set out in the report and the volume of complaints councillors receive from RP residents about their housing provider. A further comment raised was that the performance data did not seem to vary over time which seemed unlikely and further brought into question the accuracy of the data.

7.5 Officers considered that residents experiencing problems were more likely to get in touch with their local councillor which could potentially skewer members’ perception of satisfaction levels. Officers stated that the Council would never truly have an accurate picture of RP resident satisfaction levels until there was a proper data set of information provided by RPs relating to their operations in the city.

7.6 Fergus Coleman, Head of Affordable and Private Sector Housing, commented in respect of RP’s that one of the biggest challenges was communicating with residents and understanding their needs. Members commented that in some instances there was a lack of connection between provider call centres and the local housing stock. Concerns were also raised about the refurbishment cycles of some RPs which were much longer than those of CityWest Homes.

7.7 Barbara Brownlee, Director of Housing and Regeneration, suggested that members forward copies of complaint letters to her so that she can take up issues directly with the relevant RPs. She commented that while the Council did not have direct control over RPs it had the ability to influence them. For example, they may wish to obtain approval to develop housing within the borough. Proposals are included in the Housing Direction of Travel document regarding developing preferred partner lists where RPs with high tenant satisfaction levels would have opportunities to bid for development funding provided through the affordable housing fund. She further commented that RPs care about their reputation and would be concerned about councillors perceiving them negatively as a consequence of receiving complaints from residents.

7.8 Officers were asked about the design of an annual questionnaire that could be sent out to all major RPs requesting information concerning their performance and tenant satisfaction data as it relates specifically to their operations in the city. Officers advised that for consistency and benchmarking purposes the survey would use the standardised questions used in the Housemark questionnaire.

7.9 The second part of the report set out the different satisfaction levels between CityWest Homes lessees and tenants. With regard to tenant satisfaction levels with repairs and maintenance, Andrea Luker, CityWest Homes, explained that the organisation undertook 30,000 repairs in the previous year. In 90% of cases residents were satisfied with the work undertaken. Despite dissatisfaction with repairs and maintenance running at only 10% this meant that there were 3000 occasions where residents were unhappy and it was these matters that councillors were likely receiving correspondence about. CityWest Homes was working to understand what had gone wrong on these occasions and was putting in place measures to ensure that they did not re-occur.

7.10 **RESOLVED:**

1. The Committee noted officers desire to be able to make comparisons between the performance and tenant satisfaction of all major RPs in the City. It was further noted that while officers would like to produce an annual questionnaire that will be sent out to all our major RPs requesting standard information further discussions should take place to discuss the best mechanism to gather the necessary data.

2. The Committee agreed that members of Westminster's Housing Association Chief Executives Group should be asked to make a voluntary commitment to provide local Westminster performance and tenant satisfaction data available to the Council in future.

3. The committee requested that officers utilise the range of levers at their disposal to encourage an improvement in RP performance in Westminster. This could include developing preferred partner status lists to senior housing officers raising complaints and issues directly with relevant RPs. The Committee could also consider adding an annual public question session with RPs to its Work Programme.

7.11 **ACTION:** Provide the Committee with an update on approaches being put in place to influence an improvement in RP performance in Westminster. **(Barbara Brownlee, Director of Housing and Regeneration)**.

The Meeting ended at 9.25 pm

CHAIRMAN: ______________________ **DATE** ____________________

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Agenda Item 4

ROUND FIVE - 9 March 2016 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
Supply and Allocation of Social Housing	To scrutinise the supply and allocation of social housing (the issue of local connection in terms of how housing is allocated to homeless households according to the Housing Act and the length of connections will also be covered).	• Greg Roberts

ROUND SIX - 13 April 2016 Main Theme – Finance and Customer 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
TFM	To analyse the Total Facilities Management contract with Amey.	• Debbie Morris
Treasury outturn for 2014/15	Statutory review of the treasury outturn for 2014/15. Report to include an update on progress in signing up to a Municipal Bonds Agency in the Treasury Outturn report for 2014/15 (as per Committee decision of 9 March 2015)	• Steve Mair

Other Committee Events & Task Groups		
Briefings	**Reason**	**Date**
Budget T/G	Standing task Group to consider the budget of Council	Jan/ Feb 2016
Housing T/G	Taskgroup examining changes to Housing and Welfare Reform	On-going

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ROUND EIGHT (16 SEPTEMBER 15)		
Agenda Item	**Action and responsible officer**	**Update**
Item 5 – Update from Cabinet Members	Provide Councillor Rampulla with background information on the Key Employment Programme Projects. (**Action for: Ben Denton, Executive Director for Growth, Planning & Housing**)	Officers continue to work on this.
Item 7 – Westminster Housing Strategy Consultation Responses & Analysis on Housing Targets	Make explicit in the Direction of Travel Statement that the Council will still accept comments on the Draft Housing Strategy. That officers write to those sectors that were underrepresented in the responses when consulting on a revised draft of the Housing Strategy. **(Actions for: Andrew Barry-Purssell/Cecily Herdman)**	The direction of travel document will invite comments on what it says, not what's in the draft housing strategy.

ROUND EIGHT (17 NOVEMBER 15)		
Agenda Item	**Action and responsible officer**	**Update**
Item 3 – Minutes	Re-circulate information requested at the last meeting on the proactive resettlement approaches of other London local authorities (**Action for: Anne Pollock, Scrutiny Officer**)	Action to follow.
Item 4 – Work Programme	Add an item on economic development to the Committee's Work Programme (**Action for: Anne Pollock, Scrutiny Officer**)	This is being finalised.
Item 5 – Update from Cabinet Members	Provide the committee with details of the alternative accommodation offered to temporary accommodation residents vacated from Tollgate Gardens once all relocations are	An update has been sent to committee with a full report expected when all the re-locations are complete around March 2016.

	complete. (**Action for: Barbara Brownlee, Director of Housing & Regeneration**)	
Item 6 – The Council's Corporate Property Strategy & Current Situation	Advise whether a member of the minority party can join the membership of the Property Investment Panel (**Councillor Tim Mitchell, Cabinet Member for Finance & Corporate Services**)	This was completed on 11th December 2015.
Item 7 – Registered Provider Performance and CWH Resident Satisfaction	Provide the Committee with an update on approaches being put in place to influence an improvement in RP performance in Westminster. **(Barbara Brownlee, Director of Housing and Regeneration)**	Barbara Brownlee will update on this in due course.

City of Westminster

Housing, Finance & Corporate Services Policy and Scrutiny Committee Briefing

Date:	**6th January 2015**
Briefing of:	**Cabinet Member for Finance & Corporate Services**
Briefing Author and Contact Details:	**Jeremy Day x5772** **jday@westminster.gov.uk**

1. Finance

1.1 Monthly Monitoring

The Council continues to complete monthly monitoring of its capital and revenue budgets throughout the year. This includes on-going review and monitoring of savings proposals approved for 2015/16 along with the same for pressures, mitigations and inflation. The Council reviews variations to budget but also risks and opportunities throughout the year and is currently forecasting a revenue underspend at year end. Elements of the capital programme are being re profiled into 2016/17 reflecting the current position on planned schemes

1.2 Medium Term Planning and Budget Process

At the time of writing the local government finance settlement has yet to be received and thus in order to make the necessary preparations, the Council has had to make assumptions around the level of cuts faced on a year by year basis, service area pressures and inflationary pressures on both contracts and salaries. The Council has consequently determined that savings in the order of £33m and £34m will be required in 2016/17 and 2017/18 respectively.

1.3 Current Status

The Council has been pursuing a Medium Term Planning (MTP) process to identify proposals which deliver savings or additional revenue in order to meet the above savings requirements. Proposals for 2016/17 are currently being identified to meet the target in full in order that the budget for 2016/17 will be balanced. The proposals for 2017/18 are likewise being worked on.

Officers continue to undertake a review of all the proposals to work up the necessary action plans, Equality Impact Assessments, invest to save and capital investment requirements and potential redundancy implications, in order to inform the detailed budget setting process for 2016/17. Proposals will be reviewed in detail in order to make further refinements before finalising.

The savings will be presented to the Budget Performance Task Group for scrutiny, before being submitted to Cabinet in February 2016 and then Full Council for final approval on 2nd March 2016.

2 Corporate Services

The Managed Service Programme has a further series of demanding targets to deliver January 2016.

Progress with these activities is picking up and work continued over the Christmas period. The activities include further reconciliation activity, the provision of pension data and clearance of incidents that relate to prior periods.

BT have increased the level and capability of resources dedicated to the project. Work continues to improve the services provided to schools and more generally to prepare for financial year end

3 Corporate Property

Approximately £150m of assets have been sold this year or are under offer to be sold. Part of this receipt will fund the capital programme and part will fund further enhancement of the property investment portfolio, or related development programme. An extensive programme of development of Council assets is in feasibility or design stage aimed at providing outcomes to deliver enhanced facilities for community use, housing, mixed use and commercial accommodation to generate increased revenue for the Council. The investment portfolio is maintaining low levels of unpaid debt (c. £350k) having recovered c. £5m over the last 18 months. The portfolio has a void rate (eg: vacant property) of 1.8%, most of which is subject to refurbishment and planning prior to being offered for re-letting.

City of Westminster

Housing, Finance and Customer Service Policy and Scrutiny Committee Briefing

Date:	**6th January 2016**
Briefing of:	**Head of Cabinet Secretariat**
Portfolio:	**Cabinet Member for Housing, Regeneration, Business and Economic Development**
Please contact:	**Jeremy Day x 5772** **jday@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. Delivering Housing Renewal

In the period since the last committee meeting there has been particular activity around Tollgate Gardens and Church Street.

Tollgate Gardens
The Development Agreement is on track to be signed with Affinity Sutton before April 2016 and following vacant possession we are hoping to achieve a start on site in April 2016.

Ebury Bridge Estate
Acquisitions, both voluntary and compulsory, will continue over the coming quarter. In December the Cabinet gave permission for the development team to progress the Compulsory Purchase Order and the team will be escalating this in the New Year.

2. Church Street

Lisson Arches
FM Conway are meeting with United Living (main contractors) and CityWest Homes to work together on the design of the enabling works to ensure they are completed to the correct designs for the main build work. United Living are working towards a final design and cost plan for May 2016.

Luton Street
Detailed design discussions are continuing with the working group. Developers are seeking to submit a planning application by April 2016 with a view to start on site in September 2016. Legal agreements to be finalised by February 2016 and a further Cabinet Member Report will be submitted to me on the final design and base case (commercials) in due course.

Venables Street
Planning was granted and tender documents were issued out. We are now awaiting bid responses. Work is looking to start onsite February 2016 with completion date May 2016.

Tresham Crescent
Practical completion occurred on 16th December 2015 and the facility will open spring 2016 following OFSTED inspection/approval.

Penn and Lilestone
Work will continue with the communities and colleagues to identify appropriate additional services to co-locate in this building.

District Energy Scheme
Discussions are under way to finalise design, access to and delivery of the proposed district energy scheme plant under the Lisson Grove road bridge. This is being coordinated with the Lisson Arched development.

3. Church Street: Regeneration:

Barbara Brownlee continues to provide focus to the delivery of Church Street Regeneration. This has been supported by the appointment of a programme director, Tony Hutchinson. An Engagement Officer for Business post has also now been created and will be recruited to in the New Year.

The new strategy for Communications and Engagement will be implemented from January 2016 working with Vital Regeneration.

At the Futures Steering Group 7th December the officers set out that there would not be a further vote or votes on the delivery of Church Street, and that we are providing additional resources and direction to the programme. This includes a refocused community engagement strategy, as noted above.

Plans are advancing with creation of regeneration team base in Church Street. There will be sharpened focus on governance, delivery and social/economic transformation to complement the physical changes.

Since the last meeting we have continued to move forward with regeneration:
- Employment coaches to be recruited in January 2016
- Business engagement coordinator to be recruited Feb 2016
- Neighbourhood upkeep procurement issued on 11th December 2015

4. Affordable Housing

Since 1 April 2015, 111 new build affordable homes have been completed in Westminster and made available for occupancy. These new homes delivered include 75 social housing units and 36 intermediate homes. The most significant of these schemes is at the former Middlesex Hospital site which has delivered 40 social housing units and 14 shared ownership homes. Trenchard House which is due to be delivered after Christmas will deliver 65 sub-market rent homes right in the heart of Soho. In addition to these new build homes a further 22 spot purchases have been secured for affordable housing use.

5. Housing Strategy Update

The Direction of Travel Document was finalised in December 2015 and can be found on the Council's website. As mentioned in previous updates, the document shows the general direction we want to take in the light of the various national policy changes and announcements. However we will go ahead with those draft Housing Strategy proposals that are unaffected by the national policy changes and these will be incorporated into work streams.

6. CityWest Homes

The CityWest Homes Strategy has now been out to consultation and has been signed off by myself and the CWH Board. A draft Target Operating Model has been developed; including delivery plans to save over £5m and detailed planning for a 2 year roadmap will be in place by the end of January. Joint plans between WCC and CWH are also in development, especially around the use of office's, adult care and the area plans.

Benchmarking is taking place with other organisations on the Housing Bill impacts (especially around the 1% reduction) and further options to support the General Fund are being assessed. A new Service Director is at the final stages of recruitment and an offer is expected to be agreed in December, with start date for April 2016.

7. Rough Sleepers' accommodation services

The Rough Sleeping team and Policy team will begin the process of writing the 2016-19 strategy in January 2016, with a focus expected to be on solutions for economic migrants, addressing street based activity and setting out the commissioning strategy for all Rough Sleeping services over the coming years.

