



City of Westminster

Committee Agenda

Title: **Housing, Finance and Corporate Services Policy and Scrutiny Committee**

Meeting Date: **Monday 13th June, 2016**

Time: **7.00 pm**

Venue: **Rooms 5, 6 & 7 - 17th Floor, Westminster City Hall, 64 Victoria Street, London, SW1E 6 QP**

Members: **Councillors:**

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

Members of the public are welcome to attend the meeting and listen to the discussion Part 1 of the Agenda

Admission to the public gallery is by ticket, issued from the ground floor reception at City Hall from 6.30pm. If you have a disability and require any special assistance please contact the Committee Officer (details listed below) in advance of the meeting.



An Induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter. If you require any further information, please contact the Committee Officer, Reuben Segal; Senior Committee and Governance Officer.

**Tel: 020 7641 3160; email: rsegal@westminster.gov.uk
Corporate Website: www.westminster.gov.uk**

Note for Members: Members are reminded that Officer contacts are shown at the end of each report and Members are welcome to raise questions in advance of the meeting. With regard to item 2, guidance on declarations of interests is included in the Code of Governance; if Members and Officers have any particular questions they should contact the Director of Law in advance of the meeting please.

AGENDA

PART 1 (IN PUBLIC)

1. MEMBERSHIP

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

2. DECLARATIONS OF INTEREST

To receive declarations by Members and Officers of the existence and nature of any personal or prejudicial interests in matters on this agenda.

3. MINUTES

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

(Pages 1 - 10)

4. WORK PROGRAMME

Report of the Director of Policy, Performance and Communications

(Pages 11 - 22)

5. UPDATE FROM CABINET MEMBERS (TO FOLLOW)

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

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

6. EMPLOYMENT AND BUSINESS SUPPORT OPERATIONAL PLAN

Report of the Director of Economy and Infrastructure

(Pages 23 - 54)

7. RATIONALISATION OF THE OPERATIONAL PROPERTY PORTFOLIO

Report of the Director of Property, Investments and Estates

(Pages 55 - 64)

8. TREASURY OUTTURN FOR 2015/16

Report of the City Treasurer

(Pages 65 - 76)

**Charlie Parker
Chief Executive
2 June 2016**

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CITY OF WESTMINSTER

MINUTES

Housing, Finance and Corporate Services Policy and Scrutiny Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Housing, Finance and Corporate Services Policy and Scrutiny Committee** held on **Wednesday 13th April, 2016**, Rooms 5, 6 & 7 - 17th Floor, Westminster City Hall, 64 Victoria Street, London, SW1E 6 QP.

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

Also Present: Councillors Daniel Astaire, Cabinet Member for Housing, Regeneration, Business and Economic Development, Pete Carpenter, Assistant City Treasurer, Barbara Brownlee, Director of Housing and Regeneration, Andrew Barry-Pursell, Place and Investment Policy Manager, Cecily Herdman, Principal Policy Officer, Hugh Bullock, Chairman, Gerald Eve, LLP, Debbie Morris, Head of Facilities Management, Tri-borough, Muge Dindjer, Scrutiny Manager, Anne Pollock, Scrutiny Officer, and Reuben Segal, Senior Committee and Governance Officer

Apologies for Absence: Councillor Antonia Cox

1 MEMBERSHIP

1.1 There were no changes to the membership.

2 DECLARATIONS OF INTEREST

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

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

2.2 Councillor Wilkinson declared in relation to item 6 that she is a landlord of a HMO licence property.

2.3 Councillor Mohindra declared in respect of item 6 that he had signed a contract with Hugh Bullock and Gerald Eve LLP in relation to a property development.

3 MINUTES

- 3.1 **RESOLVED:** That the minutes of the meeting held on 9th March 2016 be signed by the Chairman as a correct record of proceedings.

4 WORK PROGRAMME

- 4.1 **RESOLVED:** That the responses to actions and recommendations as set out in the tracker be noted.
- 4.2 **ACTIONS:** Obtain Members availability for a potential additional committee meeting in the week beginning 4th of July. (**Action for Reuben Segal, Committee & Governance Services**)

5 UPDATE FROM CABINET MEMBERS

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

Delivering Housing Renewal: Church Street

- 5.2.1 The Cabinet Member was asked for details about the redevelopment of Lisson Arches and Orchardson Street. He explained that Lisson Arches would provide new affordable workspace. Three show homes were now available for residents to view at Orchardson Street and would provide an indication of the types of homes that will be made available. He stated that the homes were of a high specification and illustrated what regeneration could achieve. Officers will shortly be looking at how the completed properties could best be allocated.

Futures Plan

- 5.2.2 The Cabinet Member was asked about the type of affordable housing that is intended to be developed as part of the Futures Plan and how this fits with the concept of "community interest". The Cabinet Member referred the committee to the revised business case for the regeneration of Cosway Street as a helpful illustration. He explained that the initial proposals for the street included townhouses. Despite these being supported by local councillors he did not consider that these properties would be affordable for local residents. Additionally, part of the proposed design would have resulted in some properties being closed off which could have limited the residents living in those properties from engaging in the community. The revised business case is now considering live/work units. He hoped that young people who are likely to occupy these units would stay in them for a number of years and become part of the local community using its local services including shops and Church Street market.

- 5.2.3 The Cabinet Member was asked how the City Council could stop speculators from purchasing homes for investment purposes which they either let out or simply leave empty. He advised that the Council had no powers to stop this occurring in the private sector but could impose conditions on any properties that it built itself.

Affordable Housing

- 5.2.4 The Cabinet Member was asked how the composition of affordable housing being delivered in the City relates to the demand for such accommodation. He was referred to the fact that there is a high demand in the borough for family sized units. The Cabinet Member advised that the Council produces an annual report which sets out the issues that will influence the allocation of social housing including affordable housing supply and projections for demand from various groups including homeless households. By way of example he advised that the initial proposals for live/work units in Cosway Street were effectively bedsits. He had not considered that these were suitable to meet the community's needs and had asked officers to revise the proposals. Barbara Brownlee, Director of Housing & Regeneration, advised that in the initial planning submission for West End Green which had received planning consent the previous evening proposals for affordable housing consisted of bedsits and 1 bed units. The Council considered these to be inappropriate for local requirements and requested the elimination of bedsits and the introduction of 2 and 3 bed apartments which subsequently came forward. Similar requests were made for the development at Ashbridge Street.

Purchase of Surplus Public Sector Land

- 5.2.5 With reference to the recently published list of public sector owned land and properties that were surplus to requirement, the Cabinet Member was asked whether the Council was doing anything to acquire such assets to address housing need. The Cabinet Member stated that the Council looks at all property suitable to meet the Council's needs. Liaising with some public sector bodies such as NHS Property Services can be challenging. While every effort is made to maximise the Housing Revenue Account and spot purchases are made on a regular basis, acquisitions have to meet a value for money test. Unfortunately the Council cannot compete with private sector developers for land or property in prime areas.
- 5.2.6 In response to a supplementary question the Director of Housing and Regeneration explained that the recent spot purchase of ten properties for use as temporary accommodation was progressed through Westminster Community Homes rather than the Council because a Housing Association can use assured shorthold tenancies whereas the Council cannot.

New Rough Sleeping Strategy

- 5.2.7 Given the link between rough sleeping and drug and alcohol substance misuse the Cabinet Member was asked to ensure that the new strategy includes input from relevant departments and drug/alcohol and substance abuse specialists in order to produce a holistic strategy.

Markets

- 5.2.8 The Cabinet Member was asked how far the procurement of a market operator for Berwick Street market had progressed and how it would be funded. The Cabinet Member was of the view that the City Council was not best placed to run street markets and that it should tender out this function. He explained that Berwick Street would be a pilot project. The Council was looking for a skilled market operator which will work with existing traders and the community to provide a fit for purpose market. He expressed his disappointment that the current market was underutilised. He considered that given its prime location in the heart of London it should be a thriving enterprise. He advised that he had been successful in moving responsibility for the Council's market from the Licensing Enforcement Team who were not best placed to oversee them to the Corporate Property Team. Members requested that in progressing any changes the Council draws upon the experiences and lessons from previous schemes.

Marble Arch BID

- 5.2.9 With the failed Queensway BID in mind, the Cabinet Member was asked whether appropriate arrangements were in place to ensure that there is not a disproportionate influence from larger landowners in the area. The Cabinet Member explained that the Council had little control over the running of the BID. The Council approved the BID document and organised the ballot. However, the former includes a mechanism to balance the influence of the largest and smaller property holders in the area. He undertook to circulate a copy of the document to committee members. He advised that Kate Buxton who had a solid knowledge base and experience was involved in the BID as was Councillor Heather Acton.
- 5.3 In the absence of the Cabinet Member for Finance & Corporate Services and the City Treasurer, Pete Carpenter, Assistant City Treasurer, responded to questions.
- 5.3.1 Members asked whether the Operational Property Strategy which includes a target of substantially reducing the council's property footprint to reduce operating costs has taken into account the increasing trend of staff working from home. The committee was informed that this had been taken into account. To measure usage, digital monitoring devices had been installed under all desks and meeting rooms.
- 5.3.2 Following a supplementary question on reducing costs, the Director of Housing & Regeneration advised that despite having its headquarters in Grosvenor Place CityWest Homes (CWH) has a favourable lease arrangement with the freeholder of the building which results in the premises being comparatively cheaper for them to occupy than being located in City Hall. However, new proposals had been developed to relocate the CWH head office within the refurbished City Hall if this proves to be cost-effective to both CWH and the Council.
- 5.4 Mr Carpenter then provided the committee with an update on the closure of the Council's accounts. He advised that the Council submitted its accounts to the auditor on the 9 April. The Council was the quickest public sector body to

submit its accounts for auditing and exceeded the performance of 94% of the FTSE 100.

5.4.1 The Committee had previously been informed about the potential impact to the closure of the Council's accounts arising from problems with the implementation of the Managed Services Programme (MSP). The committee asked whether the latter had presented any problems to achieving a successful closure. Mr Carpenter advised that in the weeks leading up to the end of the financial year the contractor, BT, had put in significant efforts to ensure delivery for all three of the Tri-Borough councils.

5.4.2 In response to questions about outstanding issues to be addressed within MSP, Mr Carpenter advised that this included addressing historic data and fixed assets.

5.5 **RESOLVED:** That the updates be noted.

5.6 **ACTIONS:**

1. Provide the committee with an estimate of when schemes that have recently secured planning consents (as set out in Section 5 of the update from the Cabinet Member for Housing, Regeneration, Business & Economic Development) are likely to come forward and deliver on-site affordable housing. (**Action for: Barbara Brownlee, Director of Housing & Regeneration/John Walker, Operational Director Development Planning Services**)

2. Provide the committee with a note on current Corporate Property Special Projects (as referred to in Section 2 of the update from the Cabinet Member for Finance & Corporate Services. (**Action for: Guy Slocombe, Director of Property, Investment and Estates**)

3. Inform the committee of the current status of the Business Rates Appeal Fund and the number of outstanding appeals. (**Action for: Martin Hinckley, Head of Centre, Corporate Finance**)

6 THE HOUSING AND PLANNING BILL - AFFORDABLE HOUSING SUPPLY AND PRIVATE RENTED SECTOR

6.1 The Committee received a report that provided an overview of national policy changes being made through legislation currently before Parliament (and in particular the Housing and Planning Bill which at that time had reached its report stage in the House of Lords) relating to affordable housing supply and regulation of private rented sector. Increasing home ownership and house building are key themes of current national policy. The report discussed their potential impact on Westminster and the Council's lobbying objectives.