Officers are to begin working with commissioned providers on undertaking a comprehensive audit of quality, delivery models and to assess value for money in all contracts in Quarter 4 of 15/16. This will enable a thorough review of each contract and the progress made since the remodelling of many of the services therefore enabling a clear procurement strategy.

Economic Development and Growth

8. Economic Development Strategy

I signed off the draft Economic Development Strategy in principle in November. Minor final amends are now being made (primarily to the maps and visuals) in response to feedback in order to finalise the document which can then be launched at a suitable opportunity in the New Year.

9. Work & Employment

Officers have drafted a 'pledge' for key partners in the City to commit to reducing long term unemployment with a view to signing in February following senior level agreement in January. This will include Jobcentre Plus, the Clinical Commissioning Groups, Work Programme Primes and Colleges. As part of the pledge, officers are negotiating with Jobcentre Plus about managing local funding to reduce the number of residents that become long term unemployed. A pitch for this will be finalised in January for consideration / approval by Jobcentre Plus.

Work to reduce the 'stock' of long term unemployed residents – the majority of which have health conditions and are attached to the Government's *Work Programme* – is focussing on designing a programme to discuss with the Work Programme contractors. Our aim is clear; we want more residents completing the Work Programme to be in sustained employment. We will advocate our 1-2-1 coaching model and explore opportunities to more effectively collaborate to deliver our City for All ambition.

Our pan-central London, Working Capital programme went live in October 2015. The employment case worker is supporting Long Term Unemployed residents with health conditions. Those that have finished the Work Programme without a job are embedded within our existing suite of services to help the long term unemployed.

WAES, Skills & Area Reviews

As London negotiates a skills devolution deal with central government, the Mayor and the boroughs are preparing to play a leading role in a series of area reviews of post-16 education and training across London which will begin in March 2016 (Westminster will be part of the first phase of the reviews). Part of a national programme of reviews designed to deliver a rationalised and more responsive Further Education (FE) sector, London's area reviews are an opportunity to secure a more resilient and sustainable base of providers to deliver the skills outcomes that London needs.

Community Adult Education services will also be within scope of Area Reviews and in preparation for the formal review process, I have has asked for a strategic review of Westminster Adult Education Service (WAES) to be undertaken, with the Service and input from a peer review group in January. The review has been approved by the Governors of WAES.

The Strategic Review of WAES is also part of the Council's vision for integrating employment and skills provision, incorporating services within the Council as well as with other agencies including Jobcentre Plus and Further Education / Adult Skills Provision – a 'one public service' approach. This will support delivery of the *City for All* ambition of reducing long term unemployment and prepare the Council / Central London Forward for future re-commissioning of the Work Programme in 2017.

Half-year performance – overview (April-September)

The total number of residents supported into paid employment opportunities from all Council projects and commissioned is 406. This figure includes the additional contributions from Westminster Adult Education Service (216) and City West Homes (26).

Overall, projects are currently performing at 82% success rate against profiled job starts and following delays which projects have encountered with recruitment earlier in the year, we anticipate projects delivering their year-end targets.

10. Westminster Enterprise Week

The delivery of the inaugural Westminster Enterprise Week was completed on the 20th November 2015. The table below indicates the target outputs we were looking to achieve and the actual numbers we did achieve during the week.

KPI	Target number	Actual numbers	Percentage of target
Number of young people engaged	1120	**963**	**86%**
Number of enterprise learning hours	1220	**1462**	**120%**
Number of dedicated enterprise activities, events or workshops organised	20	**26**	**130%**
Number of business and enterprise volunteers engaged	50	**56**	**112%**
Media coverage**			
Twitter reach	30000	**343,804**	**146%**

Overall the target outputs were significantly overachieved and the only target falling short was the number of young people engaged. Although this target was not met the number of learning hours achieved by these young people exceeded the target by 20%.

I have written to all organisations involved to thank them in making the week such a great success. I also encouraged them to participate and be involved with next year's event.

A final report is currently being produced to highlight the lessons learned from 2015 to help inform the development of 2016. In January a debrief session is being held with everyone involved in the event to see how we can improve the event in 2016, raise sponsorship and promote the opportunities to the businesses and young people.

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HOUSING, FINANCE AND CORPORATE POLICY AND SCRUTINY COMMITEE

Date:	**6 January 2016**
Classification:	**General Release**
Title:	**Treasury Management Strategy Mid-Year Review**
Report of:	**City Treasurer**
Cabinet Member Portfolio:	**Cabinet Member for Finance and Corporate Services**
Wards Involved:	**All**
Policy Context:	**The efficient management of the Council's financial affairs**
Financial Summary:	**Treasury Management continues to operate within approved boundaries**
Report Author and Contact Details:	**Jackie Shute, Interim Tri-Borough Head of Treasury jshute@westminster.gov.uk**

1. EXECUTIVE SUMMARY

1.1. This report presents the Council's Half Year Treasury Report for 2015/16 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. There are two aspects of Treasury performance – debt management and cash investments. Debt management relates to the City Council's borrowing and cash investments to the investment of surplus cash balances. This report covers:

- the treasury position as at 30 September 2015;
- the UK economy and interest rates
- investment strategy and outturn for 2015/16;
- the borrowing strategy and outturn for 2015/16; and
- compliance with treasury limits and prudential indicators.

1.3. The borrowing amounts outstanding and cash investment for the 30th September period are as follows:[1]

	30 September 2015 £m	31 March 2015 £m
Total borrowing	282	284
Total cash balances	(769)	(605)
Net Surplus	**(487)**	**(321)**

2. RECOMMENDATIONS

2.1 Recommended that Committee:

i) Note the treasury position at 30th September 2015

ii) Approve the inclusion of Bonds within the category of UK deposits and Certificates of Deposit

3. TREASURY POSITION AT 30 SEPTEMBER 2015

Net Position

3.1 The above table shows that during the first six months of the year, net cash inflows of £126m have been received. This significant movement reflects the expected pattern of the Authority's cash position and largely relates to the timing of grants received.

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

3.3 The revenue outturn position for 2015/16 is as follows:

	General Fund £m	HRA £m
Expected Net Interest Costs / (Income)	(3.716)	11.054
Downside Net Interest Costs / (Income)	(3.192)	11.065
Net Interest Risk	**0.524**	**0.011**

3.4 Net interest comprises interest paid less interest receipts, and the expected outturn represents the current portfolio commitments with maturing investments being reinvested at market expected rates. By modelling alternative interest rate scenarios, it has been possible to quantify the impact of downside rate environments. The table above reflects the position capturing scenarios where only 1 in 10 outcomes could be worse. This is viewed as a reasonable level of confidence given the uncertainty of the interest rate

[1] This amount represents the principal amount invested, rather than the fair values that are reflected in the financial statements

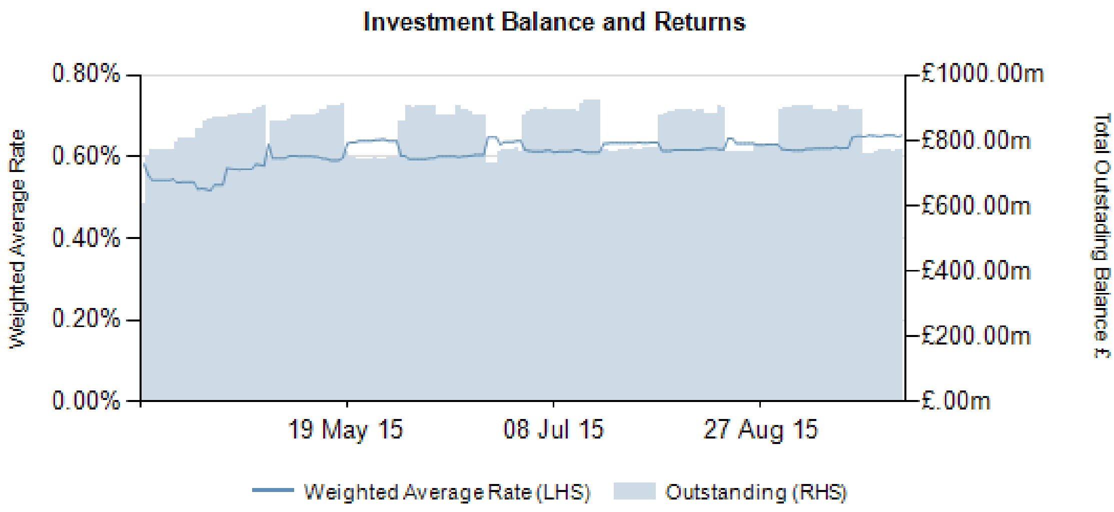
environment. The authority recognises interest rate risk as a key treasury risk and is committed to containing this uncertainty, whilst ensuring credit risk on investments is also actively managed.

Investments

3.5 The table below provides a breakdown of the cash deposits, together with comparisons from the year end.

Investment Type	30 September 2015 £m	31 March 2015 £m
Money Market Funds	32.7	200.0
Call Accounts	31.0	35.0
Notice Accounts	78.8	78.7
Term Deposits	49.0	109.7
Tradable Securities	546.0	149.7
Enhanced Cash Funds	31.5	31.5
Total	**769.0**	**604.6**

3.6 Liquid balances are managed through the Call accounts and Money Market Funds which offer same day liquidity. The balances in these categories of investment were unusually high at the start of 2015/16 largely to ensure sufficient cash was available to meet payments, as the introduction of the new financial system created some uncertainty regarding the timing of cash flows. As the year progressed, cash flows normalised and the levels of liquidity required became more apparent. Consequently, cash was reinvested into alternative, less liquid instruments particularly Tradable Securities.



3.7 The shaded area in the above chart shows the daily investment balance during the first half-year. The line shows the weighted average return of the investment portfolio, which has increased from 0.58% at the start of the year to 0.65% at 30th September. This has been largely attributable to the move away from liquidity trades and into tradable securities.

3.8 All investment limits specified in the 2015/16 investment strategy have been adhered to. The table below shows the limits and exposures as at 30th September 2015.

Category	**£ Limit per counterparty**	**Duration Limit**	**Counterparty Name**	**Current Exposure £m**	**WAD (days)**
UK Government	unlimited	unlimited	UK Government	427.07	132.83
Supranationals	£200m	5 years	Council of Europe Development Bank	32.63	68.00
			European Investment Bank	10.08	68.00
European Agencies	£200m	5 years	Kreditanstalt fur Wiederaufbau	28.30	101.69
Network Rail	unlimited	37 years	Network Rail Infrastructure PLC	20.46	246.49
TFL	£100m	5 years	Transport For London	27.47	20.00
Money Market Funds	£70m per fund. £200m in total	n/a	Aberdeen Asset Management	19.25	Instant
			Deutsche	5.50	Instant
			Federated Prime Rate	5.00	Instant
			JP Morgan	1.30	Instant
			Morgan Stanley	1.50	Instant
Enhanced Cash Fund	£25m per fund, £75m in total	n/a	Federated Prime Rate	15.17	1 day notice
			Payden & Rygel	16.45	3 days notice
UK Bank Deposits (higher credit quality)	£75m	5 years	HSBC Bank plc	49.25	1 month notice
			Royal Bank of Scotland plc	14.00	256.43
UK Bank Deposits (lower credit quality)	£50m	3 years	Barclays Bank plc	49.58	73.42
			Lloyds Bank plc	15.00	98.00
Non-UK Banks (higher credit quality)	£50m	5 years	Svenska Handelsbanken	31.00	Instant
Total				**769.01**	**104**

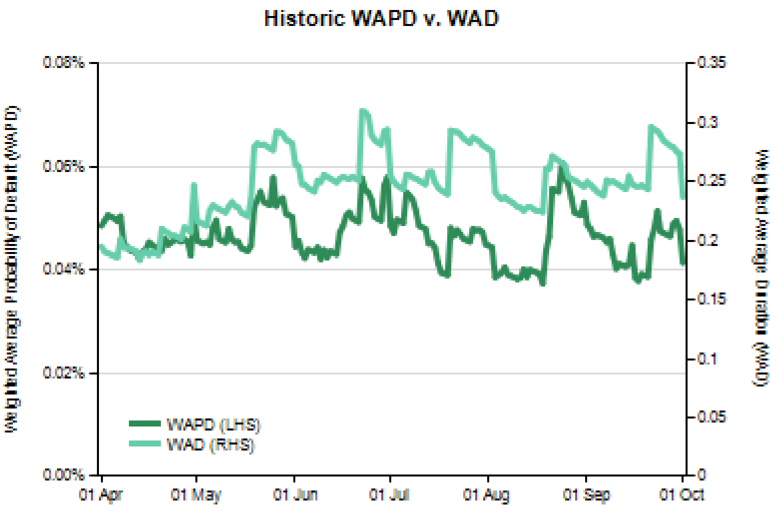
3.9 It should be noted that although the credit rating of Royal Bank of Scotland is lower than Barclays and Lloyds, as a result of the extent of government ownership (currently 73%), the approved strategy for 2015/16 categorises them as a higher credit quality and consequently the higher limit applies.

3.10 The weighted average duration of the portfolio is 104 days, and varies considerably between counterparties. The longest duration investment is a UK Government gilt maturing in July 2018. Stripping this transaction out would reduce the weighted average duration to just 71 days.

3.11 Long term projections of the authority's net surplus suggest that the cash balance is not expected to fall in the foreseeable future, and therefore there is the opportunity to extend the duration of the investments without compromising the liquidity requirements of the authority.