6.2 The report was supplemented by a Powerpoint presentation that highlighted key provisions in the Bill and the position the Council had taken on each.

- 6.3 The committee was asked to comment on the Council's response to date and provide guidance on any further lobbying activity and to provide a view on the Council's response to the recent Starter Homes Technical Consultation.
- 6.4 The Committee heard from Hugh Bullock, Chairman, Gerald Eve LLP, who provided a perspective on behalf of investors and developers on the proposed policy relating to starter homes. Mr Bullock informed the committee that he had worked in Westminster for over 30 years acting on behalf of many applicants. He had been Town Planning Adviser to the Westminster Property Association since the early 1990s.
- 6.5 Mr Bullock began by outlining the context of developing in Westminster. He explained that the functions of housing supply in Westminster were exceptionally complex. Factors that influenced investment within the City included the fact that high existing asset values create a high entry price to development. Therefore, substantial additional value and return must be generated to justify development. The latter is affected by widespread constraints created by historic scale and plot size together with broad limitations on substantial additional floorspace on development. The costs of non-market and other subsidised housing in Central London are exceptionally high which can have an adverse effect on total housing supply. Most major developments in the City are necessarily subject to the undertaking of financial viability analyses.
- 6.6 Mr Bullock then highlighted a number of particular issues for the City arising from the Starter Homes Regulations - Technical Consultation published by the Department for Communities and Local Government in March 2016. These included that as initially drafted there would be a potentially considerable windfall tax-free capital gain, after 8 years of occupation, wholly to the benefit of the first-time buyer. There were all so concerns over how starter homes are to be valued. The minimum threshold is set at schemes of 10 units. However, in practice, the City has found it more appropriate to use floorspace rather than the unit numbers as a threshold in planning policy. While the target nationally is for 20% of all homes delivered to be starter homes, the consultation paper asserted that, in London boroughs, the affordable housing targets are more commonly closer to 50%. However, in Westminster, the proportion of affordable housing actually secured has seldom achieved even the City Council's policy targets of 25% to 35%. He considered that the use of a regulation based prescriptive test to assess viability of the kind proposed would be unlikely to work in the highly complex investment and development environment of Westminster. In recognition of the need for flexibility in high-value areas the Bill allows for off-site commuted sums to be made in lieu of on-site starter home provision. He indicated that this raised the question as to whether the Council should seek contributions rather than the provision and whether the Council would be able to use such contributions to deliver more homes outside the City?
- 6.7 The implications for the City of Westminster were then outlined by Mr Bullock. He commented that as the subsidy to starter homes would be a prior charge by regulation, the residual amount remaining to fund conventional forms of affordable housing and supply, would be likely to be reduced. Design

specification and consequential service charges would likely be as much as an issue for starter homes as for conventional affordable homes. If a developer were to seek to provide a mix of market homes, starter homes and conventional affordable housing all on one site, the complexities of design and operation of the development were likely to be substantial. As buyers of starter homes are not required to have a local connection there may be potential for a pan London approach to the investment of commuted sums. The bedroom mix of starter homes would be influenced by the objectives of the Council as regulations did not appear to prescribe what size these should be. However, taking into account an average sale price in a high-value area the resulting homes based on the maximum price prior to the 20% discount would produce units of around 35 m². Family sized units could be produced. However, the costs would be relatively greater and therefore the impact on conventional forms of affordable housing would be proportionately greater. He advised that he had not met anyone in the property industry who could see how the policy would work in Westminster.

- 6.8 The Director of Housing & Regeneration stated that the Bill does not include a local connection test requiring starter homes to be sold to people living or working in the borough. The committee asked about the reasoning behind this decision and expressed concerns about the possibility of such homes being bought by people from overseas. Cecily Herdman, Principal Policy Officer, explained that the government wanted a product which is simple and not restrictive in any way. Andrew Barry-Purcell, Place and Investment Policy Manager, explained that the Government intended to ensure that starter homes should not be rented out during the period in which their sale was restricted (currently proposed to be 5 years). He further explained that the Secretary of State can determine who is eligible to buy a starter home which could include prescribing limits on age and nationality.
- 6.11 Members asked a number of questions about the subsidy to be applied to starter homes. This included queries about the number of years that the 20% discount of the market value would apply and what impact this would have on selling starter homes on to other first-time buyers. The Director of Housing & Regeneration explained that as set out in the Bill the discount would be lost after five years after which the owner of the property would be able to sell it at full market value. The House of Lords had amended the Bill to propose a 20 year stepped discount period whereby the amount of the discount to be repaid would decrease by 1% per annum. Cecily Herdman advised that in lobbying around the Bill the City Council had argued that the discount should apply in perpetuity.
- 6.12 The Committee asked officers about the impact of a pan London market and how this would potentially work. Ms Brownlee stated that London boroughs had not done anything operationally to enable such a process. She explained that the GLA viewed London as a whole rather than 33 individual areas for development. She advised that rather than attempt to seek family sized starter homes from developers which would be unaffordable there is the possibility that bilateral agreements with other London boroughs to use commuted sums to deliver homes may be a better option.

- 6.13 With regard to the extension of Housing Association Right to Buy, members asked officers about the likelihood of homes sold being replaced within the required 3 years. Ms Brownlee commented that similarly to the right to buy of local authority social housing, housing associations were likely to experience a loss of funds from the sale of such properties. She considered that housing associations would probably be influenced to replace right-to-buy homes within the three year period by the government naming and shaming those organisations that failed to do so.
- 6.14 Officers were asked whether the Council had supported the specific amendments in the House of Lords at the start of the week. The Director of Housing & Regeneration confirmed that the Council has lobbied on all of the amendments to date and will continue to do so. She advised in respect of the sale of high-value local authority voids that the Council would like to see a like-for-like replacement in the borough.
- 6.15 **RESOLVED:**
1. The Committee noted that the Housing and Planning Bill incorporated the largest group of changes in the housing sector for some considerable time.
 2. The Committee noted the complexities that influence the functions of housing supply including affordable housing provision in the City of Westminster. It acknowledged the link between the Council's planning function and supply. It considered that the City Council needs to have a vision and plan of the type of housing it would like to see in Westminster over the long term while at the same time evaluating the implications for the City over the next 20 years if all the policies in the Bill are implemented. The Committee considered that there was a consensus between the Council and the development sector regarding the importance of housing supply.
 3. With regard to the specific provisions relating to starter homes, the committee expressed concern about the lack of detail regarding some of the policy details and how they would work, many of which will be determined in regulations. The committee noted that there is a consensus between the City Council and the private development sector over the considerable challenges of delivering such homes for sale to first-time buyers in Westminster. Members had concerns over the likely size of homes that would be delivered in borough to meet the proposed cap of £450,000 as well as the ambiguity of how such homes would be allocated and the possibility for this to be abused. The committee also had concerns regarding the loss of the subsidy which appears only to be available once which would limit the likelihood of starter homes being recycled. It also recognised the likelihood that the policy would have an impact on the delivery of other forms of affordable housing.
 4. In terms of the implications of the sale of high-value local authority voids, the committee had concerns about the potential loss of money from the Council's Housing Revenue Account.

5. The Committee recommends to the Leader of the Council and the Cabinet Member for Housing, Regeneration, Business & Economic Development that the Council join with other interested parties including Westminster's development sector to undertake joint lobbying activities on these matters.
6. That consideration of the policy changes around the Private Rented Sector be deferred to a future meeting.

7 TOTAL FACILITIES MANAGEMENT - PERFORMANCE AND CONTRACT REPORT

- 7.1 The Committee received a report that provided an overview of the total facilities management (TFM) service that was implemented in October 2013. It covered both the outsourced service provider (Amey) performance and information on the in-house FM team (Link) working for the Tri-borough councils including added value and objectives.
- 7.2 The report provided details of what had gone well and what changes were required to improve service delivery.
- 7.3 The Committee was asked for views on the perception of the service delivery in order for consideration to be made in regards to taking the service forward.
- 7.4 The Committee considered the issues set out in the report and submitted questions to Debbie Morris, Head of Facilities Management (Tri-borough).
- 7.5 Members asked whether a list of the problems identified following the transfer of the contract to the new provider had been recorded to inform any future change in contractor. Questions were also asked about whether the Council had the option to terminate the contract early. Ms Morris informed the committee that information regarding the problems identified during the transition of the FM contract would be compiled as there would need to be an exit strategy for the future relet of the contract. She advised that the contract was performing well so there was no reason to end the contract prematurely. She highlighted that while this was possible it would involve a significant sum at this stage.
- 7.6 The Committee asked whether any financial deductions had been imposed by the enforcing of the Payment and Performance Mechanism within the contract. Members were informed that £370,000 of penalties had been implemented. The mechanism was a useful tool to achieve improvement in the contractor's performance.
- 7.7 Members noted that LINK had identified duplication of facilities management costs at WCC depots and enquired whether building maintenance costs accrued by the Council had been reclaimed. She confirmed that the information had been passed to Corporate Property to make the necessary lease changes and recover costs accordingly.

- 7.8 Ms Morris was asked whether the contract took advantage of economies of scale by purchasing wholesale electricity and gas on a Tri-Borough basis. She advised that this had not occurred as it was not included within the specification of the contract although she stated that there was the ability to do so if desired.
- 7.9 Ms Morris was asked how feedback on how the contract was operating was gathered from service users. She explained that this information was obtained through an annual customer survey. She stated that to date the contract had not focused on the quality of performance due to issues encountered at the transition to the new contract. There was an intention to focus on this in the future.
- 7.10 The Committee asked whether contracted staff received as a minimum the London Living Wage and whether staff's perception of Amey as an employer had improved since the start of the contract. Ms Morris explained that many of the current staff transferred to Amey under TUPE. The issue of paying the London Living Wage was presented to the Tri-Borough Shared Services Board and EMT last year but was not supported. She advised in relation to Amey, there had been a significant change in the management structure since the start of the contract. There had been a high turnover in staff in the early stage of the contract but satisfaction amongst the workforce had since improved. Amey had improved the training provided to staff and people were now being paid on time.
- 7.11 **RESOLVED:** That the report be noted.
- 7.12 **ACTIONS:**
1. Provide the Committee with a summary of the results of the annual staff survey to determine whether the perception of the service delivery resonates with members' own experiences.
 2. Provide the committee with details of what the additional cost would be to the City Council of paying service provider staff the London Living Wage.
 3. The Committee would like details of the types of issues covered in the biannual report submitted to the relevant scrutiny committee at the Royal Borough of Kensington and Chelsea with a view to requesting a similar biannual report of Westminster's performance.
- (Action for: Debbie Morris, Head of Facilities Management, Tri-Borough)**

The Meeting ended at 9.10 pm

CHAIRMAN: _____

DATE _____



City of Westminster

Housing, Finance & Corporate Services Policy and Scrutiny Committee

Date:	13 th June 2016
Classification:	General Release
Title:	Annual Work programme 2016/17
Report of:	Director of Policy, Performance and Communications
Cabinet Member Portfolio	Cabinet Member for Housing, Regeneration, Business and Economic Development and Cabinet Member for Finance and Corporate Services
Wards Involved:	All
Policy Context:	City for Choice / Aspiration / Heritage
Report Author and Contact Details:	Anne Pollock x2757 apollock@westminster.gov.uk

1. Executive Summary

This report presents to Committee the responsibilities and scope of the committee's work and draft work programme for the year. The report also provides some criteria that the committee may wish to consider in prioritising its work programme.

2. Key Matters for the Committee's Consideration

The Committee is asked to:

- Note the terms of reference and duties of the committee
- Discuss the criteria suggested for prioritising items
- Discuss and agree a version of the work programme that is achievable, bearing in mind the need for some flexibility throughout the year.

3. Background

3.1 The Remit of the Committee

Under Section 21 of the Local Government Act 2000 local authorities are required to appoint at least one committee to provide overview and scrutiny. In Westminster these are termed Policy and Scrutiny committees, recognising their contribution to pro-active policy development as well as reviews of existing services and policies.

CONSTITUTION

8 Members of the Council (6 Majority Party Members and 2 Minority Party Members), but shall not include a Member of the Cabinet.

TERMS OF REFERENCE

(a) To carry out the Policy and Scrutiny functions, as set out in Article 6 of the Constitution in respect of matters relating to all those duties within the terms of reference of the Cabinet Members for Housing, Regeneration, Business and Economic Development and Finance and Corporate Services.

(b) To carry out the Policy and Scrutiny function in respect of matters within the remit of the Council's non-executive Committees and Sub-Committees, which are within the broad remit of the Committee, in accordance with paragraph 13

(a) of the Policy and Scrutiny procedure rules.

(c) Matters within the broad remit of the Cabinet Members referred to in (a) above which are the responsibility of external agencies.

(d) Any other matter allocated by the Westminster Scrutiny Commission.

(e) To have the power to establish ad hoc or Standing Sub-Committees as Task Groups to carry out the scrutiny of functions within these terms of reference.

(f) To scrutinise the duties of the Lead Members which fall within the remit of the Committee or as otherwise allocated by the Westminster Scrutiny Commission.

(g) To scrutinise any Tri-borough proposals which impact on service areas that fall within the Committee's terms of reference.

(h) To oversee any issues relating to Performance within the Committee's terms of reference.

(i) To have the power to scrutinise those partner organisations under a duty to that are relevant to the remit of the Committee.

(j) To consider any Councillor Calls for Action referred by a Ward Member to the Committee.

Policy & Scrutiny Task Groups

At Westminster, Task Groups are a more focused and intensive tool of the Overview and Scrutiny function. Task Groups offer Members an opportunity to work in small

groups, supported by officers, to collate and assess evidence in a cross-party environment and make recommendations based on a substantial amount of collected evidence. Task Groups are supported by Scrutiny Officers.

As part of the Council's budget setting process, yearly scrutiny of the council's budget setting process takes place in this group. Membership of this group is taken from the Housing, Finance and Corporate Services Committee and any other interested frontline councillors.

The group meets, by convention, in late January or early February with enough time for their recommendations to go into the Council Tax Report and with sufficient time to attend February Cabinet to report back on their conclusions.

Pre-Decision Task Groups – those that meet to input and influence strategies in development, prior to a decision being made by the Cabinet Member (e.g. Cycling Strategy Task Group, Highways and Transportation Contract Re-Let Task Group)

Research Task Groups – where a group of Members meet, in person or virtually, to undertake a research project and report back to the Committee for endorsement (e.g. Sex Workers).

Single-Member Studies (SMS) – where a Member is granted approval by a Committee Chairman to undertake research and report back to the Committee for endorsement (e.g. Party Drugs, Childhood Obesity)

Tri-Borough Task Groups – where a group of Members (commissioned by a Chairman) meet from across the three Boroughs to undertake site visits or research on a shared concern (e.g. Imperial College Healthcare NHS Trust)

3.2 Devising a Scrutiny Work Plan

The Centre for Public Scrutiny published a report called "A cunning plan?" in 2011 which discusses the ways and criteria that may be used to devise a work programme which adds value to the authorities work. This notes that:

- Gut instinct can be as effective as complicated feasibility criteria in coming up with shortlists for review
- Having a proper discussion about the work programme can work better than a set of criteria
- If on balance criteria are used, it is important to have them as simple and comprehensive as possible
- Work programming should be a member led process
- Ensure that there is a balance between different methods of work
- Close working with the executive is important to avoid duplication

The report highlights a set of criteria used by South Cambridgeshire which the committee are asked to consider and apply if agreed.

Public Interest: the concerns of local people should influence the issues chosen for scrutiny (City for All annual resident survey)

Ability to change: priority should be given to issues that the committee can realistically influence.

Performance: priority should be given to the areas in which the Council or other agencies are not performing well. (Consideration of KPI's and other performance data)

Extent- priority should be given to issues that are relevant to all or large parts of the City

Replication: work programmes should take account of what else is happening in the areas being considered to avoid duplication or wasted effort.

Appendix 2 provides guidance previously provided to this committee to help you establish a work programme. This guidance is still relevant today.

3.4 Draft Work Programme

This is attached as Appendix 1 for discussion

If you have any queries about this Report or wish to inspect any of the Background Papers please contact Anne Pollock x2757

apollock@westminster.gov.uk

APPENDICES:

Appendix 1- Guidance on establishing a work programme

Appendix 2 -Draft Work Programme for 2016/17

BACKGROUND PAPERS

A cunning plan? Devising a scrutiny work programme –published 2011 by the Centre for Public Scrutiny.

<http://www.cfps.org.uk/publications?item=113&offset=0>

ESTABLISHING A WORK PROGRAMME - SELECTION CRITERIA

The following guidance on selection criteria has been designed to assist the Committee in its task of choosing topics for the work programme, in terms of both judging the individual issues proposed and the shape of the overall programme of topics being scrutinised. It is intended as guidance only and is not prescriptive.

Judging an individual suggestion

- Is the suggestion **specific** enough? For effective scrutiny to take place, a task group/committee will need to pin down exactly what they are scrutinising.
- Is the suggestion **achievable**? Consider what resources are required and assess whether the limitations of time; the O&S budget; and Officer and Member capacity will prevent a suitable outcome being achieved.
- Will scrutiny of the suggested item produce **tangible results**?
- Is the suggestion appropriate for **engaging the public**? Is this an issue of importance to Westminster residents? Is this an area where a lot of bad press or complaints are received?
- Will scrutiny of the suggested item have sufficient **impact**? To maximise outcomes it is often better to concentrate on issues of concern that impact upon the well-being of a large number of people.
- Does the suggestion **duplicate** work that is already being carried out? Is the service about to be inspected by an external body? Are there any major legislative or policy initiatives already resulting in change or about to impact on the service?

Assessing the Committee's Overall Programme

- Is the work programme **balanced**? Is the planned work evenly spread over the municipal year and are the topics balanced in terms of the scope of the Committee's remit?
- Is the work programme too **onerous**? It is important to hold some capacity in reserve for any urgent issues that might arise.

Appendix 2

ROUND ONE – 13 June 2016 Main Theme – Finance and Corporate Services		
Agenda Item	Reasons & objective for item	Represented by:
Cabinet Member Q&A Finance & Corporate Services	A Q&A session with the Cabinet Member for Finance and Customer Services	<ul style="list-style-type: none"> • Cllr Mitchell
Employment & Business Support	To provide a critical friend of the operational plans for the new employment service proposed in the Leader's Speech and to support the City for All ambition of reducing long term unemployment. The Plan is due in September and has interwoven links with PH Parental Employment Programme.	<ul style="list-style-type: none"> • Greg Ward • Tom Harding
Rationalisation of the Operational Property Portfolio	To analyse the on-going work and the strategy, which is due to be completed in August.	<ul style="list-style-type: none"> • Guy Slocombe
Treasury outturn for 2015/16	Statutory review of the treasury outturn for 2015/16. 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).	<ul style="list-style-type: none"> • Steve Mair

ROUND TWO - 12 September 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	<ul style="list-style-type: none"> • Cllr Astaire
Rough Sleeping Strategy	The Rough Sleeping Strategy will go out to public consultation in Sept/Oct. This will allow the Committee time to scrutinise the strategy ahead of this.	<ul style="list-style-type: none"> • Sarah Monaghan/ Jennifer Travassos
Return on Investment	To analyse alternative options for maximising the council's rate of return on its investments.	<ul style="list-style-type: none"> • Steve Mair

ROUND THREE – 7 November 2016
Main Theme – Finance and Corporate Services

Agenda Item	Reasons & objective for item	Represented by:
Cabinet Member Q&A Finance & Corporate Services	A Q&A session with the Cabinet Member for Finance and Customer Services	<ul style="list-style-type: none"> • Cllr Mitchell
CWH – Changes to Estates/Changes to Operating Model	To review the changes to the CWH Operating Model.	<ul style="list-style-type: none"> • Jonathan Cowie
Treasury Performance Half Year Statutory Review	To review treasury performance.	<ul style="list-style-type: none"> • Steve Mair
HOS Transformation	To examine the HOS Reprocurement before the new contract begins in November 2017.	<ul style="list-style-type: none"> • Barbara Brownlee
Rationalisation of the Operational Property Portfolio	To analyse the strategy, which is due to be completed in August. This will follow up on the discussion at the meeting in June 2016.	<ul style="list-style-type: none"> • Guy Slocombe
Major Projects	To update the Committee on Major Projects taking place in the borough.	<ul style="list-style-type: none"> • Stuart Reilly

ROUND FOUR – 9 January 2017
Main Theme – Housing, Regeneration, Business and Economic Development

Agenda Item	Reasons & objective for item	Represented by:
Cabinet Member Q&A Housing, Regeneration, Business and Economic Development	A Q&A session with the Cabinet Member for Housing, Regeneration, Business and Economic Development	<ul style="list-style-type: none"> • Cllr Astaire
Draft Treasury Management Strategy 2016/17	To assess the draft treasury management strategy prior to submission to Council for approval.	<ul style="list-style-type: none"> • Steve Mair
HRA Business Plan	To review and comment upon the annual 30 year HRA business plan for 2017-18. To note the direction of travel and capital investment priorities.	<ul style="list-style-type: none"> • Barbara Brownlee

ROUND FIVE – 6 March 2017
Main Theme – Finance and Corporate Services

Agenda Item	Reasons & objective for item	Represented by:
Cabinet Member Q&A Finance & Corporate Services	A Q&A session with the Cabinet Member for Finance and Customer Services	<ul style="list-style-type: none"> • Cllr Mitchell
Affordable Housing Supply	A review of the delivery of affordable housing supply including social housing and intermediate housing.	<ul style="list-style-type: none"> • Fergus Coleman
Supply and Allocation of Social Housing	To scrutinise the supply and allocation of social housing in the City of Westminster.	<ul style="list-style-type: none"> • Greg Roberts
Estate Regeneration Programme Review	A review of the Ebury Bridge Project/Church Street Regeneration Programme	<ul style="list-style-type: none"> • Barbara Brownlee

ROUND SIX – 10 April 2017
Main Theme – Housing, Regeneration, Business and Economic Development

Agenda Item	Reasons & objective for item	Represented by:
Cabinet Member Q&A Housing, Regeneration, Business and Economic Development	A Q&A session with the Cabinet Member for Housing, Regeneration, Business and Economic Development	<ul style="list-style-type: none"> • Cllr Astaire
MSP Review – 1 year on	To analyse the progress of the re-launched Managed Services Programme.	<ul style="list-style-type: none"> • John Quinn
IT/ O365 – review 1 year on	How well supporting agile working is going – change security/privacy; how to enable more customer-centric approach:	<ul style="list-style-type: none"> • John Quinn

Other Committee Events & Task Groups

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

ROUND TWO (16 SEPTEMBER 15)

Agenda Item	Action and responsible officer	Update
Item 7 – Westminster Housing Strategy Consultation Responses & Analysis on Housing Targets	<p>Make explicit in the Direction of Travel Statement that the Council will still accept comments on the Draft Housing Strategy.</p> <p>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)</p>	<p>The direction of travel document will invite comments on what it says, not what's in the draft housing strategy.</p> <p>The Direction of Travel Statement, which invites ongoing comments, was sent to businesses representatives such as,</p> <ul style="list-style-type: none"> • London First • Westminster Business Councils • London Chamber of Commerce • London Federation of British Industry

ROUND THREE (17 NOVEMBER 15)

Agenda Item	Action and responsible officer	Update
Item 3 – Minutes	<p>Circulate information requested at the last meeting on the timetable and associated public documents of GLA/London Council's assessment of the impact of the extension of the "Right to Buy" legislation. (Action for: Anne Pollock, Scrutiny Officer)</p>	Action to follow.
Item 5 – Update from Cabinet Members	<p>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)</p>	An update has been sent to committee with a full report expected when all the re-locations are complete around March 2016.