3.12 Officers are currently working on some potential strategies to extend the duration of trades which will increase the returns and reduce interest rate risk. This is discussed further in Section 5 of this report.

3.13 In terms of credit risk, there have been some changes in ratings during 2015/16. In particular, FitchRatings downgraded the Royal Bank of Scotland's long term rating from A- to BBB+ in May 2015. At the same time, Lloyds Bank's long term rating was upgraded from A to A+. Using more dynamic credit risk measures, the first half of the year has shown a more volatile credit risk profile, reflected by the weighted average probability of default (WAPD) for the portfolio.



3.14 The chart above compares the WAPD of the portfolio with the weighted average duration. This shows that the increase in duration has not manifested itself in an increase in credit risk and as at the 30th September 2015, the default risk for the portfolio was lower than at the start of the financial year.

Borrowing

3.15 The table below shows the details around the Council's external borrowing (as at 30 September 2015), split between the General Fund and HRA.

	30th September 2015		31st March 2015	
	Balance £m	**Average rate %**	**Balance £m**	**Average rate %**
HRA External Borrowing	256	4.8%	258	4.8%
General Fund External Borrowing	26	4.1%	26	4.1%
Total borrowing	**282**	**4.7%**	**284**	**4.7%**

3.16 There has been little activity during the first half of 2015/16. Reductions in principal of £1.7m have occurred as a result of the maturity of an HRA loan and small repayments of principal on General Fund annuity loans.

3.17 The Council has complied with the approved 2015/16 Treasury Management Strategy as well as all Prudential Indicators and regulatory requirements for Treasury investment in the year to date.

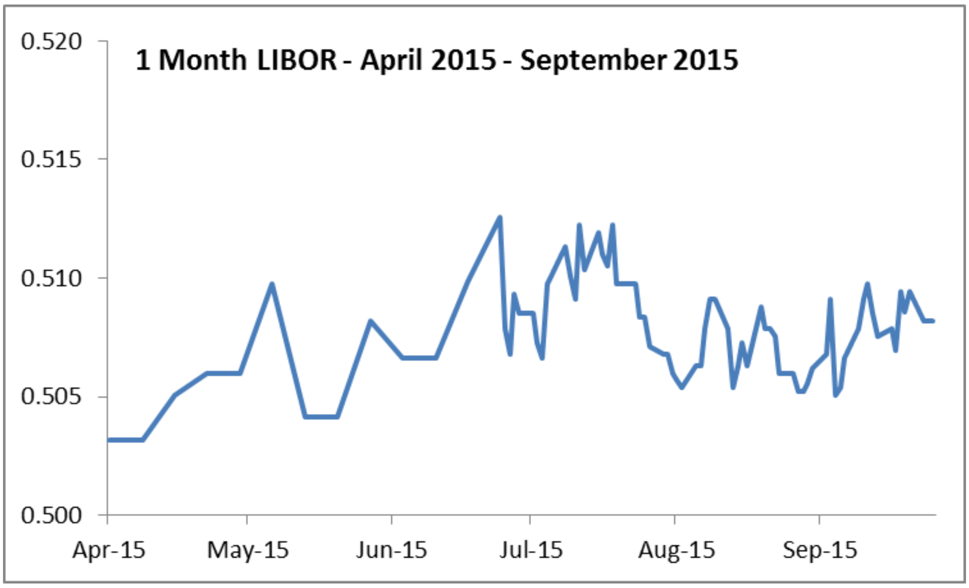
4 THE ECONOMY AND INTEREST RATES

4.1 UK GDP continued to rise in the first quarter of the financial year, posting a 2.4% year on year increase, resulting in the tenth consecutive quarter of increases. Export growth has been hampered by weak domestic growth within the UK's main trading partners, but countered by healthy growth in household real incomes.

4.2 Consumer Price Inflation continued to undershoot the Monetary Policy Committee's (MPC's) target of 2%, largely as a result of external factors but also as a result of domestic cost pressures remaining weak. The Bank of England's quarterly inflation report in August projected inflation to increase to the target in 2 years time. This is largely as a result of past falls in energy and food prices falling out of the annual comparison. However, falls in energy prices since the May 2015 report exerted more downward pressure than was expected earlier in the year.

4.3 At the August meeting of the MPC, the committee voted 8-1 in favour of leaving the Bank Rate on hold, with one member voting for a 25bps increase; the first vote for an increase since December 2014. The MPC felt there were various headwinds facing the UK economy, not least the downside potential of risks to activity in China and Europe. As a result, the committee felt that when interest rate increases do begin to take place, it will be undertaken at a more gradual pace than in previous cycles.

4.4 Short term rates remained relatively stable throughout the first half of the financial year as shown by 1 month LIBOR in the chart below. However, the market's expectations of interest rate movements increased slightly over the first half of the year, which consequently had a positive impact on the Council's Net Interest Income.



5 THE WAY FORWARD

5.1 Officers have been actively considering a variety of treasury initiatives, predominantly focusing on active risk management of the portfolios. Whilst the work is still in progress and will be brought forward as part of the future budget proposals, there are a number of points that can be factored into the current and future years' portfolio management.

5.2 Long term cash flow forecasts have been developed and are being actively used to assist the authority's strategic decision making. These projections are continually updated with the evolving spending plans of the organisation and demonstrate that the level of cash balances held is not expected to fall below £400m despite the relatively ambitious spending plans of the organisation.

5.3 Furthermore, it has being considered that a balance of £150m needs to be retained on a liquid basis to meet peaks and troughs of cash flows on a daily basis. Therefore, there is an expected balance of £250m that is not needed in the foreseeable future and can therefore be invested on a more strategic basis.

5.4 There are several options being explored for the use of this available cash balance, and some of these initiatives are yet to be concluded. However, it is clear at this stage that within the strategy, it would be beneficial if duration was extended on the non-liquid proportion of the investment portfolio. As a result of the upward sloping yield curve shown above in Section 4 of this report, investing for longer duration can lock in gains above short term rates. Furthermore this strategy would reduce interest rate risk and uncertainty as a lower proportion of the portfolio would need to be re-invested at unknown future rates.

5.5 The current strategy permits deposits with UK and non-UK banks for periods up to 5 years, and it is not being proposed that this duration be extended. However, it is felt that a more appropriate way to gain exposure to the banking sector may be through the purchase of bonds rather than deposits. Bonds are highly liquid tradable instruments that carry no additional credit risk over deposits. In the event that the credit quality of the institution deteriorated, with a deposit the authority would only be able to attempt a negotiation with the counterparty to prematurely break the deposit, which may not be possible. With a bond of the same duration, there would be the opportunity to sell the instrument on in the wider market, albeit the price may be affected by any deterioration in credit quality. However, this would be preferable to being unable to negotiate a premature break in the deposit.

5.6 Bonds are currently invested in with very high quality counterparties such as UK Government, TFL, Network Rail and Supranational Banks. And the strategy permits long dated deposits with UK and Foreign banks. Therefore to include bonds with banks will not expose the Authority to any greater credit risk than has been approved in the 2015/16 Investment Strategy yet provide enhanced returns compared to the typical deposit rates offered by the same institutions.

6 COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

6.1 During the half year to September 2015, the Council operated within the treasury limits as set out in the TMS. The position for the Treasury Management Prudential Indicators are shown below.

External debt indicator	Approved limit (£m)	Maximum borrowing	Days exceeded
Authorised limit[2]	516	283	None
Operational boundary[3]	496	283	None

6.2 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.

6.3 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.

[2] Authorised limit for external debt is the limit above which external debt must not go without changing Council Policy.
[3] Operational boundary for external debt is the limit against which external debt will be constantly monitored.

6.4 The maturity structure of borrowing shows the proportion of loans maturing in each time bucket. 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. The maturity structure as at 30th September 2015 was well within the limits set and does hot highlight any significant issues.

Maturity structure of borrowing	**Lower limit (%)**	**Upper limit (%)**	**Actual at 30 September 2015 (%)**
Under 12 months	0	40	11
1-2 years	0	35	0
2-5 years	0	35	11
5-10 years	0	50	15
10 years and over	35	100	64

6.5 The purpose of the interest rate exposure indicators is to demonstrate the extent of exposure to the authority from any adverse movements in interest rates. The limits for 2015/16 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 exposure the authority to the risk of interest rates being low for an extended period of time.

6.6 Officers recognise that interest rate risk is one of the key risks facing the authority, as demonstrated by the table in paragraph 3.3 which shows that the difference between expected net interest costs and downside net interest costs is over £0.5m in the current financial year alone. As part of the strategic review of the investments outlined in Section 5 of this report and in recognition of the key risk management objective to reduce interest rate exposures, the mis-match between fixed and variable investment returns will be re-balanced in order to reduce interest rate risk to the organisation.

Upper limits on interest rate exposure	**Approved maximum limit**	**Actual as at 30 September 2015**
Borrowing		
Fixed interest rate exposures	100%	79%
Variable interest rate exposures[4]	50%	21%
Investments		
Fixed interest rate exposures[3]	50%	5%
Variable interest rate exposures	100%	95%

6.7 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

[4] For the purposes of this Prudential Indicator variable borrowing and investments include any deals that have a maturity of under a year as well as any trades being capable of being varied within a year..

portfolio demonstrates that the current position is well within the approved limits.

£ million	**Approved maximum limit £m**	**Actual as at 30 September 2015 £m**
Limit on investments for periods over 364 days	200	40

Background Papers

Cabinet Reports
Treasury Management – Annual Strategy for 2015/16, including Prudential Indicators and Statutory Borrowing Determinations – 23rd February 2015.

If you have any questions about this report, or wish to inspect one of the background papers, please contact Jackie Shute on 020 7641 1804 or jshute@westminster.gov.uk.

City of Westminster

HOUSING, FINANCE AND CORPORATE POLICY AND SCRUTINY COMMITEE

Date:	6 January 2016
Classification:	For General Release
Title:	Draft Treasury Management Strategy for 2016/17 to 2018/19
Wards Affected:	All
Policy Context:	To manage the Council's finances prudently and efficiently
Financial Summary:	The Annual Treasury Management Strategy sets out the Council's strategy for investing its cash balances, and borrowing within appropriate risk parameters. The Council's investment priorities are to ensure the security of capital, the liquidity of its investments and an optimum return on its investments commensurate with proper levels of security and liquidity, while financing the Council's capital programme and ensuring that cash flow is properly planned. As per the Prudential Code the Council's capital investment plans are prudent, affordable and sustainable.
Report of:	Steven Mair, City Treasurer
	Tel: 020 7641 2904
	Email: smair@westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1. The Housing, Finance and Corporate Services Scrutiny Committee has requested the draft Treasury Management (TM) strategy to be reported to its 6th January meeting. Consequently the TM strategy has been prepared as a draft, in advance of the capital programme. It will be revised during the budget cycle

1.2. The Council is required to operate a balanced budget and, in pursuit of this objective, the Council operates a Treasury Management Function which manages the Council's cash flows, lending and borrowing activities and controls and mitigates the risks associated with these activities. The borrowing provides some of the funding for the Council's capital programme.

1.3. The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code, the Department for Communities and Local Government (DCLG) Minimum Revenue Provision Guidance, the CIPFA Treasury Management Code and DCLG Investment Guidance.

1.4. At the time of writing this report the recommendations to go in the Capital Programme and to Council in March have not yet been approved. Therefore, amendments will be necessary to the prudential indicators in this report in the light of decisions taken during the budget cycle process.

2. RECOMMENDATIONS

Committee is asked to note that Council will be asked to approve:

(i) The proposed Treasury Management Strategy including Borrowing and Annual Investment Strategy;
(ii) The Minimum Revenue Provision Policy;
(iii) The Prudential Indicators; and
(iv) The Investments schedule (Appendix 1).

3. REASONS FOR DECISIONS

3.1. To comply with the Local Government Act 2003, other regulations and guidance and to enable the continued effective operation of the Treasury Management function and ensure that all Council borrowing is prudent, affordable and sustainable.

4. BACKGROUND INFORMATION

4.1. Treasury management is defined as:

"The management of the organisation'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]

4.2. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

4.3. 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 that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.

5. CIPFA REQUIREMENTS

5.1. The Council has formally adopted CIPFA's Code of Practice on Treasury Management (revised November 2011). The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices ("TMPs") that set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Half-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body.

[1] CIPFA Code of Practice or Treasury Management in the Public Services

6. REPORTING AND GOVERNANCE REQUIREMENTS

6.1. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. The three reports are:

(i) **Treasury management strategy statement and prudential indicators report** (this report). This report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

(ii) **Mid-year treasury management report -** This will update members with the progress of the capital position, amending prudential indicators as necessary, and identifying whether the treasury strategy is meeting the objectives or whether any policies require revision.

(iii) **An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

6.2. The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Housing, Finance and Corporate Services Policy and Scrutiny Committee.

6.3. The Council has delegated responsibility for the implementation and regular monitoring of its treasury management policies and treasury management practices to the Section 151 officer.

6.4. Further details of responsibilities are given in Appendix 2.

6.5. The CIPFA Code requires the responsible financial officer I.e. the s.151 officer) to ensure that Members with responsibility for treasury management receive adequate training in treasury management. The training needs of treasury management officers are periodically reviewed as part of the Learning and Development programme. The officers attend various seminars and conferences throughout the year. As part of developing financial management training programme Member training will be a priority in 2016/17.