ROUND SIX (13 APRIL 16)

Agenda Item	Action and responsible officer	Update
<p>Item 5 – Update from Cabinet Members</p>	<p>Provide the committee with an estimate of when schemes that have recently secured planning consents (as set out in Section 5 of the update from the Cabinet Member for Housing, Regeneration, Business & Economic Development) are likely to come forward and deliver on-site affordable housing. (Action for: Barbara Brownlee, Director of Housing & Regeneration/John Walker, Operational Director Development Planning Services)</p> <p>Provide the committee with a note on current Corporate Property Special Projects (as referred to in Section 2 of the update from the Cabinet Member for Finance & Corporate Services. (Action for: Guy Slocombe, Director of Property, Investment and Estates)</p> <p>Inform the committee of the current status of the Business Rates Appeal Fund and the number of outstanding appeals. (Action for: Martin Hinckley, Head of Centre, Corporate Finance)</p>	<p>Circulated to Committee on 2nd June 2016</p> <p>Included in the Cabinet Member Update for the June meeting.</p> <p>Circulated to Committee on 22nd April 2016</p>
<p>Item 6 – Housing & Planning Bill: Housing Supply</p>	<p>The Committee noted that the Housing and Planning Bill incorporated the largest group of changes in the housing sector for some considerable time. The meeting gave particular consideration to the Bill's provisions relating to Starter Homes.</p> <p>The Committee recommends to</p>	<p>Officers are liaising with WPA to influence government on regulations being made under the Housing and Planning Act relating to Starter Homes.</p>

	<p>the Leader of the Council and the Cabinet Member for Housing, Regeneration, Business & Economic Development that the Council join with other interested parties including Westminster's development sector to undertake joint lobbying activities on these matters.</p>	
<p>Item 7 – Total Facilities Management: Performance and Contract Support</p>	<p>Provide the Committee with a summary of the results of the annual staff survey to determine whether the perception of the service delivery resonates with members' own experiences.</p> <p>Provide the committee with details of what the additional cost would be to the City Council of paying service provider staff the London Living Wage.</p> <p>The Committee would like details of the types of issues covered in the biannual report submitted to the relevant scrutiny committee at the Royal Borough of Kensington and Chelsea with a view to requesting a similar biannual report of Westminster's performance. (Action for: Debbie Morris, Head of Facilities Management, Tri-Borough)</p>	<p>Information circulated to committee 22nd April 2016.</p>

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City of Westminster

Housing, Finance and Corporate Services Policy and Scrutiny Committee

Date:	13 th June 2016
Classification:	General Release
Title:	Westminster Employment Service – analysis and issues to inform the design of the new service
Report of:	Ed Watson, Executive Director of Growth, Planning & Housing
Cabinet Member Portfolio	Councillor Daniel Astaire, Cabinet Member for Housing, Regeneration, Business & Economic Development
Wards Involved:	All
Policy Context:	City for All and Westminster's Employment Programme promote opportunity for all including through supporting residents into training and employment and activities which encourage healthy, active lifestyles to reduce dependency and isolation.
Report Author and Contact Details:	Tom Harding x2244 tharding@westminster.gov.uk

1. Executive Summary

The report provides Committee with an analysis of long term unemployment in Westminster and the lessons learnt from other programmes.

Options are set out about the City Council's future role in reducing long term unemployment. Committee's views will help inform the business case for a new Westminster Employment Service which is a City for All Year 2 commitment.

Following input from Committee, workshops are planned with colleagues, external partners and experts to inform the business case for the service which will be considered by the Council's Executive Management Team and Cabinet Members.

2. Key Matters for the Committee's Consideration

The Committee is asked for a view on:

- Strategic options for the City Council in designing a new Westminster Employment Service, summarised at paragraph 4.6 below.

Other matters which Committee is asked to consider are:

- The analysis of long term unemployment and the challenges of reducing long term unemployment.
- The outline vision for the Westminster Employment service and intended outcomes which it seeks to support.
- Beneficiaries for the new service and considerations of who should be prioritised, if at all.

3. Background

Background information regarding each of the key matters is set out below. Additional information is also set out in the Background paper (Annex 1)

- Analysis of long term unemployment – slides 2-14
- Summary of challenges – slide 15
- Four strategic options for the Council – slides 16-21

Local policy context & definition of long term unemployment

- 3.1 The City for All Ambition is to 'work with and challenge our partners to reduce by a third, within three years, the 10,000 residents who are long term unemployed'
- 3.2 Year 2 of City for All commits the City Council to supporting this target through establishing a new Westminster Employment Service.
- 3.3 The local definition used by the City Council for long term unemployment is residents claiming Department for Work and Pensions benefits for 1 year plus. This included the following benefits: Employment Support Allowance (ESA), Jobseekers Allowance (JSA) and Lone Parents.

National policy & direction on unemployment

- 3.4 Features of the government's approach and policy direction of most relevance to Committee include:
 - *Devolution* – Westminster Council, through Central London Forward and the GLA is pursuing 'asks' to the government focussed around better support for the long-term unemployed and reinvestment of resulting benefit savings into local programme.
 - *Redesigning and commissioning programmes to address long term unemployment* – National programmes overseen by the Department for Work and Pensions – the Work Programme and Work Choices – are being

replaced by a more targeted Work and Health Programme from 2017. The focus will be on health barriers and people that have been unemployed longer than two years. Through the devolution deal which London has secured, sub-regions in the capital will co-commission the Work and Health Programme.

- *Welfare reform* - Jobcentreplus functions are likely to change radically in coming years through rollout of Universal Credit which will also transform the definitions of unemployment / benefit off-flows, blur current distinctions between in-work and out of work benefits and change the basis of labour market statistical analysis.

4. Additional information for Committee on key matters

Strategic options for the Council in reducing long term unemployment

- 4.1 Reducing unemployment and the number of residents claiming DWP benefits is not a statutory function for local government but there are a number of reasons why local authorities, including Westminster choose to get involved which include:
- Employment is a mean of sharing prosperity and helping residents to become more resilient and independent.
 - Providing quality services to residents through integrating local services, including those directly managed or commissioned by local authorities.
 - To leverage resources to deliver programmes and to reduce demand on mainstream budgets.
- 4.2 Local government has a unique role in being able to add value to local and national programmes designed to tackle long term unemployment. This includes through orchestrating multi-sector partnerships, commissioning interventions which are known to work e.g. to reduce barriers to employment and leveraging the value of its commercial relationships for public good.
- 4.3 To help the Council understand where its efforts and resources might be best directed to reduce long term unemployment in the future, four options have been developed. Options are presented to inform discussion and plans for the Westminster Employment Service.
- 4.4 Options developed reflect emerging good practice, particularly the lessons learnt from what other local authorities do, including Manchester. Options reflect the fact that the City Council is not an exclusive provider of employment support – there are a number of local services: including Jobcentreplus, the Work Programme, College and WAES provision and programmes commissioned by London wide organisations.

- 4.5 In developing the four options, consideration has been given to:
- Creating a coherent local “brand” for employability, whilst reflecting national intentions around regional procurement of the next wave of DWP programmes.
 - Ways of structuring local partnerships.
 - Varying levels of ambition and risk for the Council.
- 4.6 Further information on each option is set out at Annex 1. In summary the four options are:
- **Prime Integrator:** co-commissioning welfare programmes with DWP and participating directly in the management and delivery of employability programmes.
 - **Multi-agency integrator:** utilising the powers and influence of the Authority to “join-up” local services around the individual.
 - **Local franchise:** creating a local framework within which all organisations operate to a set of agreed practices and standards.
 - **Targeted commissioning:** commissioning (and delivering) programmes for most disadvantaged residents not supported effectively through other employability services.
- 4.7 Committee and expert witnesses attending the Committee meeting are asked for their views on these options to inform the development of the new Westminster Employment Service.

Analysis of long term unemployment

Population and trends in long term unemployment

- 4.8 Information about long term unemployment in Westminster, comparative analysis with other areas and an illustrative customer journey of a long term unemployed resident in Church Street is set out at Annex 1.
- 4.9 The analysis suggests that to reduce long term unemployment in Westminster requires a fundamental shift in the Employment Support Allowance population which forms 80% of all long term claimants.
- 4.10 Analysis below sets out the performance of public provision and focussing on the long term unemployed groups with complex needs and or significant health conditions. This represents the biggest single group of claimants in Westminster.

Analysis of the performance of publicly funded employment programmes

- 4.11 There is a consistent, independently verified, evidence base pointing to the lack of success in DWP national programmes over the last 10-15 years in providing effective support for people with complex barriers to employment.

- 4.12 Throughout this period, employment rates for those receiving benefits linked to health or disability barriers, now called the Employment and Support Allowance Work Related Activity Group (ESA WRAG), have remained static and around 50% lower than other groups of unemployed people.
- 4.13 There has been significant reform around the welfare to work market and the structure of commercial arrangements between commissioners and providers. The payment by results approach taken by both Flexible New Deal and Work Programme gave operational license to providers to utilise a “Black Box” approach to delivery, incentivised to innovate by a stepped payment tariff which rewarded sustainable job outcomes according to complexity of need.
- 4.14 Despite the payment tariff for people with the most complex needs exceeding £13,000 per person, it is estimated that 86% of the “harder to help” cohorts will return back to JCP after two years on the Work Programme without a sustained job outcome. Analysis undertaken for the Council suggests that few providers had the resource to invest in those uncertain of achieving a job outcome.
- 4.15 Other programmes aimed at supporting those with more complex barriers have also delivered similar results: Pathways to Work (2003-11) delivered 12% sustained job outcomes.
- 4.16 The successor programme to Pathways to Work under the Coalition Government was Work Choice (2011-date), a specialist programme for those with health and disability-related barriers to work. The Pathways to Work Programme is delivering sustainment rates of 17% in unsupported employment. Unlike the Work Programme, Work Choice providers receive 70% of funding up front, and caseload sizes are significantly lower (typically = 40), meaning the service provided to participants can be much more intensive and tailored to their needs.
- 4.17 However, all referrals to this programme must be deemed capable (by JCP) of finding work in the next six months, meaning those with more complex barriers to work have been, inadvertently, referred to the more generic support initiative, the Work Programme. As a result, those harder-to-help participants miss out on the additional support, evidenced by Work Programme performance statistics, which show those participants achieve around 7% sustainment.
- 4.18 Considerable information exists about what works and has been drawn from national government evaluations, think tanks and programme evaluations. In designing a new or improved offer in partnership with others, the Council can use this evidence base about what works which is summarised at slide 11 in the Background Information.

Challenges of reducing long term unemployment

- 4.19 A summary of challenges which need to be considered and addressed through a new service offer is set out at slide 15.
- 4.20 Specific challenges for Westminster and reflecting the nature of those that are long term unemployed in the City and the welfare to work market include:
- Designing programmes around the needs of residents and valuing “distance travelled” on the journey to employment as well as long-term sustainment is needed.
 - Integrating services to better reflect customer journeys and the time needed for those furthest from the job market.
 - Most employability services are designed to provide job seeking skills like creating CVs and interview skills: approaches being trialled by the Council could potentially be scaled up Evidence about what works suggests that those who have not worked for many years need support to build confidence, self-esteem, as well as dealing with practical barriers like debt, language and technical skills.
 - Relationship with employers - the tension is that employers seek the best candidates and therefore there is a pressure to put those closest to the job market into the opportunities. The alternative for those not ready to work in competitive work environment is to volunteer and there are few options between the two. There is an opportunity to create a different relationship with local employers providing a more supported employment environment and to create “social businesses” to provide employment opportunities.

An outline vision for the Westminster Employment Service

- 4.21 Officers have received range of inputs to inform our thinking on how challenges identified above could be address through a new service.
- 4.22 In summary, the outline vision for the Service is:
- A local “brand” positioned as the mainstream employability service for people in Westminster, encompassing other programmes and providers in a partnership.
 - New service designed specifically for long-term unemployed and co-commissioned with DWP (see question on beneficiaries).
 - Comprehensive needs assessment and triaging linked to identifying all barriers to employment and developing a personalised action plan.
 - An integrated model that leverages other services, inside and outside the Council around a defined customer journey.
 - Leverage of Council powers and assets to support improved employability.

- A single point of interface with local employers, a local model for supported employment and means of rewarding and celebrating contribution.
- Creating new skills and qualifications through schools and colleges relevant to employer needs.
- Leveraging new sources of funding through engagement with social investors and grant making organisations to improve the quality of support.

4.23 Intended outcomes for the new Service which have been drafted to date and aligning to the City for All priority include:

- Reduction in the stock of people who are long term unemployed (as per City for All ambition)
- Reduction in unemployment for prioritised cohorts (see below)
- (Larger) Number of people closer to work or given opportunities to take up employment
- Reduction in prevalence of issues which are barriers to employment
- Increase in sustained job outcomes

Beneficiaries for the new service and considerations

4.24 Knowing who the service is going to support and why, underpins the design of the new service and specific interventions delivered by the Council and or local partners. The Council's interests are to provide a quality service, to increase efficiency, reduce duplication and to support savings.

4.25 To help the Council to answer the question of who should be supported and why, a cross Council team has developed an analytical tool based on best practice from elsewhere – New Economy, Manchester.

4.26 Officers have analysed information on 40 particular groups of unemployed people based on:

- **The size** of a particular group of resident (e.g. temporary accommodation residents or NEETS)
- **The “Severity” of their barrier to employment** (e.g. childcare, living in temporary accommodation, ex-offender)
- **The cost avoidance** to WCC in the medium and long term and our partners in public sector (e.g. DWP, NHS and Police)

4.27 To be best placed to meet the aspiration set out in City for all, it is recommended the council takes the approach of focusing its resources on groups that rank highest in terms of cost avoidance and size of a particular unemployed group as set out in table 1 below.

Table 1 Analysis and ranking of long term unemployed cohorts

Cohort Group	Size of unemployed group	Rank through WCC analysis
Temporary Accommodation	1090	1
Troubled Family	250	2
Child known to Social Services	500	3
In Supported Accommodation	400	4
Having a physical disability	4000	5

4.28 This approach would enable the council to support groups which present the highest demand on council services, are likely further from the labour market and are the largest in terms of volume.

4.29 Further cost benefit analysis will be undertaken on each of the top 5 groups of residents above followed by consultation with stakeholders and within the Council as part of the Business Case for the new Westminster Employment Service.

5. Health and Wellbeing Implications

5.1 The City Council’s Health and Wellbeing Strategy set out the role of employment as a wider determinant of health and wellbeing. Outcomes for the new service are currently being developed and with input from the City Council’s Public Health team and officers involved in developing the revised Strategy.

6. Financial Implications

6.1 Financial implications for the different options are being developed with input from colleagues from City Treasurer’s Department. Analysis will be included in the business case to be agreed for the new Service in July.

7. Risks and Mitigations

Risk	Mitigation
The service design doesn’t reflect the specific needs of long term unemployed customers and what works	Undertake customer journey analysis for cohorts that make up Westminster’s long term unemployed population. Review literature from a wide range of sources about what works; and convene an expert panel to learn lessons from elsewhere.

<p>Long term unemployment increases due to external factors including demographic changes and an economic downturn</p>	<p>Develop options for the Service or with suppliers that can be responsive to fluctuations in demand.</p>
<p>Most employment services are commissioned externally and not by the Council which might impact on the effectiveness of a new Service</p>	<p>Develop options for the design of the service with input from providers and local commissioners.</p>

If you have any queries about this Report or wish to inspect any of the Background Papers please contact Report Author x2244 tharding@westminster.gov.uk

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Annex 1

Background information

Analysis of long term unemployment (the population & provision) – slides 2-14

Summary of challenges - slide 15

Four strategic options for the Council – slides 16-21

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**Housing, Finance & Corporate Services Policy Committee, 13th
June 2016**

Analysis

Breakdown of long term claimants in Westminster

Benefit Statistical Group	February 2015	August 2015	Changes - Aug 2015 - Feb 2015
Total	11,040	10,680	360
Jobseekers Allowance (JSA)	840	750	90
Employment Support Allowance (ESA)	8,870	8,710	160
Lone Parent	990	920	70
Others	340	300	40

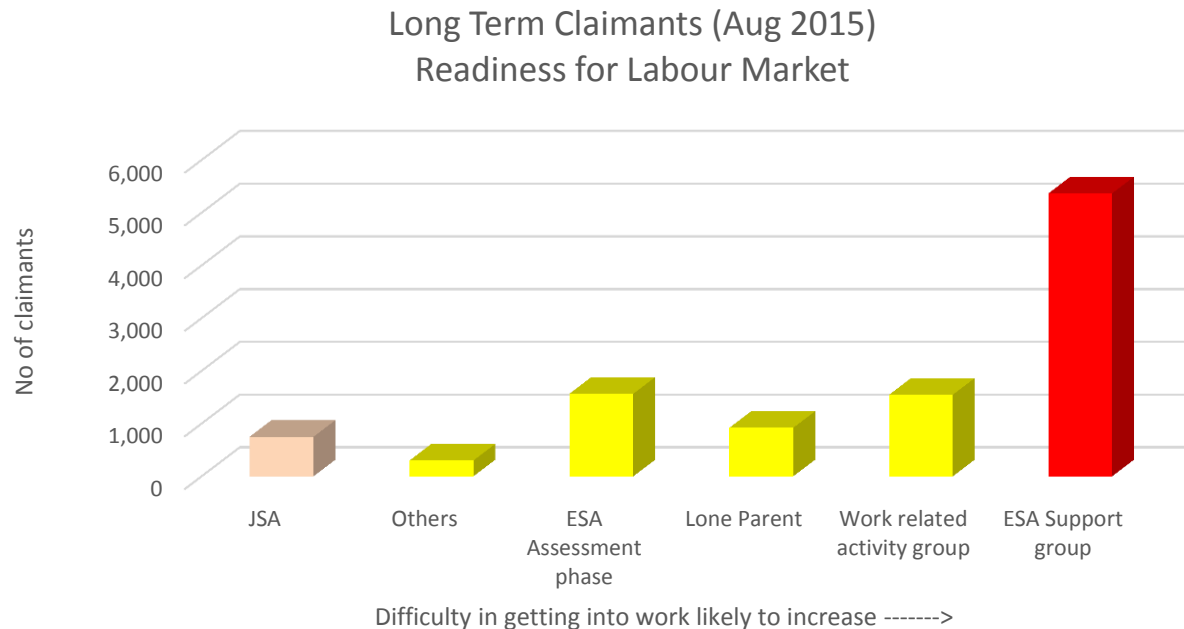
- Latest data available is August 2015. This represents a 6 month period after the baseline data, but pre-dates by a month the start of the City for All target
- In these 6 months there has been an overall **reduction** in long term claimants of **360** – or about **10%** of the overall reduction required to meet the 3 year target
- In the six months big % reductions have been seen in the JSA, Lone Parent and Other claimants but the ESA group, which represent 84% of the Long-Term cohort has been only slightly reduced.

Analysis

Forecasting changes in long term unemployment

- Whilst it has been possible to reduce long-term claimants of JSA and Lone Parents into work – reducing the ESA group is ***much*** harder
- It is potentially unlikely that the rate of reductions of JSA and Lone Parents can continued for three years as a high proportion of the cohort remaining will be further entrenched from work – for some because of personal circumstances (especially the Lone Parent group), work may not be a preferred option at the moment
- To get closer to the target a fundamental shift in ESA numbers are required – this cohort forms over 80% of the long-term claimants left in August 2015.

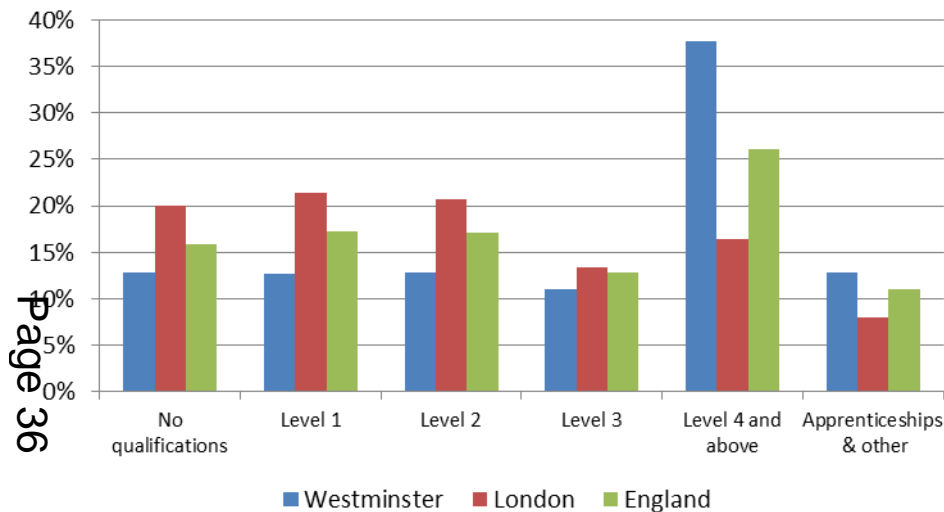
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Analysis

Comparative analysis - qualifications and tenure

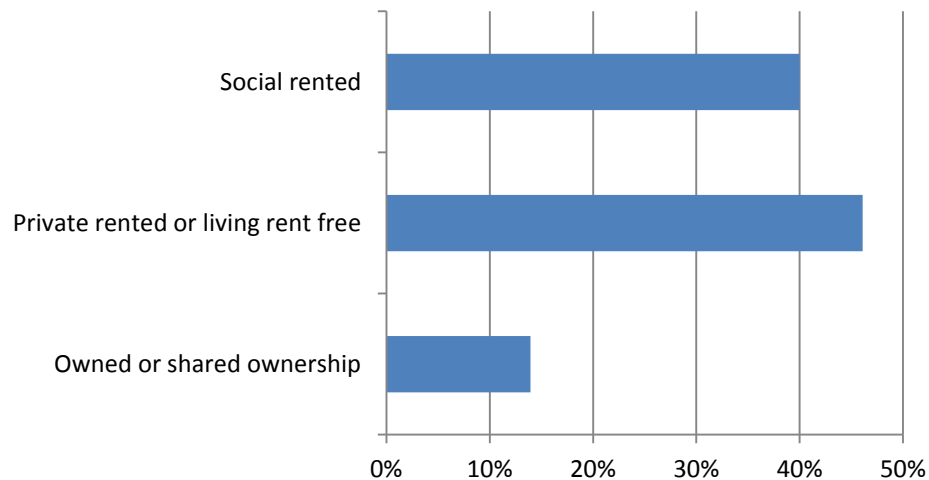
% of Unemployed Residents by Highest Level of Qualification



Westminster's unemployed are much more likely to be well qualified – although many qualifications from abroad may not have the same traction in the UK.