7. TREASURY MANAGEMENT STRATEGY

7.1. The strategy covers four main areas as detailed below:

(i) Capital

(i) The capital expenditure plans, Capital Financing Requirement (CFR) and prudential indicators to assess the affordability of the capital programme; and

(ii) The Minimum Revenue Provision (MRP) policy.

(ii) Treasury Management Strategy:

(i) The current treasury position;

(ii) Capital Financing Requirement;
(iii) Limits to borrowing activity; and
(iv) Prospects of interest rates.

(iii) Borrowing strategy including debt rescheduling.

(iv) Annual Investment Strategy
(i) Investment policy;
(ii) Creditworthiness policy;
(iii) Current Investment types;
(iv) Specified and Non-specified investments;
(v) Country of Domicile; and
(vi) Investment Strategy

8. CAPITAL PRUDENTIAL INDICATORS 2015/16 – 2018/19

8.1. The Council's capital expenditure plans are the key drivers of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview of the Council's capital plans to ensure that the investment plans are affordable, sustainable and prudent. The Capital Programme is in its draft stage and therefore has not yet been approved. Amendments will be necessary in the light of decisions taken during the budget cycle process to the prudential indicators.

8.2. As demonstrated through this report through the prudential indicators and wider governance processes covering the capital programme, the Council's capital plans and budgets are prudent, affordable and sustainable.

8.3. Linked to the above the Council is continuously reviewing the capital programme and its financing in accordance with new and emerging priorities and the current challenging financial climate. This is to ensure that it maintains prudent financing of the programme combined with delivering a programme which is priority driven and which meets the needs of the City.

8.4. The capital prudential indicators (PIs) required by the Prudential Code are:

PI 1 Capital expenditure plans

PI 2 Capital financing requirement

PI 3 Ratio of financing cost to net revenue stream

PI 4 & 5 Incremental impact of capital investment decisions on council tax and housing rents

PI 6 Net debt and the CFR

PI 7a Authorised borrowing limit

PI 7b Operational boundary limit

PI 7c HRA debt limit

PI 8 Interest rate exposure for debt and variable rate debt

PI 9 maturity structure of debt

PI 10 Surplus funds invested

8.5. **PI 1 Capital Expenditure Plans**

(i) The PI summarises the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle and how these are to be financed by capital or revenue resources.

Table 1	**2014/15 Actual**	**2015/16 Forecast**	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Expenditure						
General Fund	111.96	154.57	108.77	103.94	34.71	513.95
HRA	71.57	86.16	91.55	82.76	92.71	424.75
Total	**183.53**	**240.73**	**200.32**	**186.70**	**127.42**	**938.70**
Funding:						
Grants & contributions	58.42	89.66	34.96	23.10	22.05	228.19
Capital Receipts:						
General Fund	0.00	72.19	53.46	0.00	0.00	125.65
HRA	8.05	18.50	52.58	38.09	54.14	171.36
Revenue financing	35.01	40.84	6.39	6.05	0.00	88.29
Major Repairs Allowance	16.59	17.24	17.24	17.24	17.24	85.55
Total	**118.07**	**238.43**	**164.63**	**84.48**	**93.43**	**699.04**
Net financing need for the year	**65.46**	**2.30**	**35.69**	**102.22**	**33.99**	**239.66**

8.6. **PI 2 Capital Financing Requirement**

(i) 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.

(ii) The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life. Therefore, the CFR is reduced by this provision to repay debt.

(iii) The CFR also includes an amount equivalent to outstanding liabilities in respect of PFI and other finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a funding facility and so the Council is not required to borrow separately for these schemes. The Council currently has £15m of such schemes within the CFR.

Table 2	2014/15	2015/16	2016/17	2017/18	2018/19
CFR as at 31 March	**Actual**	**Forecast**	**Estimate**	**Estimate**	**Estimate**
	£m	**£m**	**£m**	**£m**	**£m**
General Fund	180.19	175.19	199.00	297.59	324.53
HRA	276.40	278.70	284.90	284.90	284.90
TOTAL	**456.59**	**453.89**	**483.90**	**582.49**	**609.43**
Annual change in CFR					
General Fund	57.21	- 5.00	23.81	98.59	26.94
HRA	0.28	2.30	6.20	-	-
TOTAL	**57.49**	**- 2.70**	**30.01**	**98.59**	**26.94**
Reasons for Change					
Net financing	65.46	2.30	35.69	102.22	33.99
Less MRP	-6.44	-5.00	-5.68	-3.63	-7.05
Less Capital Receipts applied	-1.53	0.00	0.00	0.00	0.00
TOTAL	**57.49**	**- 2.70**	**30.01**	**98.59**	**26.94**

(iv) Table 2 above shows that the CFR will increase over the medium term. Consequently the capital financing charge to Revenue will increase, reflecting the capital spending plans.

8.7. Affordability Prudential Indicators

(i) The objective of the affordability PIs 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.

(ii) **PI 3 Ratio of financing costs to net revenue stream**: identifies the trend in the net capital financing costs against the net revenue stream. The estimates of financing costs include current commitments and the proposals in this report.

Table 3	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	**Forecast**	**Estimate**	**Estimate**	**Estimate**
	%	**%**	**%**	**%**	**%**
General Fund	1.05	0.68	1.81	1.43	5.61
HRA	31.46	26.06	25.98	26.06	25.59

(iii) **PIs 4 & 5 Incremental impact of new capital investment decisions on council tax and housing rents**: The PI identifies the revenue costs arising from proposed changes to the capital programme 2015/16 to 2018/19 set out in Table 4 below.

Table 4	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	**Forecast**	**Estimate**	**Estimate**	**Estimate**
	£	**£**	**£**	**£**	**£**
Incremental impact of capital investment decisions					
Increase in Council Tax (band D) per annum	47.53	14.17	44.40	47.70	16.26
Increase in average housing rent per week	-2.86	-0.04	0.38	0.39	0.43

8.8. Minimum Revenue Provision (MRP) Policy

(i) Capital expenditure is generally defined as expenditure on assets that have a life expectancy of more than one year. The CFR measures the extent to which capital expenditure has not yet been financed (i.e. from capital receipts, grants, contributions or revenue) and must therefore, be financed from borrowing. Local authorities are required to charge to council tax an annual sum to repay such debt, which is referred to as the Minimum Revenue Provision. This effectively spreads the cost of paying for the financing of capital expenditure over the period such assets are used to provide services.

(ii) Regulation 28 of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003, as amended (Statutory Instrument (SI) 3146/2008) requires local authorities to set aside a prudent amount of MRP. In setting this local authorities are required to "have regard to" the "Guidance on Minimum Revenue Provision" issued by the Secretary of State in February 2012.

The Guidance has statutory force and 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.

The Council is recommended to approve the following MRP Statement:

- For capital expenditure incurred before 1 April 2008, 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.
- For all capital expenditure incurred after 1 April 2008 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.
- 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.
- A voluntary MRP may be made from either revenue or capital receipts.
- 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.
- 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.
- Charges included in annual PFI or finance leases to write down the balance sheet liability shall beapplied as MRP.

- Where borrowing is undertaken for the construction of new assets, MRP will only become chargeable once such assets are completed and operational.
- The Council reserves the right to revisit its MRP policy during the year in accordance with paragraph 10 of the DCLG Guidance on Minimum Revenue Provision.

9. Treasury Management Strategy

9.1. **Current treasury position –** The latest position on actual borrowings and investments is as shown below:

Table 5	As at 30 September 2015		As at 31 March 2015	
	Principal	Average Rate	Principal	Average Rate
	£m	%	£m	%
Investments				
Specified	720.2		569.7	
Non - specified	39.9		34.9	
Total Investments	**760.1**	**0.62**	**604.6**	**1.11**
Borrowing				
Public Works Loan Board	211.0	4.63	213.3	4.63
Market Loans	70.0	5.08	70.0	5.08
Total Debt	**281.0**	**4.74**	**283.3**	**4.74**

9.2. The cash balances have increased by £164.4m in the past six months which is mainly due to income such as business rates and capital grants received in advance of expenditure.

9.3. A key PI under the Prudential Code is that 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

9.4. **PI 6 Net debt and the Capital Financing Requirement** – Table 6 below confirms that the Council's actual and forecast borrowing levels will remain within the forecast CFR in line with statutory requirements and the Prudential Code..

Table 6	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	Forecast	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Gross Projected Debt	283.00	281.00	281.00	281.00	281.00
CFR 31st March	456.59	453.89	483.90	582.49	609.43
Under / (over) borrowing	173.59	172.89	202.90	301.49	328.43

9.5. The City Treasurer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future.

9.6. **Limits on authority to borrow**

(i) The Prudential Code requires the Council to set two limits on its total external debt including other long-term liabilities (such as service concessions and finance leases) referred to as the authorised limit and the operational boundary.

(ii) **PI 7a Authorised Limit for External Debt** – 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.

(iii) **PI 7b Operational Boundary** – 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 7	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
	Actual	**Forecast**	**Estimate**	**Estimate**	**Estimate**
	£m	**£m**	**£m**	**£m**	**£m**
PI 7a Authorised borrowing limit					
Borrowing and other long-term liabilities	**457**	**454**	**484**	**582**	**609**
PI 7b Operational boundary					
Borrowing	283	281	281	281	281
Other long-term liabilities	18	15	12	11	11
	301	**296**	**293**	**292**	**292**

(iv) **PI 7c HRA Debt Limit –** In addition Council borrowing for the HRA has to remain within the HRA Debt Limit which was prescribed under the HRA self-financing determinations 2012. Borrowing for the HRA is measured by the HRA CFR. See Table 8 below.

Table 8	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
	Actual	**Forecast**	**Estimate**	**Estimate**	**Estimate**
	£m	**£m**	**£m**	**£m**	**£m**
HRA Debt Limit	333	333	333	333	333
HRA CFR	276	276	279	285	285
Headroom	57	57	54	48	48

(v) The City Treasurer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future.

Prospects for Interest Rates

9.7. Current interest rates and the future direction of both long term and short term interest rates have a major influence on the overall treasury management strategy and affects both investment and borrowing decisions.

9.8. The UK economy had grown strongly (up 0.7%) in the second quarter of 2015 but the latest figures from the Office of National Statistics confirm that UK economic growth slowed to 0.5% in the third quarter of 2015. The slowdown was due to a big fall in construction output. The theory was that if the economic recovery strengthened then interest rates would rise sooner. Also, in August 2015 concerns that China's economic growth rate was slowing caused panic in the UK stock markets which fell and economists rushed to factor in the impact of the world's second largest economy slowing on developed world economies. The upshot is that growth rate forecasts everywhere were downgraded.

9.9. Reflecting the above uncertainties forecasts of future interest rates have been volatile during the year to date, but actual rates have remained stable. However the decision by the US Federal Reserve to increase rates by 0.25% in December 2015 is widely seen is likely to herald similar rate increases in the UK.

10. BORROWING STRATEGY

10.1. The Council's main objective when borrowing money is to strike an appropriately low risk 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.

10.2. The factors that influence the 2016/17 strategy are the borrowing requirements, the current economic and market environments and the interest rate forecast.

10.3. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the CFR), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

10.4. Against this background and the risks within the economic forecast, caution will be adopted with the 2016/17 treasury operations. The Treasury Management team will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

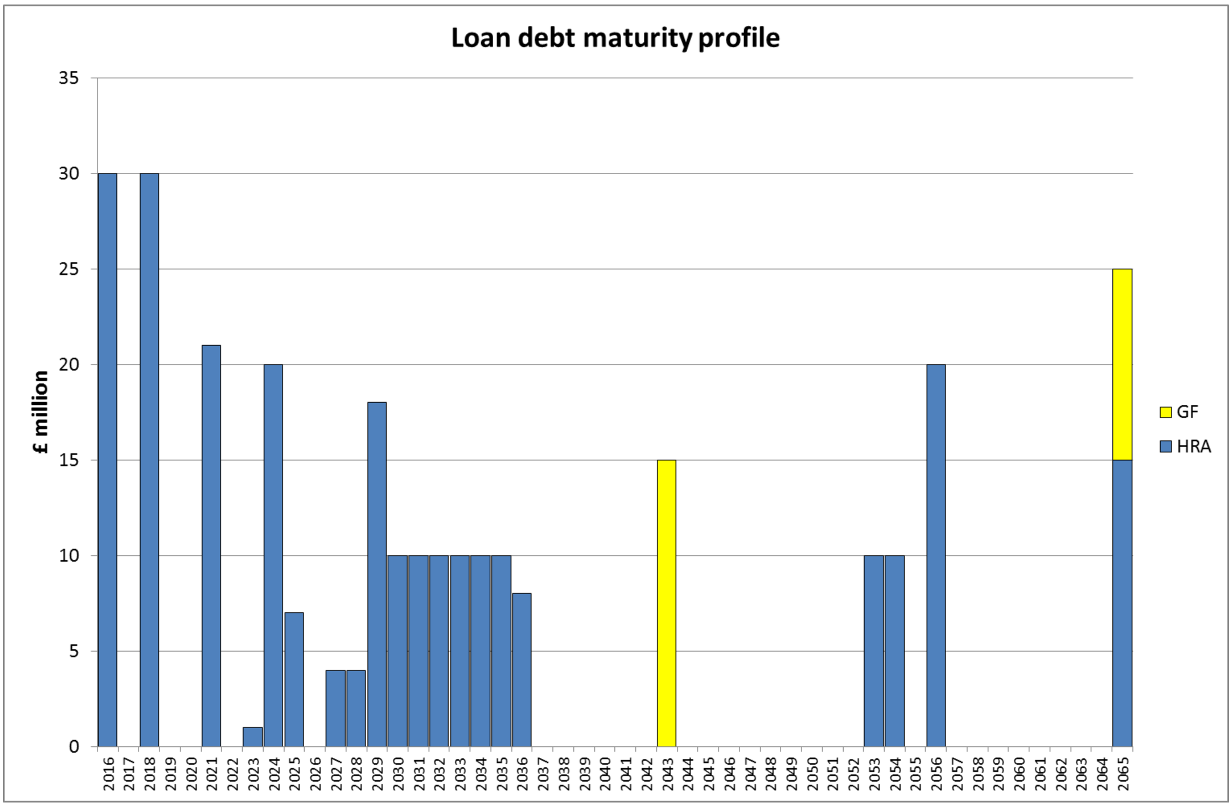
10.5. If it were considered that there was a significant risk of a sharp fall in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered. Consideration will also be given to the maturity profile of the debt portfolio so the Council is not exposed to the consideration of debt being repaid or renewed in any one year. The table below sets the limits on maturity profile and also provides the summarised position as at September 2015 for which the detail is provided in the chart at 10.7.