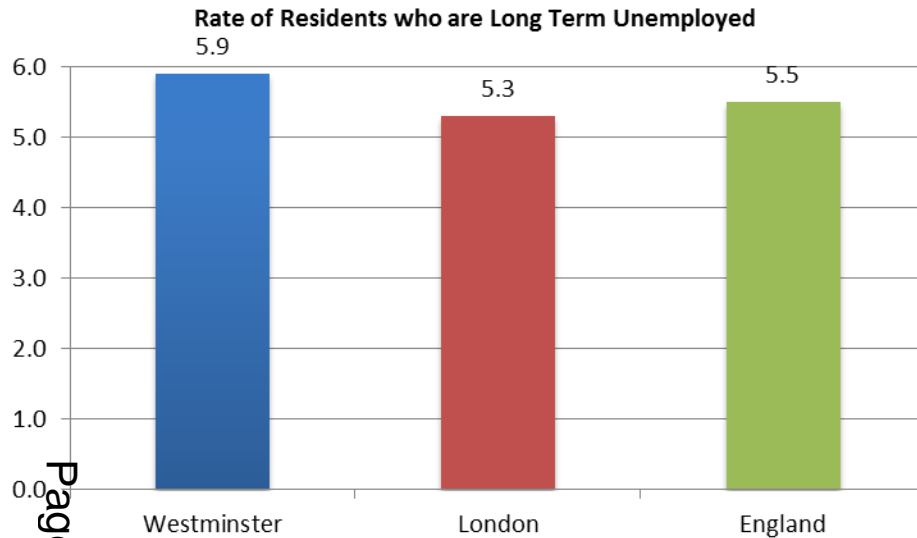
A high proportion of unemployed residents live in private renting (high mobility) and social sector (low mobility).

Proportion of Unemployed Residents by Tenure



Analysis

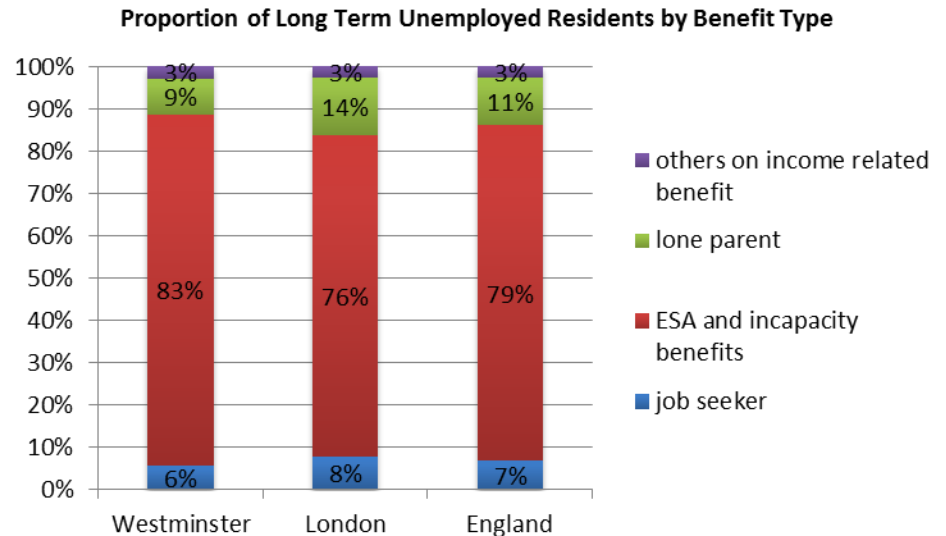
Comparative analysis – working age population & health issues



Despite the huge volume of jobs on offer Westminster has a higher proportion of working age residents who are long-term unemployed than London or England

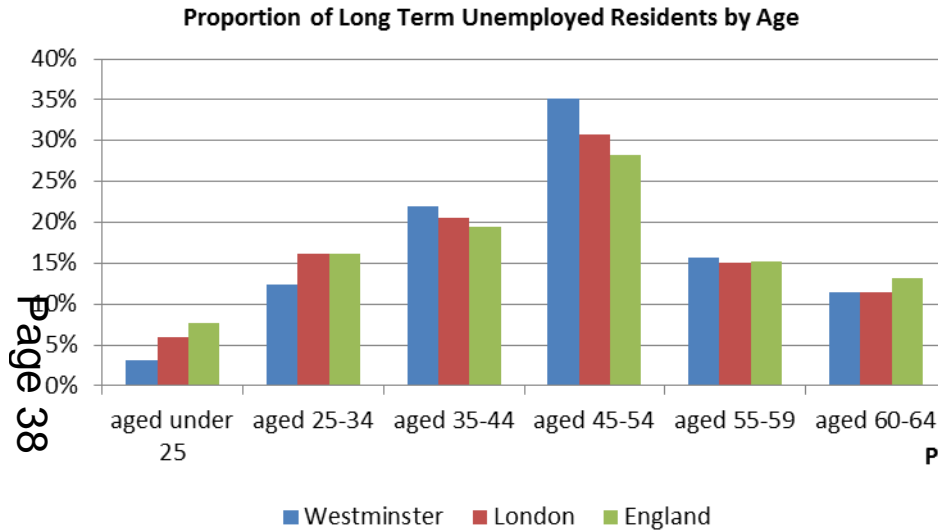
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Westminster does have a greater proportion of its workforce further from work because of health issues – however the profile is not dissimilar to London and England. Mental Health issue account for half of Westminster's ESA claimants



Analysis

Comparative analysis - age profile of long term unemployed cohorts and dependants



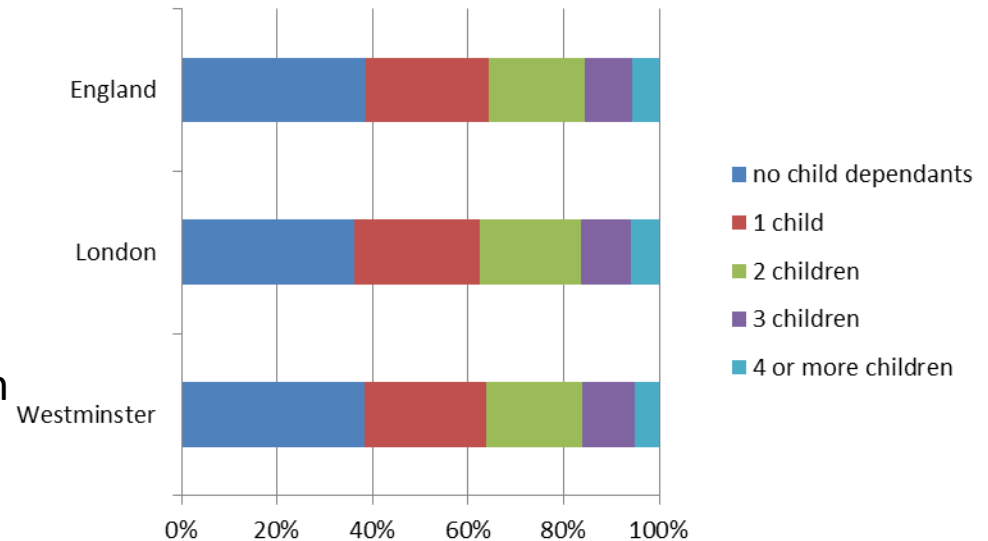
Westminster has a lower proportion of young people (under 35) who are long term unemployed.

Around 800 people, currently LTU will age out of working age benefits to pensionable age by 2017.

Around 40% of LTU's have no dependent children, similar to English average.

Cost / Benefit Analysis would suggest that there are more benefits targeted LTU's with children and complex health issues

Proportion of Long Term Unemployed Residents with Child Dependants

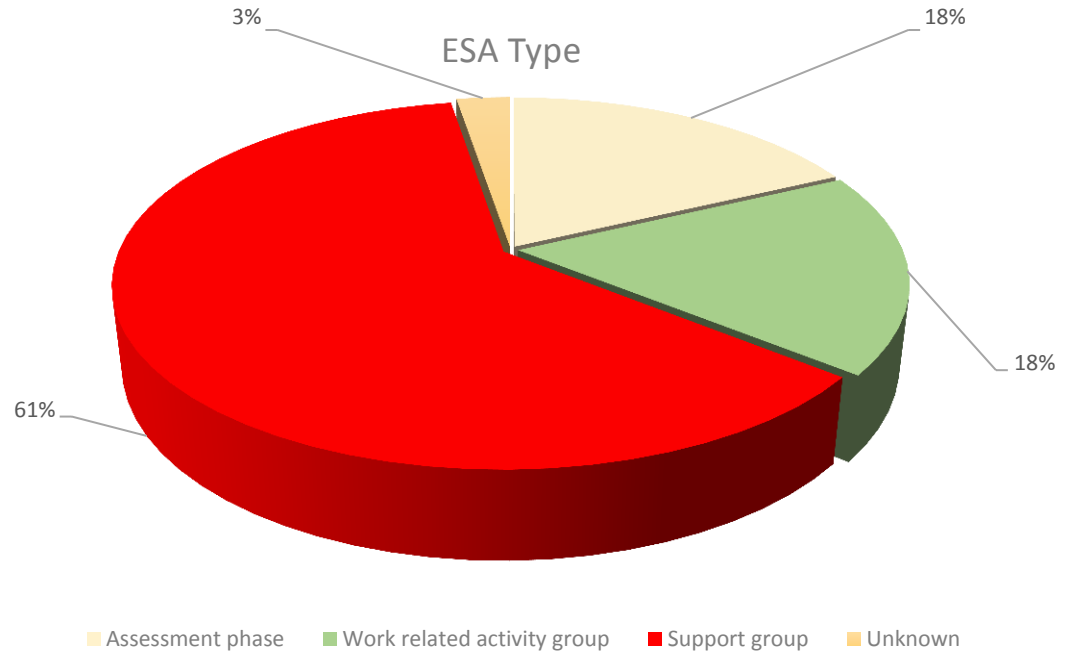


Analysis

The Employment Support Allowance Cohort – the largest group of long term unemployed claimants

There are around 8,700 residents claiming ESA in Westminster. The chart below shows that the clear majority of ESA claimants (5,400) are in the Support group – which are not actively seeking work.

This group will predominantly be composed of people with significant health or other issues



Mental health reasons are by far the largest single reason for residents to claim ESA. Mental health claimants account for 54% all ESA claimants and 56% of those in the far from work support group.