10.6. **PI 9 Maturity structure of borrowing**. This PI aims to reduce the Council's exposure to large fixed rate sums falling due for re-financing in a short period of time. Table 10 below sets the limits on maturity profile and also provides the summarised position as at September 2015 for which the detail is provided in the chart at 10.7.

Table 10 **Maturity structure of borrowing**	**upper limit** **%**	**lower limit** **%**	**As at 30 September 15** **%**
under 12 months	40	0	11
12 months and within 24 months	35	0	0
24 months and within 5 years	35	0	11
5 years and within 10 years	50	0	14
10 years and above	100	35	64

10.7. If it were considered that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

10.8. The chart below shows the principal repayment profile for the Council's current borrowings. Based on current interest rates and capital financing requirements the loans maturing in 2016 and 2018 will need to be considered for refinancing.



10.9. The Council has £70 million of LOBO (Lender Option Borrower Option) debt, none of which has final maturity 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 then require re-financing at the prevailing market rates.

10.10. Members will recall that, from 2017/18, Service Areas will be charged in full for the revenue consequences incurred from borrowing to fund their capital expenditure. This will ensure that the cost of spending decisions are taken into account when considering all programmes of work and will make sure the programme is fully financed on an on-going basis.

PIs 8 Limits on borrowing activity

10.11. The Prudential Code requires the Council to set three debt/borrowing related PIs to provide limits to the activity of the Treasury function. The aim of this 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 too restrictive that they impair opportunities to reduce costs or improve performance.

10.12. The PIs are:

(i) Upper limits on variable interest rate exposure. This is the maximum borrowing permitted for variable rates based on the debt position net of investments

(ii) Upper limits on fixed interest rate exposure. This is similar to the above but for fixed rate borrowing.

Table 11	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	Forecast	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Upper limit for fixed rate exposure					
Net principal re fixed rate borrowing	283	281	281	281	281
Upper limit for variable rate exposure					
Net principal re fixed rate borrowing	0	0	0	0	0
Upper limit for principal sums invested over 364 days	25	300	300	300	300

10.13. **Debt Rescheduling**

(i) As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential 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 size of the cost of debt repayment (premiums incurred).

(ii) The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy; and
- enhancing the balance of the portfolio (amending the maturity profile and/or the balance of volatility).

(iii) Consideration will also be given to identifying if there is any residual 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.

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

11. ANNUAL INVESTMENT STRATEGY

Investment Policy

11.1. The Council's investment policy has regard to the DCLG's Guidance on Local Government Investments ("the Investment Guidance") and the revised 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.

11.2. In accordance with the above guidance the Council's objective when investing money is to strike an appropriate balance between risk and return by minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

11.3. The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a rating 'uplift' due to implied levels of sovereign support. Commencing in 2015, in response to the evolving bank bail-in regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into rating through the financial crisis.

11.4. The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. The Council clearly stipulates the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies.

11.5. Further, 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.

11.6. The aim of the strategy is to generate a list of highly creditworthy counterparties which will provide security of investments, enable divesification and minimise risk.

11.7. Investment instruments identified for current use are listed in appendix 1 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices.

Creditworthiness Policy

11.8. 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:

- 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
- 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.

11.9. 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.

11.10. 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[2] 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[3].

11.11. In the event that a counter party is downgraded, 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.

Current Investment Types

11.12. As per the 2015/16 Treasury Management Strategy, it is proposed that for 2016/17 the Council can continue to invest in financial institutions, external funds and certain capital market instruments as set out below. All investments would be in Sterling.

(i) investment with the Debt Management Office with no financial limit (UK Government guaranteed)
(ii) investment in financial institutions of a minimum credit rating, with the parent company domiciled only in jurisdictions as per paragraphs 11.16-11.18 below;
(iii) investment in UK Treasury Bills (T-Bills) and Gilts (conventional and indexed-linked) both fixed and floating rate;
(iv) investments in UK Government repurchase agreements ("Repos" and "Reverse Repos");
(v) investments in UK local authorities;
(vi) investment in close to maturity AAA-rated corporate bonds and commercial paper backed by UK Government guarantees (fixed and floating rate);
(vii) investment in supra-national AAA-rated issuer bonds and commercial paper (fixed and floating rate);
(viii) investment in AAA-rated Sterling Money Market Funds and longer term funds;
(ix) investment in commercial paper ("CP") of UK domiciled entities with minimum short term credit rating of A1/P-1/F-1;
(x) Commercial Paper issued by European companies domiciled in countries set out in paragraphs 11.16;

[2] 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.

[3] 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 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%.

(xi) Covered Bonds. These are debt instruments issued by a financial institution where security has been granted over a pool of underlying assets to which investors have a preferential claim in the event of default; and

(xii) Certificates of deposit.

11.13. In addition to the above, it is proposed to add Collateralised Deposits whereby the deposit is secured against Local Authority Loans, including loans issued by the authority itself. This has been incorporated in the investment schedule at Appendix 1.

Specified and Non-specified investments

11.14. Under section 15(1) of the Local Government Act 2003, restrictions are placed 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.

11.15. A non-specified investment is any investment that does not meet all the conditions above. The only likely non-specified investment that the Council may make is for any investment greater than one year as set out in Appendix 1. For such an investment, a proposal will be made by the Director of Treasury and Pensions, to the s151 Officer after taking into account cash flow requirements, the outlook for short to medium term interest rates and the proposed investment counterparty.

Country of Domicile

11.16. The current TMS 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 remain for 2016/17.

11.17. For Commercial Paper and bonds issued by supra-nationals and European agencies, the entities must be domiciled in countries listed above.

11.18. For Commercial Paper for UK and European corporates, the entities must be domiciled in the EU countries named in paragraph 11.16 above.

Investment Strategy

11.19. The Council holds significant invested funds, representing income received in advance of expenditure, balances and reserves. During the current year, the Council's average investment balance has been around £850m and this pattern is expected to continue in the forthcoming year. Investments are made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

11.20. **Investment returns expectations.** Bank Rate has remained unchanged at 0.50% since March 2009 and is not forecast to rise until quarter 2 of 2016.

11.21. **Investment treasury limit** - This limit is set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment. The Council's limit for investments of over 364 days is £300m.

11.22. The Treasury and Pensions service is investigating a number of options to increase budgeted income generated from the Council's cash balances.

12. BACKGROUND AND FINANCIAL AND LEGAL IMPLICATIONS

12.1. 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.

12.2. 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.

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

13. BACKGROUND PAPERS

Treasury Management Strategy 2015/16 (Approved by Council March 2015)

1. Revised CIPFA Treasury Management Code of Practice 2011

2. CIPFA Prudential Code

3. Local Authorities (Capital Finance and Accounting) (England) Regulation 2003, as amended

4. Section 3 Local Government Act 2003

5. CLG Guidance on Local Government Investments – March 2010

Appendix 1

Maximum Amounts and Tenors of Investments

Institution Type	Minimum Credit Rating Required (S&P / Moodys / Fitch)	Maximum Individual Counterparty Investment limit (£m)	Maximum tenor of deposit / investment
DMO Deposits	UK Government Rating	Unlimited	6 months
UK Government (Gilts / T-Bills / Repos)	UK Government Rating	Unlimited	Unlimited
Supra–national Banks	AA+ / Aa1 / AA+	£200m	5 years
European Agencies	AA+ / Aa1 / AA+	£200m	5 years
Network Rail	UK Government Rating	Unlimited	Oct 2052
TfL	AA-/Aa3/AA-	£100m	5 years
GLA	NA	£100m	5 years
UK Local Authorities	NA	£50m per Local Authority, £100m in aggregate	3 years
GBP denominated Commercial Paper issued by UK and European[4] corporates	A-1 / P-1 / F-1	£40m per name, £200m in aggregate	Six months
Money Market Funds MMF	AAA / Aaa / AAA be AAA by at least two of the main credit agencies	£70m per fund manager, £300m in aggregate	Three day notice
Enhanced Money Funds	AAA / Aaa / AAA by at least one of the main credit agencies	£25m per fund manager, £75m in aggregate	Up to seven day notice
Covered Bonds	AA+ / Aa1 / AA+ Minimum rating of the underlying securities or the Bond itself	£300m	10 years
Collateralised Deposits	Collateralised against Local Authority Loans	£60m	50 years
UK Bank (deposit or Certificates of Deposit)	AA- / Aa3 / AA- and above (or UK Government ownership of greater than 25%), subject to minimum ST ratings	£75m	5 years
UK Bank (deposit or Certificates of Deposit)	A- / A3 / A- and above, subject to minimum ST ratings	£50m	3 years
Non-UK Bank (deposit or Certificates of Deposit)	AA- / Aa2 / AA- and above, subject to minimum ST ratings	£50m	5 years
Non-UK Bank (deposit or Certificates of Deposit)	A / A2 / A and above, subject to minimum ST ratings	£35m	3 years

[4] Subject to paragraph 11.16

Appendix 2

Treasury Management Delegations and Responsibilities

The respective roles of the Executive Management Team, Housing Finance & Customer 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

Executive Management Team

Executive Management Team 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.

Executive Management Team also approves revenue budgets, including those for treasury activities.

Housing Finance & Customer 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.

City of Westminster

Housing, Finance and Corporate Services Policy and Scrutiny Committee

Date:	6 January 2016
Classification:	General Release
Title:	Housing Policy Developments: 1% social rent reduction and Pay to Stay
Report of:	Barbara Brownlee – Director of Housing and Regeneration Julia Corkey – Director of Policy, Performance and Communications
Cabinet Member Portfolio	Cabinet Member for Housing, Regeneration, Business and Economic Development
Wards Involved:	All
Policy Context:	Housing, growth and prosperity, City for All
Report Authors and Contact Details:	Sarah Monaghan, Principal Policy Officer Tel: 0207 641 2286 Email: smonaghan@westminster.gov.uk Dick Johnson, Strategic Finance Manager Tel: 0207 641 3029 Email: djohnson1@westminster.gov.uk

1 Executive Summary

1.1 This item outlines the Government's current proposals on the 1% social rent reduction and the introduction of a mandatory Pay to Stay scheme, considers the potential impacts of these proposals for Westminster and sets out the Council's response so far.

1.2 This report follows a presentation to the Housing, Finance and Corporate Services Policy and Scrutiny Committee about the changes in the Housing and Planning and Welfare Reform and Work Bills in September 2015, who agreed that a Housing Task Group would be established to scrutinise the specific changes, and the Council's response, in more detail. This report supports that recommendation. However, due to the cancellation of the first Task Group meeting, this has now been submitted to the Policy and Scrutiny Committee.

2 Key Matters for the Committee's Consideration

2.1 Members are asked to:

- Note the proposals as they currently stand
- Scrutinise Westminster Council's response to date
- Provide guidance on any further lobbying activity or mitigation actions, in light of the level of detail we currently have about the respective policies.

3 Summary: 1% Social Rent Reduction

3.1 Based on current assumptions and projections, Westminster's HRA is viable and supports the proposed investment plans. However, since last year's business plan was approved, the Government has announced a number of policy changes that will have wide-ranging impacts on the Council's ability to fund its planned programmes.

3.1 The most significant is a reduction in social housing rents by 1% per annum over the next four years (which will be implemented through the Welfare Reform and Work Bill). This will reduce HRA rent income by £32 million in cash terms over the first four years of the plan. The effect on the 30-year business plan is an anticipated NPV loss of investment capacity of £237 million.

3.2 This reduction in HRA income, both actual and anticipated, has led to an initial review of priorities within the HRA investment strategy. Key initiatives and existing commitments to residents have been protected, including: investment to protect residents' health and wellbeing such as fire precautions, adaptations and measures to address condensation in council housing stock; investment schemes that are already well into the planning stage and on which residents have been consulted; and the housing renewal programme schemes. Appendix 3 sets out further detail about the potential impacts of these proposals in Westminster and the Council's response so far.

4 Summary: Pay to Stay

4.1 The Government announced in July their intention to make what is currently a discretionary policy which enables social landlords to charge tenants with incomes over £60k market or near market rent compulsory for social housing tenants. Housing associations would be able to retain the additional income raised to fund new housing; local authorities would have to pay any estimated additional income raised through increased rents to the Exchequer. In December 2015, it was announced that the scheme would remain discretionary for housing associations.

4.2 To date, the Government has published limited information about how the scheme will operate in practice - the Bill provides high level principles for its introduction and the technical consultation provides some further insight into the options being considered for implementation. Therefore, there are a number of ways in which the policy could be introduced which would have differing impacts and administrative costs associated with them. See Appendices 4 and 5 for more detail on the potential impacts on Westminster and our response so far.

If you have any queries about this Report or wish to inspect any of the Background Papers please contact Sarah Monaghan (0207 641 2286/ smonaghan@westminster.gov.uk)

APPENDICES:

Appendix 1 – Overview of the Welfare Reform and Work Bill and Housing and Planning Bill

Appendix 2 – Written evidence to the Housing and Planning Bill Committee

Appendix 3 – Background Report: 1% social rent reduction

Appendix 4 – Background Report: Pay to Stay

Appendix 5 – Pay to Stay Consultation Response

City of Westminster

Appendix 1: Background to Housing and Planning and Welfare Reform and Work bills

1 Background

1.1 This report gives an overview of the Housing and Planning and the Welfare Reform and Work Bills and their respective passages through Parliament.

Housing and Planning Bill

1.2 The Bill has now completed its Commons Committee stage. It now has 156 clauses and 15 schedules. Its key themes are:

- New homes (Starter Homes and Self- Build)
- New powers and duties to tackle poor practices in the private rented sector
- Planning changes
- Social housing - including the right to buy, the sale of high value local authority voids and increased rents for high income social housing tenants
- A range of other miscellaneous changes – including minor licensing changes and changes to tenancy deposit information
- Compulsory Purchase Orders.

1.3 The Bill was introduced to the Commons on 13th October 2015. It has its second reading on 2nd November 2015 and the Public Bill Committee has completed its line-by-line scrutiny and reported the amended Bill to the House of Commons. It is expected to progress to the House of Lords in early 2016 and to receive Royal Assent in the summer or autumn 2016.

1.4 Cllr Philippa Roe gave evidence to the Bill Committee on 10th November 2015 on behalf of the City Council, along with representatives from the LGA, London Councils and Hackney. Her written evidence to support this session is set out in Appendix 2.

1.5 Further information about the Bill, including the draft itself, explanatory notes, line-by-line scrutiny and all written submissions can be found here: http://services.parliament.uk/bills/2015-16/housingandplanning.html

Welfare Reform and Work Bill

1.6 The Bill includes measures (among others) which will have an impact on housing and are being considered by the Housing Task Group:

- An annual 1% reduction in social rents for four years

- A range of welfare reforms, including a reduction in the benefit cap from £26,000 per year to £23,000 in Greater London to be phased in from April 2016
- Most working-age benefits and tax credits (including Local Housing Allowance rates) to be frozen at 2015-16 rates for four years.

1.7 The Bill was introduced to the Commons on 9th July 2015. It has its second reading on 20th July 2015 and is currently undergoing its line-by-line scrutiny by the Housing of Lords Bill Committee. It is expected that the Bill will receive Royal Assent early in 2016.

1.8 Further information about the Bill, including the draft itself, explanatory notes, line-by-line scrutiny and all written submissions can be found here: http://services.parliament.uk/bills/2015-16/welfarereformandwork/documents.html

City of Westminster

Appendix 2

Written Evidence: Housing and Planning Bill Committee
Cllr Philippa Roe, Leader of Westminster City Council

16th November 2015

Dear Chairman,

I would like to thank you, and your fellow Committee Members, for inviting me to provide oral evidence to the Committee last week.

You suggested that it would be useful to submit evidence in writing on any matters that arose during our evidence session, as well as anything that was not directly covered.

I have therefore enclosed with this letter a formal written submission on behalf of Westminster City Council, which addresses a number of areas covered within the Bill.

As I hope was clear from my oral evidence to the Committee, Westminster supports the principles contained within the Bill. We are keen to work closely with Government, both throughout the passage of the Bill and in the drafting of subsequent regulations, to ensure that the detail properly addresses the unique challenge and context that London – and Central London in particular – faces.

Yours sincerely,
Philippa

Cllr Philippa Roe
Leader of Westminster City Council
leader@westminster.gov.uk

Enc. Westminster City Council Written Evidence Submission to the Housing and Planning Bill Committee

Written Evidence: Housing and Planning Bill Committee
Cllr Philippa Roe, Leader of Westminster City Council

1. Starter Homes

1.1 Westminster welcomes Starter Homes as part of a mix of affordable housing to help address the housing needs and aspirations of a wide range of people. The requirement for a proportion of Starter Homes on certain sites may, though, lead to a reduction in "conventional" affordable supply which we will still require to meet the needs of residents, particularly those in work, but on modest incomes, who are so important to the continued success of Westminster's economy. If the requirement for delivery of Starter Homes through the planning system is set at an inappropriate level, there is the risk that delivery of other forms of affordable housing will be squeezed out. This risk is compounded as the Starter Home discount is funded by the developer not having to pay s106 contributions that would otherwise be used to fund affordable housing.

1.2 It is, therefore, important that regulations on implementing Starter Homes allow boroughs sufficient flexibility to ensure delivery of a range of affordable homes, depending on the circumstances in each area (including the local costs of housebuilding) and their assessment of the type of housing that is needed locally. In Westminster, demand for affordable housing is very high – we currently have 4,500 on our waiting list for social housing and 3,800 on our waiting list for intermediate housing. This is a matter of considerable concern locally, and we consider that to promote transparency Government should publish details of the numbers of Starter Homes they expect to be delivered in each borough and how this relates to the proportion that will be set by regulations under what is currently clause 4 of the Bill. This must take account of the degree of flexibility councils need to deliver a range of homes to meet their housing needs, as set out above.

1.3 It is also important to bear in mind that in central London, where property prices are extremely high, capping the market value of Starter Homes at £450k cap will mean that successful buyers will receive a windfall on a scale far higher than they would in less expensive areas when they go on to sell their homes after five years. This is likely to be perceived as being unfair by those buying Starter Homes elsewhere. There may be a case for a cap on the amount that can be realised on sale at a level that enables those selling to move on to the next stage of their housing journey and the "excess" being ploughed back into providing new affordable housing.
In central London, intermediate housing for sale and for rent has a particularly important part to play in supporting people in work and on lower incomes. This is a pressing issue; our local businesses tell us that the main issue that they face in attracting workers is a lack of affordable housing, and the provision of intermediate housing is therefore a priority area

that Westminster is seeking to address. Intermediate housing will be classified as that "up to" 80% of market value. In Westminster, there are no intermediate properties being charged at 80% of market value, but the key point is that the definition is "up to" 80% as this will allow boroughs flexibility to deliver a range of tenancies that meet their needs.

1.4 In Westminster, 25% of accommodation is currently social housing, with just 1% classed as 'intermediate' and we have been keen to extend this, including through an innovative ownership product that we are developing intended to help people on lower incomes into ownership by enabling them to build an equity stake through the rent that they pay. Intermediate products of this kind provide essential flexibility to meet the needs of people who may find even a Starter Home unaffordable. It is important that the introduction of Starter Homes does not impact on councils' ability to deliver intermediate housing (both for rent and shared ownership) through the planning system in future.

1.5 Westminster is keen to ensure that the requirement to secure Starter Homes through the planning system is set at a level that will allow local authorities to keep the flexibility to respond to a variety of needs.

2. Implementing the Right to Buy and the sale of high value local authority voids

2.1 The City Council supports the Government's emphasis on promoting and extending home ownership, and the principle of the Right to Buy. Westminster must continue to address growing local housing needs cost-effectively as the supply of housing becomes more challenging. Westminster agrees with the Mayor, and with the principle of Zac Goldsmith's amendment to the Bill that, as far as possible, the proceeds of disposals in Greater London should be retained to maximise housebuilding to help meet the high (and growing) housing needs here.

2.2 The agreement between government and housing associations means that they will implement the right to buy extension on a voluntary basis. They will not be required to replace homes which are sold in the same area or with the same tenure. This could lead to a reduction in social supply for homeless households in Westminster and London, particularly in central areas where rebuilding is more expensive. This is likely to contribute to those households increasingly being accommodated in expensive temporary accommodation and staying there longer while they await permanent rehousing.

2.3 The right to buy extension is funded through an annual cash payment from local authorities to government, which is based on the sale of high value local authority voids. This could similarly reduce social housing supply in Westminster, as it will be difficult to replace these homes in high value areas where there is a shortage of land. It should also be noted that in a borough such as Westminster, the rate at which high value properties become void is relatively low so there is a low churn rate due to the value of a sub-market rent property in central London and the fact that some older tenancies could be held for life and even passed on. It is vital that this kind of factor is reflected when ministers come to make determinations of the amounts authorities will have to pay to help support the right to buy.

2.4 It is important that local authorities should have the flexibility to work together (and with housing associations) on a voluntary basis to bring together those places with resources but scarce land and those with more plentiful land and scarce resources to provide larger numbers of homes for the money available – and with the funding boroughs having proportionate nomination rights. Such agreements would allow for the building, not only of a full range of housing alternatives, but of the necessary infrastructure to support communities, for example through transport links, schools and healthcare. This is in turn would assist in bringing about proper local economic regeneration, bringing additional growth and jobs that will benefit both the boroughs involved, and London as a whole.

2.5 In Westminster, we take on a duty to house a significant number of individuals with limited links to the borough. Such agreements might allow us to focus our housing stock on those with genuine links to the borough and genuine need to stay in Westminster.

2.6 It is important to ensure that links are maintained between the places where housing associations sell social homes and those where the homes are re-provided. This will be essential for places like Westminster with high need, but where replacement homes will be expensive. These links should either take the form of physical re-provision in the borough where the sale took place or local authority nomination rights to the replacement home equivalent.

3. High Income Social Tenants: Mandatory Rent

3.1 We support a pay to stay approach and have introduced a policy of this kind for new fixed term tenants in Westminster (this does not apply to existing tenants). It is important to ensure that any scheme is structured to be as simple and cheap to administer as possible.

3.2 We are also concerned that it might have unanticipated consequences for other housing priorities, such as extension of intermediate housing which is the main way in which those in work but on lower to average wages vital to our local economy and public services can be helped. There is a real possibility that the role of this form of affordable housing - to help these lower income workers get on the housing ladder – could be undermined in places like central London.

3.3 If we are to help lower paid workers, the threshold above which increased rents have to be paid in London may need to be set by reference to the household eligibility income threshold for intermediate housing set by the Mayor in his London Plan in London (the Mayor has set an upper household income limit for eligibility for intermediate housing of £71,000 for one and two bedroom properties) and the rent increases in high value areas like Westminster should be framed so that no more than 40% of net household income is spent on rent. If the £40,000 threshold is retained, Westminster supports a tapered approach that increases rents as incomes grow to prevent excessive rent increases in high value areas, which would result in tenants becoming eligible for housing benefit. It is important to ensure that it is always more beneficial for individuals to be in work. Against this background, the City Council considers that:

- The policy should not apply to intermediate rent housing products which are intended to help households on lower incomes get on the housing ladder in high value areas like Westminster.
- The threshold above which increased rents have to be paid should be set for London by reference to the household eligibility income threshold for intermediate housing set by the Mayor through his London Plan. It is essential that the policy is introduced in ways that do not provide a disincentive to work.
- Like housing associations, local authorities should be able to keep at least a proportion of the increased rent income to reinvest in affordable housing to meet the range of housing needs experienced in Westminster.
- Any payments to central government should be based on actual income generated, rather than an assumed figure like the one that will be used to help fund extension of the Right to Buy. Local authorities must also be able to cover all the administrative costs involved in managing these payments.
- High market rent levels in high value areas should be taken into account as one of the factors in setting the levels of rent that must be charges to high income tenants.

4. Self- Build

4.1 We generally welcome the promotion of self and custom building as a way to boost housing delivery and diversify housing types. However, we have concerns about a duty placed upon local authorities to meet that demand within their local area. In Westminster, serviced sites for housing are scarce and extremely expensive. There is high demand for land for competing land uses (shown, for example, in the approach we are now taking to changes of use from offices). The Bill states that under certain circumstances a local authority may be exempted from the duty to grant planning permission for self/custom-build housing, and given the circumstances here the Council is keen to:

- Understand the circumstances in which local authorities are likely to be granted an exemption from the duty to grant permission for self/custom build plots and what an exemption might mean for Westminster under these circumstances – for example the Central Activities Zone (the part of central London that forms the capital's economic and administrative core) might be considered an unsuitable location for self-built housing given the cost and pressures on land there and the need to maintain its strategic business focus.
- Ensure that demand can be met beyond the borough boundary where it is not possible (or not possible at an economic cost) to do so within its area.
- Ensure that the upfront servicing costs involved in making suitable sites available are covered in full.
- Ensure that any self-builders have a demonstrable local connection to the area.

5. Rogue Landlords

5.1 Westminster welcomes new powers for local authorities to tackle the worst landlords and letting agents and these are useful tools to help us continue to promote high standards across the private rented sector. We would wish to see a higher fine in connection with banning orders, which should be registerable as a charge against the property – something that is particularly important in areas like ours with large numbers of overseas-based landlords. Local authorities will also need to the appropriate resources to enforce the new measures.

6. Homelessness Guidance

6.1 The draft Bill does not include any changes to homelessness provisions. Westminster believes that current homelessness legislation and guidance needs to be reviewed in light of the policy changes in the Bill and the Government's wider welfare reform objectives. The basic legal framework for dealing with homelessness dates back to 1977 and there has not been a thorough review of the statutory code of practice since 2006. The time has therefore come for a thorough review of the law and statutory guidance governing homelessness to enable authorities to manage costs, encourage self-reliance through helping people into employment and preventing homelessness arising in the first place.