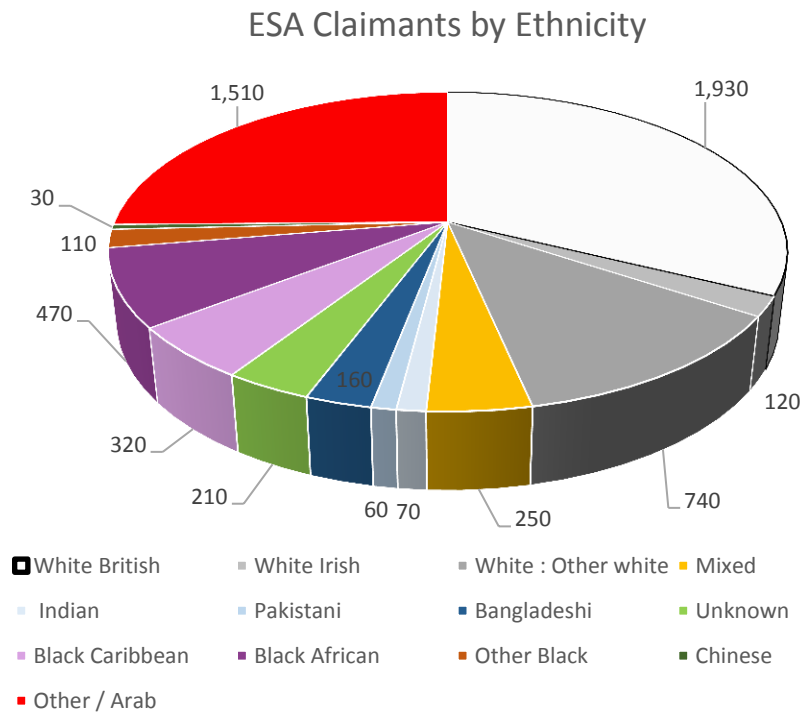
Many claimants will have multiple health issues, and many people for example having mental health problems will also have physical issues. Substance misuse is also wrapped up in the Mental Health. group

Analysis

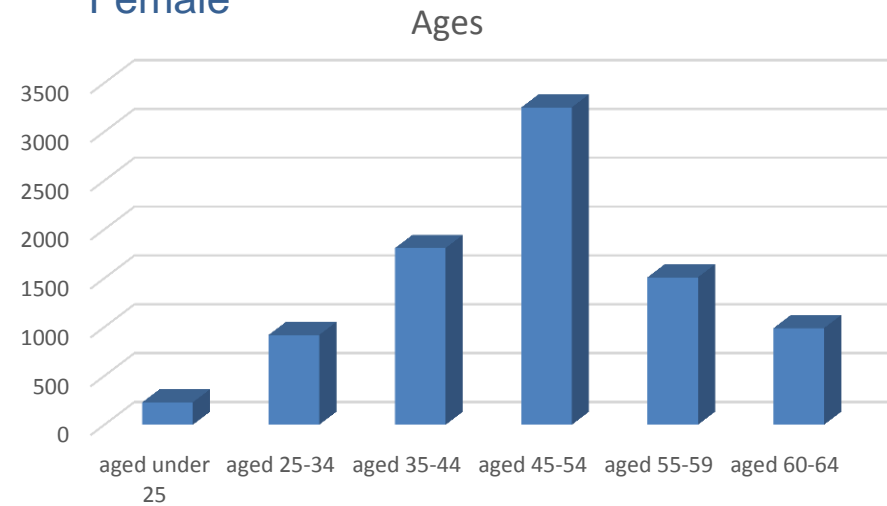
The ESA Cohort

The ESA cohort has a similar working age gender split to the overall population, but some ethnic groups (Arab, Black African in particular) are over-represented. There are likely a number of factors - that may be due to the historical traumatic reasons (asylum seekers / refugees) for arrival in Westminster, ability in English, translatability of qualifications and skills, attitudes of potential employers. The group is significantly older than the general population.

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Gender
54% Male
46% Female



Illustrative Customer Journey – ESA claimant

LINDA

48 YEARS OLD
5 CHILDREN BUT
LIVES ALONE
Nr. CHURCH STREET



SOCIAL

Linda knows people locally but has few friends.

FAMILY

Linda has 5 children, aged 34 to 9. Her youngest lives with his father as she is unable to parent.

SERVICES

Linda accesses a range of health and social services relating to her parenting, illnesses, drugs rehab and housing.

BACKSTORY

Linda's life has not been easy. Her father was abusive and a drugs user. She had her first child at 14 and contracted Hepatitis C during a transfusion. She began using drugs in her late teens and in her twenties tried to commit suicide following the painful loss of her brother. She has been in prison for several years and on more than one occasion, though this is where she learned to read and write.

Linda has had the same partner throughout her life and has been a victim of DV of many occasions, leading to social work intervention and placement of children with kinship carers. Owing to the death of Linda's mother and her own poor health, the youngest child now lives with Linda's partner. Linda has emphysema, Hep C, cirrhosis and takes methadone. She suffers from mental ill health and suffers acute anxiety (medicated). Linda does not expect to live for much longer.

JOURNEYS IN AND OUT OF WORK

Linda worked for 9 months in her teens as a hotel chambermaid. Her ill health, drugs use, time in prison and mothering responsibilities, literacy, confidence and motivation have been barriers to work ever since.

EXPERIENCE OF SERVICES

Linda thinks her GP is overworked and doesn't have time, he's *"too busy looking after dying people"*.

She finds her drugs rehab nurse, at the GP, very helpful. She helps with various practical tasks.

Linda is cynical about JCP. They have been unhelpful in supporting her to access DLA and once put her forward for a WCA interview – which the interviewer then said was clearly inappropriate.

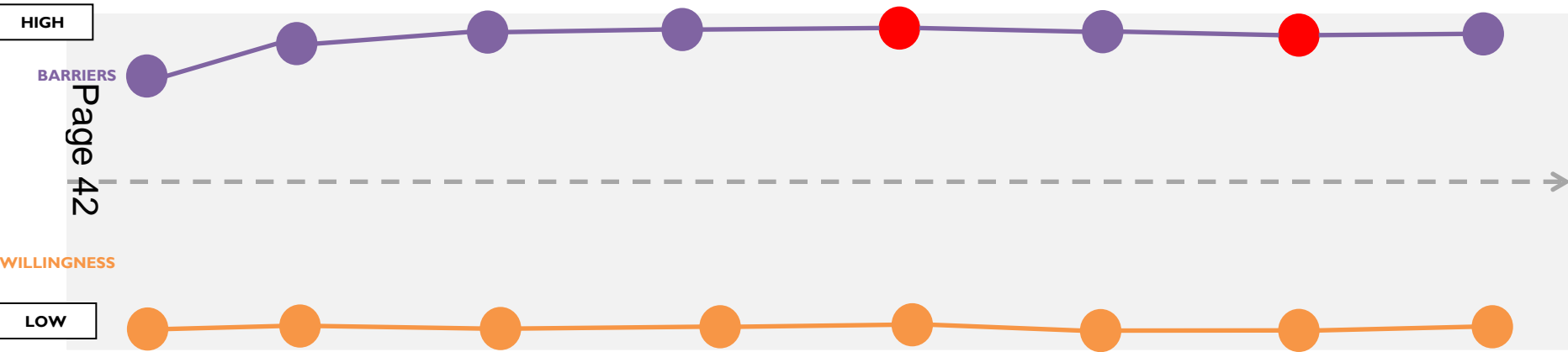
WILLINGNESS TO WORK

Linda has been distant from the workforce for a long time, dealing with significant family and health problems.

BARRIERS TO WORK

Linda's criminal record, physical health, mental health, very low skill base, lack of work experience and personal presentaitonal are all barriers to work.

2005	2008	2009->	FEB 2014	MARCH 2014	MAR 2014	MAR 2014	APR 2014
Youngest child is born.	Suffers DV. Child placed with grandmother and then partner due to maternal ill health.	Accesses a range of health services but finds these unreliable and confusing. Health deteriorates.	Gets new drugs nurse. Finds her very helpful. Sees her fortnightly.	Asks at JCP for DLA and is given a phone number, but it 'doesn't work'. Second phone number appears to be for JSA so Linda hangs up.	Drugs worker says she will help with DLA application for mobility.	JCP put Linda on ESA, previously was on Income Support Sickness (?)	Seeks another referral to see psychiatrist as is hearing voices again. Wants a social worker.
LIFE EVENT	LIFE EVENT	JCP	GP	JCP/DWP	GP	JCP	GP



WHERE A KEY WORKER / TRIAGE APPROACH CAN ADD VALUE

Key worker could help Linda navigate various clinical pathways

Key worker could support vulnerable residents to access entitlements and improve basic wellbeing.

Key worker could help with related needs such as housing and health

NEEDS AND DEFICITS - WHERE MIGHT A KEYWORKER BE VALUABLE?

I'm always in and out of different hospitals and doctors. I'm going to die soon.

I need somewhere different to live. I'm reliant on a scooter but I can't take it upstairs to my flat.

They keep giving me the number for JSA, not DLA. They don't know what they're doing.

My nurse is going to look on google for me to help me get the DLA

Analysis

Overview of provision

jobcentreplus

DWP Department for Work and Pensions

IF YOU HAVE BEEN CLAIMING FOR LESS THAN 12 MONTHS

For DWP Benefit Claimants that are [less than 12 months](#) Jobcentre Plus (a public service provider which is part of DWP) receives support advisors employed by Jobcentre Plus.

Advisors are based at Jobcentre Plus' two offices in Westminster (Marylebone and Chadwick Street) and in the community with other services (including within the Council's FACES team).

Jobcentre Plus is also responsible for benefit delivery and implementing Universal Credit.

LOCAL SERVICES INTERFACE <12 MONTHS

Jobcentre Plus Managers are given more autonomy to shape services locally and personalise support using Flexible Fund and Community Grants. Local services which JCP works with include Cardinal Hume, NHS, FACES, Recruit London, WAES and local Colleges. As well as interventions for those already claiming JSA, JCP is also prioritising activity which supports residents before and during their assessment for health related benefits including ESA.

IF YOU HAVE BEEN CLAIMING FOR 12 MONTHS+

The Work Programme supports a wide range of participants including **Employment Support Allowance** claimants, long term unemployed ([12 months plus](#)) and those who are at risk of long-term unemployment ([less than 12 months](#)) and others who are disabled or have a health condition, and who may have been out of work for several years. Claimants are mandated to providers and contracts operate on payment-by-results between £3,700 - £13,700.

Work Choices a voluntary Department for Work and Pensions (DWP) employment programme which helps disabled people with more complex issues find work and stay in a job. To note that not all residents that have a registered disability are claiming Employment Support Allowance and vice versa.

LOCAL SERVICE INTERFACE 12 MONTHS+

Residents that have completed the Work Programme without a job return to Jobcentre Plus. Local services which support Work Programme returners (after 24 months on benefits) include Council and CLF projects: T200 and Working Capital. Residents with disabilities and not expected to find work through mandatory schemes like the Work Programme are supported through services including Westminster Employment.

Analysis

Provision - what works

The evidence emerging from what works for long term unemployment points to the need for developing a broadly based set of skills and strengths that prepares people to enter the job market and creates resilience. This might include developing self-esteem, encouraging positive thinking, developing a strengths based approach to personal “assets” and relationships. Programmes designed for all cohorts like Work Programme and predecessor programmes have tended to focus directly on skills relevant to securing an immediate employment outcome e.g. CV writing, interview skills. That has implications for commissioners in terms of cost of the intervention and timing of employment outcomes.

The diagram shows the broad balance of focus across recent programmes.