6.2 The kind of flexibilities suggested above, would result in more affordable housing development in outer London where more land is available and at a cheaper price - with local authorities having appropriate nomination rights to some of the new homes. We would like the duty on local authorities to discharge their housing functions "in their district" as far as is "reasonably practicable" to be reviewed so that it aligns with this new approach.

7. Register of Land

7.1 The Council would be grateful for detail about what sort of land will have to be included on this Register and the specific definitions of what brownfield land is. Our experience is that it is extremely rare to have un/under-used or unviable sites in Westminster – the cost of land here is such that it is rarely left undeveloped. We are concerned that if these terms are not clearly defined there is the risk of unsuitable sites being placed on the Register for little benefit in terms of additional development.

7.2 For the same reasons, Westminster is also concerned about the implications for council resources if a Development Order has to be created or planning in principle granted for sites on the Register, particularly if sites which already have planning permission, or sites where discussions with developers are underway have to be placed on this register.

7.3 At this stage the City Council is keen to:

- Ensure that these provisions do not involve costs disproportionate to any benefits secured in high value areas like Westminster.
- Ensure that the regulations establishing the detail of the system are clear about the sort of land that will be included on the register; in defining 'under used' or 'unviable' land; and in setting out the circumstances in which local authorities can exempt land from inclusion on the brownfield register.
- We would welcome introduction of a "duty to cooperate" requiring public bodies to support local planning authorities in preparing registers.

8. Planning Policy

8.1 The current thrust of national planning policy set out in the National Planning Policy Framework is that planning authorities should seek to identify local housing needs and then seek to meet that need within their area through their local plans. There is a risk of plans being found "unsound" by the Planning Inspectorate if this cannot be demonstrated.

8.2 We strongly agree with the Government about the value of an up-to-date local plan. It will be important to ensure that national policy is revised to address the likely need to plan for housing across boundaries. It will also be important to reassure authorities that short-term uncertainty arising from the Bill will not raise 'soundness' issues in plan preparation.

9. Local leadership

9.1 As I said in my evidence, it is essential that London boroughs take the leading role in housing and regeneration. They have both the knowledge of local circumstances and the local accountability that will be essential if we are to create the kinds of new places that are going to be essential to meet the housing challenge faced by London. A top-down approach is unlikely to be effective or understood. It is also important that the building of new affordable homes is not seen in isolation; they will have to be managed, maintained and allocated and it is unlikely this could be done on a pan-London basis.

9.2 We strongly favour devolution of powers and resources to London so we can meet the pressing housing issues facing the capital. All levels of government have their part to play, and should be given the space to play to their strengths. Any changes to responsibilities should only be made where they would demonstrably add value and would not simply serve as a distraction from the central imperative to deliver.

Appendix 3: Background – 1% rent reduction

City of Westminster

1 Summary

1.1 Since last year, the Council's Housing Budget has not changed and the proposed HRA Business Plan indicates that there are no immediate impacts arising from the Council's proposed investment for existing tenants. The capital programme of repairs and improvements remains broadly the same over the next 3 years and remains at the same budget as 2015/16, namely anticipated spend of £1.4bn over 30 years.

1.2 Nevertheless, recent modelling has shown that a budget of £1.8bn over 30 years may be necessary, and once the details of the Housing and Planning Bill are fully released and understood, officers will re-visit this modelling and the ability of the HRA to sustain a repairs and improvements programme greater than £1.4bn.

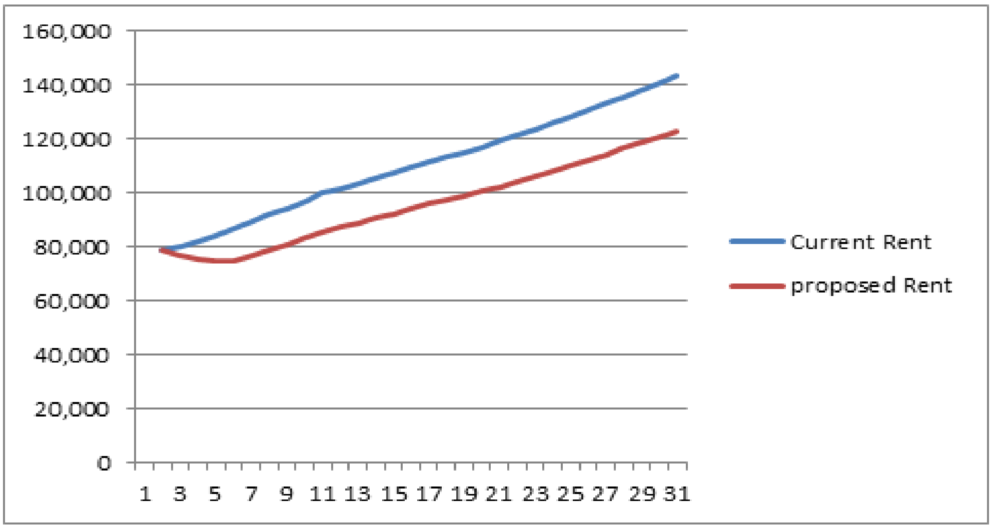
1.3 Key investment programmes included are:

- The HRA capital programme of continued investment in existing housing stock;
- The housing estate renewal programme
- New affordable housing supply schemes, funded through the HRA and the Affordable Housing Fund.

2 Background

2.1 Based on current assumptions and projections, Westminster's HRA is viable and supports the proposed investment plans. However, since last year's business plan was approved, the Government has announced a number of policy changes that will have wide-ranging impacts on the Council's ability to fund its planned programmes.

2.2 The most significant is a reduction in social housing rents by 1% per annum over the next four years, which has reduced HRA rent income by £32 million in cash terms over the first four years of the plan. The effect on the 30-year business plan is an anticipated NPV loss of investment capacity of £237 million (as shown on the graph below).



2.3 Social Rents are set according to a national formula that applies equally to both RP's and LA's. The Government had previously given a 10 year guarantee that social rents formula would increase by CPI+1% a year for 10 years. This proposed change has created uncertainty about the government's commitment to this guarantee; the HRA BP assumes that after the stated 4 years rents will revert to CPI+1%.

2.4 Other key elements of the Bill include: a) the sale of high value local authority voids to fund the Right to Buy to housing association tenants; and b) the 'Pay to Stay' initiatives. However, these have not been sufficiently detailed by Government to allow detailed modelling at this time.

2.5 This reduction in HRA income, both actual and anticipated, has led to an initial review of priorities within the HRA investment strategy. Key initiatives and existing commitments to residents have been protected, including: investment to protect residents' health and wellbeing such as fire precautions, adaptations and measures to address condensation in council housing stock; investment schemes that are already well into the planning stage and on which residents have been consulted; and the housing renewal programme schemes.

2.6 In order to protect the above commitments, a prudent decision to re-programme investment in existing stock that was originally programmed for 2018/19 onwards has been made. However, the impact of this is that our target to have all council stock maintained at the CityWest Homes (CWH) standard (i.e. above the basic decent homes standard) will not be achieved. Nevertheless, we estimate that at any one time, at least 80% of the housing stock *will* meet the CWH standard.

2.7 The **programme of investment in existing stock** will see £251m of HRA resources expended over the next five years on improvements, benefiting around 9,000 homes and wider estate environments. This includes both capital spend of £172m and revenue repairs of £79m. Over the 30-year planning period, the total investment in the stock totals £1.4 billion (£941m capital and £473m revenue).

2.8 The **Housing Renewal Programme** will deliver circa. 2000 new mixed-tenure homes and wider benefits to the city's poorest neighbourhoods. The total gross council costs (including sunk costs and anticipated spend this year) are estimated to be £315m. As well as new homes, the cross-cutting renewal programme delivers jobs for local people, new community facilities and assets, space and support for business and enterprise, improved health and care outcomes, and significant investment in public realm and infrastructure.

2.9 Outside the housing renewal areas, new **affordable housing supply programmes** are expected to deliver nearly 1,000 new affordable homes over the next five years. Registered Provider partners will deliver 256 of these, with the remainder to be delivered by the City Council through both the HRA and the Affordable Housing Fund.

2.10 The Council's **Affordable Housing Fund** supports delivery of new affordable housing in the city, with over £200m either committed or set aside to support both the new supply and housing renewal programmes outlined above.

3 Conclusion

3.1 The investment programmes outlined above will help to transform many of our neighbourhoods. The benefits of planned investment are wide, impacting: housing; health and care; jobs, business and enterprise; place-making and the built environment; assets for the community; and bringing about greater community involvement.

3.2 Nevertheless, the HRA business planning process for 2016-17 has been particularly difficult to complete. There remain a number of significant uncertainties around the impact of the proposed changes in Housing and Planning Bill, the Comprehensive Spending Review, and the local Government settlement is still pending. The HRA business plan has therefore been constructed upon very prudent assumptions yet at this point, still has some unapplied investment capacity and headroom. This plan represents a prudent holding position, subject to confirmation of the detail and impact of the Government's changes. Over the coming year, as more detail emerges, we will be better able to model the implications and more fully review the planned investment programmes in preparation for next year's business plan.

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Appendix 4: Background Report - Pay to Stay

1 Background

1.1 The Government announced in July their intention to make what is currently a discretionary policy which enables social landlords to charge tenants with incomes over £60k market or near market rent compulsory for social housing tenants. Housing associations would be able to retain the additional income raised to fund new housing; local authorities would have to pay any estimated additional income raised through increased rents to the Exchequer. The Government has indicated that it expects the full policy to be implemented by April 2017.

1.2 Chapter 4 of the Housing and Planning Bill makes overall provision for the introduction of this policy, but most of the detail of how the scheme would work will be provided in subsequent regulations. The Department for Communities and Local Government published a consultation on the technical detail of the policy, which closed on 20 November. Our response is attached.

1.3 The City Council agreed its own “pay to stay” policy in 2013, which would apply to high income flexible tenants (not to existing tenants) after the five year review of their tenancy. It would require payment of market rents for households earning more than the Mayor’s thresholds for access to intermediate housing products (currently £71-85,000 depending on the size of property) with a cap meaning households do not pay more than 40% of their net income on rent.

1.4 To date, the Government has published limited information about how the scheme will operate in practice - the Bill provides high level principles for its introduction and the technical consultation provides some further insight into the options being considered for implementation. Therefore, there are a number of ways in which the policy could be introduced which would have differing impacts and administrative costs associated with them.

1.5 On 15 December, it was announced that the Government intended to make the Pay to Stay policy voluntary for housing associations, as part of a wider package of deregulation measures.

Housing and Planning Bill

1.6 The Bill provides the overall framework for the introduction of the policy. The key areas the Bill states that the regulations *may* prescribe are:

- Rents prescribed may be equal to the market rent, a proportion of the market rent or to be determined by 'other factors'. Rents may also be different for tenants with different incomes or living in different areas.
- 'High income' may be defined in different ways for different areas and the method for determining household income will be set out.
- Tenants will be required to provide information about their household income to a social landlord.
- HMRC may disclose income information to a social landlord for the purposes of Pay to Stay.

Technical Consultation

1.7 The consultation published in October provided some further details on the Government's thinking about how the policy will be implemented. It confirmed that the policy is intended to apply to social housing tenants with household incomes of £40,000 and above in London (£30,000 and above in the rest of England) and includes a proposal for local authorities to recover reasonable administrative costs.

1.8 The key areas where the Government sought views for the development of the policy were around supporting work incentives, the introduction of a taper system and whether the starting threshold should be set in relation to eligibility for housing benefit. Responses to the consultation are currently being considered by officials.

1.9 Our response focussed on our key lobbying asks (see below) and gave some estimated administrative costs, which were informed by the work which the City Council has done to inform its own "pay to stay" policy. It is important to note, however, that with limited information about the scope of the proposed national scheme, these were based on initial estimates and will need to be further refined once more information is known.

Our Position

1.10 Although we do not hold data on the household income of tenants, we estimate that 8% - 10% (960 to 1,200) tenants may be affected, using information from the English Housing Survey.

1.11 To date, Westminster has established a clear lobbying position on Pay to Stay, based on the key principles set out below. These are particularly focussed on the impacts in a central London context. So far, key vehicles to influence the development of the policy have been through our consultation response, through the Leader of the Council's evidence to the Bill Committee and the supporting written evidence. Lobbying activity will continue throughout the passage of the Bill and draft regulations, including through London Councils.

1.12 As noted, the Council supports a pay to stay approach and has agreed a policy of this kind for new flexible tenants in Westminster, which would be implemented after the five year review of their tenancy (indeed, the experience of developing this policy has been drawn on in preparing our response).

1.13 However, we are concerned that the scheme might have unanticipated consequences for other housing priorities, such as extension of intermediate housing which is the main way in which those in work but on lower to average wages vital to Westminster's local economy and public services can be helped. Lobbying has emphasised this as a key issue to Government.

1.14 We have also suggested that the threshold above which increased rents have to be paid in London may need to be set by reference to the household eligibility income threshold for intermediate housing set by the Mayor in his London Plan and the rent increases in high value areas like Westminster should be framed so that no more than 40% of net household income is spent on rent. This aligns with our current policy approach.

1.15 Our consultation response stated that if the £40,000 threshold is retained, Westminster supports a tapered approach that increases rents as incomes grow to prevent excessive rent increases in high value areas, which would result in tenants becoming eligible for housing benefit.

1.16 If the date of implementation remains April 2017, as outlined in the consultation, this could mean a challenging timetable for implementation, potentially requiring the new systems and the verification of incomes with HMRC to be in place in order to increase the appropriate households' rent by that time.

Next Steps

1.17 Once further details on the operation of the scheme are published, further preparations will be made ahead of its commencement. We will continue to work to influence and shape the policy (in particular any secondary legislation or regulations) as it passes through Parliament.

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City of Westminster

Appendix 5

Bressenden Place
London
SW1E 5DU

19 November 2015

Dear Sir/Madam,

Pay to Stay Consultation: Westminster City Council's Response

Please find attached Westminster City Council's response to the Pay to Stay consultation, which sets out our detailed response to the technical issues raised. Overall, we support the Government's aim to implement a Pay to Stay approach to encourage the most efficient use of social housing and so that high earners are not subsidised by the public purse through the provision of social housing. Indeed, we have already started to introduce a policy of this kind for new fixed term tenants in Westminster, with rent reviews at the end of their fixed term.

We also support the Government's wider welfare reform objectives which have employment and self-reliance at their heart and it is our view that the policy must be carefully designed to ensure that it does not have any unintended consequences such as disincentivising employment or increasing the benefits bill, particularly in high value areas in central London. There needs to be checks in place to prevent excessive rent increases in areas like Westminster and high market rent levels in high value areas should be one of the factors taken into account in setting the levels of rent that are charged to high income tenants. If we are to help lower paid workers, a higher income threshold than the suggested £40k might be needed in London and we suggest that the threshold above which increased rents have to be paid should be set for central London by reference to the household eligibility income threshold for intermediate housing set by the Mayor in his London Plan. In addition, rent increases in high value areas like Westminster should be framed so that no more than 40% of net household income is spent on rent which would provide an additional mitigation of any disincentive to work.

We are also concerned that the introduction of Pay to Stay may have further unanticipated consequences for other housing priorities, such as supported housing and the development and extension of intermediate housing products (both intermediate rent and shared ownership). In practice, intermediate housing is the main way in which working households on lower incomes in high value areas like Westminster can be helped onto the housing ladder and move onto other tenures as part of their housing journey. This is becoming a pressing priority for central London boroughs like Westminster, where the shortage of affordable housing is increasingly raised as an issue by local employers. If Pay to Stay applies to those in intermediate housing (as the link in the Housing and Planning Bill to the definition of "social housing" in the Housing and Regeneration Act 2008 suggests), there is a real possibility that the role of this form of affordable housing could be undermined in places like central London.

Like housing associations, local authorities should be able to keep at least a proportion of the increased rent income to reinvest in affordable housing to meet the range of housing needs and related statutory duties. This is particularly important in light of other changes which will impact on our ability to deliver social housing, including the 1% rent reduction and requirements in the Housing and Planning Bill to dispose of high value voids. At the very least, any local authority payment to government should be based on actual income generated, rather than an estimated one.

Furthermore, due to the complexities of getting a scheme up and running before April 2017, we suggest that it is first piloted in a few local authorities across the country to test its implications in different areas and housing markets and put in place any transitional arrangements that need to be made for a national rollout. It would also help to understand the implications of a minimum income threshold, particularly in London. We would be pleased to be involved in the discussions about this, particularly in light of our unique housing market in central London and would welcome the opportunity to discuss this with your officials further.

For further information about our response or if you would like to discuss anything in more detail, please contact Sarah Monaghan, Principal Policy Officer on 0207 641 2286 or smonaghan@westminster.gov.uk

Yours faithfully,

Cllr Daniel Astaire
Cabinet Member for Housing, Regeneration, Business and Economic Development

Pay to Stay: Fairer Rents in Social Housing Consultation
Westminster City Council Response

Q1: Supporting work incentives

Views are invited on: • **How income thresholds should operate beyond the minimum threshold set at Budget, for example through the use of a simple taper / multiple thresholds that increase the amount of rent as income increases** • **Whether the starting threshold should be set in relation to eligibility for Housing Benefit.**

It is Westminster City Council's view that in high value areas where market rents are extremely high, the threshold above which increased rents have to be paid should be set by reference to the household eligibility income threshold[1] for intermediate housing set by the Mayor in his London Plan. However, if the £40k threshold for London is retained, it is our view that a simple taper that would increase rents gradually as incomes grow would be the simplest, fairest and most transparent method to administer this policy. It would also be the most effective way of preventing arbitrary 'cliff edge' thresholds from being introduced into the system which could disincentivise people to work or increase their in work earnings over time and undermine the Government's wider welfare reform objectives which have employment and self-reliance at their heart. The taper should be shallow for those families who have lower incomes and who may be disincentivised to work with the introduction of a significant jump to market or near market rents, but could be steeper for those who are on much higher incomes.

In central London, a taper would need to be designed to prevent excessive rent increases for lower paid workers, which would become unaffordable and result in more tenants becoming eligible for housing benefit (the potential scale of the increased payments that some tenants would have to make is illustrated in Table 1). Our modelling shows that because social rents are relatively flat, an immediate increase to full market rents could lead to a dramatic increase for some tenants in Westminster. The Housing and Planning Bill indicates that regulations to set the increased rent levels may require the rent to be determined by reference to other factors. High market rent areas must be taken into account as one of the factors in setting the levels of rent that must be charged to high income tenants.

[1] Currently, you must have a gross household income of no more than £71,000 per annum when eligible to purchase or rent a one or two bedroom home or no more than £85,000 per annum when eligible to purchase or rent a family sized home (three or more bedrooms).

Table 1 - Westminster			
Beds	**Average Weekly Social Rent**	**Average Weekly Lower Quartile Market Rent (GLA rents map)**	**Percentage Increase**
0	£102	£260	155%
1	£120	£359	199%
2	£136	£475	249%
3	£150	£650	333%
4+	£173	£895	417%

Westminster supports the Government's aim to ensure that high earners are not subsidised by the public purse through the provision of social housing. We also support the Government's aims to reduce the benefit bill and encourage self-reliance. Therefore, it is important to ensure that the introduction of this policy does not have unintended consequences resulting in an increase to the benefit bill. This is a particular risk in central London, where more households may be moved into the housing benefit system because there is no maximum income threshold for housing benefit entitlement in social housing. For example, our modelling indicates that a couple with two children and net earnings of £582pw (c. £40,000 p.a.*)* would qualify for housing benefit of £156.28 a week on a rent of £344 and £260.28 a week on a rent of £448pw. Therefore, we suggest that the taper is developed so that higher income social tenants do not have their rent increased to the point where they become eligible for housing benefit.

The taper system should have the flexibility to respond to different household compositions and property sizes. We have designed our own Pay to Stay scheme to make the policy work in a central London context, where the threshold above which increased rents have to be paid is set by reference to:

- the household eligibility income threshold for intermediate housing set by the Mayor in his London Plan
- the size of the property, with higher income thresholds for larger properties
- a rent cap of 40% of household net income where the market rent would exceed 40% of the household's net income[2].

We believe these additional measures should be introduced if the scheme is to work in a central London context without putting other Government policy priorities at risk.

It is our view that Pay to Stay should not apply to households who receive housing benefit (or in future, those who receive the housing element of Universal Credit) because their income has already been assessed as requiring public subsidy to help pay their rent. Although we do not collect income details about our social housing tenants, we do have systems to identify which tenants receive housing benefit. Therefore, exempting these tenants could also reduce administrative costs and complexity and enable us to target

[2] This is in line with the London Mayor's Draft Supplementary Planning Guidance (May 2015) which suggests as a guide that affordable housing costs should not be more than 40% of net income

resources at assessing the remaining 30% of council tenants who do not receive housing benefit in Westminster. However, once Universal Credit is introduced, a mechanism will need to be introduced to provide local authorities with information about which tenants receive the housing element of this benefit.

Additionally, if higher rents must be set with reference to market rent, clear guidance must be provided on a consistent method for social landlords to calculate the market rent for a property. To avoid bringing more people into housing benefit entitlement and to minimise administrative costs, market rent should be defined as the Local Housing Allowance rate, which is currently used in the private rented sector.

Q2: Evidence of administrative costs

Based on current systems and powers that Local Authorities have, what is your estimate of the administrative costs and what are the factors that drive those costs?

It is important that any income generated by the Pay to Stay scheme is not outweighed by administration costs. As it is estimated that the scheme may only apply to a small minority of tenants, it must be structured in a way which ensures fairness but keeps administration as simple and cheap as possible, with a transparent review/appeals process that is not administratively cumbersome.

Local authorities must be able to cover all the administrative costs involved in the enforcement of the policy, as well as managing compliance and administering the additional payments to Government, so it can be implemented on a "no net cost" basis. The local authority payment to government should be based on actual income generated, rather than a centrally- estimated payment, as currently set out in the draft Housing and Planning Bill. As there is currently no accurate data on how many social housing tenants this policy will apply to, there is a risk that any estimate will be inaccurate and cause additional burdens for local authorities, particularly in the absence of any process for estimates to be challenged or reviewed. The payment must also factor in the additional amount of rent that is actually collected by providers, considering any increase in rent arrears associated with the policy.

Regulation and guidance must ensure that there is a simple mechanism for landlords to determine the income of their tenants without incurring excessive costs in the process. This must include a simple annual calculation of the previous year's income, or real time income where it is lower. The current draft of the Housing and Planning Bill allows for HMRC to provide income information to social landlords for the purposes of administrating Pay to Stay. However, this is a power not a duty and there are no timescales associated with this. In order to make this workable, legislation must reframe this as a duty for HMRC and further regulation and guidance must clarify this process, particularly in relation to how HMRC's tax return deadlines will interact with social landlords' rent setting processes. All local authorities operate annual rent changes from every April and are legally required to give tenants 28 days' notice of any change in rent, which means that the rent calculation process must be completed by February of each year. The final deadline for online tax returns is 31st January. Although the exact verification process is unclear, we estimate that Westminster alone may need to send 300 - 500 cases to HMRC for assessment each year. We anticipate that meeting this timeline would create a resourcing issue and if HMRC are unable to verify incomes to meet councils' deadlines, it would not be possible to verify incomes prior to the annual rent review, which could lead to further administration costs and appeals. An automated process which would give social landlords controlled access to a database could be developed to make this process simpler.

Regulations must make it clear which types of income will be considered for the purposes of the policy, including whether capital will be included. It is the Council's view that calculations should apply to those named on the tenancy agreement and spouses/ partners living at the address. If calculations are extended to include other household members, this should be supported by a legislative mechanism to ensure that adult members of a household who are not on the tenancy agreement provide tenants with their income details. A proportion of other household member's income could be disregarded to take into account children of tenants who may be saving up for a deposit to buy their own home.

Estimated Administration Costs

In addition to the cost elements outlined in the Government's Impact Assessment, our estimate of potential administration costs for a Pay to Stay scheme, based on current available information, are set out below. As a minimum, in Westminster, the additional income from those eligible to pay a higher rent would have to be sufficient to cover the costs of administering at least 3,850 income checks per year (the amount of tenants not currently receiving housing benefit). However, the key factors that will drive administrative costs are the scope of the scheme and the complexity of the assessment process (both of which are elements of the scheme that have not yet been clarified) and if every household's income was assessed, this would increase costs significantly – our estimates show that a full housing benefit style assessment scheme could cost up to £600k in Westminster.

Start-Up Costs

The key start-up cost in addition to the annual administration costs would be developments to our housing database to include the creation of fields to record income details by household member, a rent calculator, taking into account the relevant taper, the ability to record case notes to accompany the assessment and creation of additional rent status codes to differentiate higher rent payers from social rent payers. Depending on the complexity of the scheme, the development of software could cost between £10,000 and £50,000 and take 18 months to develop. It is unlikely that the development of cost-effective new software system can be implemented in line with the target dates for implementation of this policy and it is not possible to start planning this work until the process is clarified in the regulations.

The other start-up cost which is likely to add to administration costs is the implementation of a system to calculate market rents, if the policy is implemented so that higher rents are to set in relation to the market rent. A system for calculating the market rents of social housing properties will need to be introduced and Government will need to give clear guidance on how this should be calculated. Depending on this guidance, an additional system to calculate rents would need to be included in start-up costs, which would also have on-going costs associated with it.

Estimated annual administration costs

Type of Cost	Tasks	Costs of scheme for non-HB tenants (3,825 tenants)	Costs of scheme for all tenants (12,000 tenants)
Letters: postage & printing	• 2 full post outs (one letter confirming assessment in advance of rent increase) • 2 partial post outs – chasing letters (85% and 75%) • Letters would be separate to the annual rent review notification letter to deal with queries and minimise the need for an influx of formal appeals in March when rent review letters are sent out.	**£8,262** (60p per letter)	**£25,920** (60p per letter)
Staff time	• We anticipate that the response rate to letters would be poor and it would be necessary to make further efforts to contact tenants. • Staff time would include phone calls and home visits those unable to visit our offices. • Checking data/ completing assessment process and liaising with HMRC on verification • Applying a rent increase • Dealing with appeals and changes to income	**£85,000** 2 full time staff, plus some management support of the new function	**£170,000** 4 full time staff, plus some management support of the new function
Additional staff time	• Dealing with influx of appeals and queries during March/ April	**£15,000**	**£30,000**
Legal costs	• Legal costs associated with action for non-payment of higher rent and tenants not complying with requests.	**£12,035.25** 1% of tenants not complying. Standard legal action @ £197 per case; 3 cases of contested legal action @ £1,500 per case	**£32,640** 1% of tenants not complying. Standard legal action @ £197 per case; 6 cases of contested legal action @ £1,500 per case
Total		**£120,297**	**£258,560**

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