Analysis - what works

Literature & research review

Integration	<ul style="list-style-type: none"> ▪ ▪ 	Whole system design of customer journeys	Agile model that responds to what works	Co-location of services	Case management across agencies	Relational systems rather than structural change
Personalisation/ Self efficacy	<ul style="list-style-type: none"> ▪ ▪ 	Comprehensive and multi-layered assessment	Skills and confidence first	customer journey designed around customers	“Expert peer user” group work	Low caseloads & family based interventions
Page 45 Skills	<ul style="list-style-type: none"> ▪ ▪ 	Sector based work academies	Supported and intermediate employment			
Supportive employers	<ul style="list-style-type: none"> ▪ ▪ 	Single point of interface with employability services	Preferential access to jobs: targeted employment	Employers take on responsibility for actively supporting people in work	Incentives to invest in employing people with barriers to employment	
Measures of success	<ul style="list-style-type: none"> ▪ ▪ 	Value on distance travelled	Focus on wellbeing & “human capital development”	Tackle low pay as well as unemployment		

Evidence

Literature & research review

National Government

- DWP Select Committee report on Work Programme – October 2015
- DWP Evaluation report(s) on Work Programme – CESI 2013
- DWP Participant report 2014
- DWP Commissioning Strategy 2014

Think tanks and other funders

- Work 2.0 – Policy Exchange
- Improving employment outcomes through social investment – ERSA (2015)
- ERSA manifesto on future commissioning – (2015)
- Nesta – Making it Work. Tackling Worklessness through Innovation (2012)
- Making Public Service Markets Work. Institute for Government. (2012)

Programme evaluations

- Talent Match Final Evaluation – Sheffield Hallam University (2014/15)
- The Backr (Participle) Evaluation Report – PWC (2015)
- Pathways to Employment – Lambeth, Lewisham and Southwark – Project submission to DWP Select Committee (2015)
- Square Mile Jobs Project Evaluation – CESI (2015)
- Working Well – Report to the Public Service Transformation Network (2015)
- London Borough of Barnet Return to Work pilot report – (2015)

Summary of challenges

- **Long-term / structural unemployment:** whilst welfare reforms and benefit caps have accelerated transfer of JSA claimants into employment, there remains 10,340 ESA claimants
- **Fragmentation:** multiple current employability services working independently, some contracted locally, others hosted locally but commissioned centrally (i.e. Work Programme)
- **Lack of alignment/integration** between multiple agencies and providers to tackle underlying and complex barriers to employment / economic participation
- **Funding constraints:** further budget cuts facing WCC; shrinking central Government investment in employment initiatives for target cohort (DWP: Health and Work Programme)
- **Complex barriers:** lack of suitable employment opportunity is only part of the solution facing this target cohort – their reasons for unemployment are complex and will likely fall across a range of funding streams / sectors (health, adult social care, children's services, police / crime, justice)

Strategic options

Introduction – the unique role of local government in tackling worklessness

- **Demand side levers: stimulating the quality of local job market through employer partnerships.**
- **Social Value:** leveraging the value of commercial relationships for public good.
- **Multi-sector partnership:** creating working relationships across all sectors.
- **Intelligent commissioning:** understanding needs and designing interventions that work in a local context
- **Improving access and participation:** by using a broad range of referral networks

Strategic options

What are the strategic options for the City Council to support the ambition?

- **Prime Integrator:** co-commissioning welfare programmes with DWP and participating directly in the management and delivery of employability programmes
- **Multi-agency integrator:** utilising the powers and influence of the Authority to “join-up” local services around the individual
- **Local franchise:** creating a local framework within which all organisations operate to a set of agreed practices and standards
- **Targeted commissioning:** commissioning (and delivering) programmes for most disadvantaged residents not supported effectively through other employability services

Strategic option 1

Prime Integrator: co-commissioning welfare programmes with DWP and participating directly in the management and delivery of employability programmes

- Establish a local employability commissioning function and strategy based on “what works” and local labour market conditions
- Build local expertise and capacity, attracting high performing organisations
- Create a holistic customer journey through local employability services, establishing a formal partnership with JCP
[Secure investment to fund deeper interventions for those furthest from the labour market]
- Establish partnership working with other local agencies to enhance employment, health and housing outcomes
- Create a single interface with local employers to improve job availability for residents

Considerations:

- Goes beyond the scope of devolvement anticipated by DWP across all welfare to work programmes
- Requires a depth of expertise not in place in Westminster City Council

Strategic option 2

Multi-agency integrator: utilising the powers and influence of the Authority to “join-up” local services around the individual

- Create single point of governance for partnership working across organisations
- Secure partial devolvement of national employability funding to enable investment in local model
- Establish joint working protocols to enable service users to receive a holistic service, including data sharing
- Invest in empowered individuals dedicated to “unblocking” constraints on effective joint working
- Undertake a comprehensive needs assessment at the point of referral and develop individual action plans
- Define and measure outcomes to recognise broad social and economic impact
- Create a single interface with local employers to improve job availability for residents

Considerations:

- Precedent established for harder to help cohorts
- Expensive model that may not be suitable for all cohorts
- Enables the Authority to build commissioning, partnering and delivery capability

Strategic option 3

Local franchise: creating a local framework within which all organisations operate to a set of agreed practices and standards

- Defined intervention methodology and consistent customer experience across programmes
- Single interface for local employers
- A practitioner network across organisations providing peer learning on what works and strengthening relational networks
- Achieve better employability outcomes by leveraging the impact of adjacent services e.g. health and housing
- Create a single interface with local employers to improve job availability for residents

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Considerations:

- Service overlays existing services and leverages value and impact through a system of partnership and governance – demands additional commitment from participants

Strategic option 4

Targeted commissioning: commissioning (and delivering) programmes for most disadvantaged residents not supported effectively through other employability services

- Secure additional funding for people not well served by existing programmes
- Develop and test new sources of innovation to inform future commissioning
- Join up and prioritise local services around a defined cohort, leveraging other programmes e.g. Troubled Families and Individual Placement and Support (IPS) for people with mental health conditions
[Secure investment to fund deeper interventions for those furthest from the labour market]
- Partner with and incentivise local employers to support people with barriers to employment into work, to develop skills and achieve progression

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City of Westminster

Housing, Finance and Corporate Services Policy and Scrutiny Committee

Date:	2 nd June 2016
Classification:	General release
Title:	Operational Property Rationalisation Strategy
Report of:	Guy Slocombe – Director of Property, Investment & Estates
Cabinet Member Portfolio	Finance & Corporate Services
Wards Involved:	All
Policy Context:	Investment & Corporate Property
Financial Summary:	The Council's Corporate Property portfolio amounts to 770 buildings combining investment and operational property, with an annual operating cost of £23m and annual income of £24m (excluding exceptional items and capital receipts), and a value of c. £800m
Report Author and Contact Details:	Guy Slocombe gslocombe@westminster.gov.uk x5465

1. Executive Summary

- 1.1. This report is intended to provide background of and an update to the Council's Operational Property Rationalisation Strategy and the intended outcomes.
- 1.2. The Council holds a property portfolio of approximately 800 buildings. Around half are properties held for investment purposes (c. 960 tenancies generating rental income to the Council) and the remaining half are operational properties (schools, depots, care homes, offices, libraries etc).
- 1.3. The investment portfolio generates approximately £24 million of rental income pa to the HRA and General Fund and has a value of c£390 million (April 2015). The cost of running the combined investment and operational portfolios is c£20 million pa.
- 1.4. Local government is faced with increasing financial challenges and WCC similarly must find efficiencies across its business to support the continued provision of front-line services. A target of £12 million is expected to be delivered through rationalisation of the Council's property assets in terms of a combination of operational efficiencies and income generation from assets identified as surplus.
- 1.5. To achieve this, the Council must first fully understand how it occupies its real estate i.e. for what purpose it is used and how intensely it is occupied. This will inform a strategy of

rationalisation which is likely to include creation of local service hubs and accommodation for co-location, along with touch down areas to encourage and enable flexible working.

2. Key matters for the Committee's consideration

- 2.1. The Committee to note that this paper is an update to the Corporate Property Strategy paper previously submitted on 18th November, 2015 and discussed by members.
- 2.2. The Committee to note that a further more in depth paper will be submitted to a future Policy & Scrutiny meeting as the project progresses and detail emerges.

3. Background

3.1. The Council's Corporate Property portfolio

- 3.1.1 By way of background the following points were covered in a report to the Committee at its meeting on the 18th November 2015 and this paper provides the Committee with a summary of progress since that meeting.
- 3.1.2 The Council's property portfolio comprises 400 assets held as investments (c. 960 tenancies generating rental income to the Council) and 400 operational properties (schools, depots, care homes, offices, libraries etc).
- 3.1.3 The investment portfolio generates approximately £24 million of rental income pa to the HRA and General Fund and has a value of c£390 million (April 2015). The cost of running the combined investment and operational portfolios is c£20 million pa.
- 3.1.4 BNP Paribas Real Estate has been appointed by the Council to work with the Operational Property team to deliver the Operational Property Rationalisation Strategy (the 'Operational Property Strategy').
- 3.1.5 This paper aims to provide an overview of the Councils Operational Property and to discuss the work that is currently being undertaken by BNP Paribas. It will discuss the rationale and intended outcomes of the strategy and will provide an update on work conducted to date with details of the intended next steps.

4 The Council's Operational Portfolio

4.1 Introduction

- 4.1.2 The Council's operational portfolio comprises 1.4m sq ft of useable accommodation/facilities. Approximately 150 properties comprise "bricks & mortar" real estate having excluded open spaces, gardens, playgrounds, parks and cemeteries. That is not to say that those areas of real estate do not themselves enjoy a latent value which could be leveraged.

4.1.3 The footprint of the portfolio is shown by service in the table below:

Use	Sq m	Sq ft
Estate Offices	2,000	21,500
Libraries	10,900	117,325
Sports & Leisure	32,200	346,600
Depots	4,450	47,900
Community Protection	750	8,070
Offices	26,980	290,410
Children's Services	2,200	23,680
Nursery Schools	11,100	119,500
Adult Services	2,000	21,525
Adult Education	1,500	16,150
Schools	39,000	420,000
TOTAL	133,000	1,430,000

4.1.1 City Hall and Lisson Grove, while in scope, are subject to separate projects aimed at savings/revenue generation. City Hall currently accounts for approximately £6m of the total running costs of the corporate portfolio and the City Hall Refurbishment Programme has identified c. £3m of potential savings.

4.1.2 The combined investment and operational portfolio held in the General Fund costs the Council c. £20m pa per the table below. Premises costs aside from City Hall account for £1m pa and the additional facilities and property management and maintenance programme of the corporate portfolio accounts for c. £6m of the Corporate Property budget.

Category	FORECAST 2015/16 £'000
REVENUE from General Fund investment property	(20,766)
EMPLOYEE COSTS	1,317
PREMISES COSTS	9,689
TRANSPORT EXPENSES	4
SUPPLIES AND SERVICES	2,501
AGENCY AND CONTRACT SERVICES	6,056
TRANSFER PAYMENTS	(506)
TRADED SERVICES	605
EXPENDITURE	19,666

- 4.1.1 Accordingly a review and rationalisation of the operational portfolio will enable significant cost reduction. BNP Paribas and the Operational Property team are working with all of the Councils service departments on a wholesale review of the operational property portfolio through the delivery of the Operational Property Strategy.
- 4.1.2 This review will focus initially on how intensely the property from which the Council provides its services is actually used before determining a strategy for future use, developing efficiencies to include hub strategies, workplace management, service co-locations and alternative delivery models. It remains necessary to consider the impact of the City Hall Refurbishment Programme and Lisson Grove which may create further strategic opportunities post refurbishment, as well as how the Council's operational portfolio overlaps with Tri-Borough.

5 Rationale for the Operational Property Strategy

- 5.1 Local government is faced with increasing financial challenges and WCC similarly must find efficiencies across its business to support the continued provision of front-line services. A target of £12 million is expected to be delivered through rationalisation of the Council's property assets in terms of a combination of operational efficiencies and income generation from assets identified as surplus.

- 5.2 To achieve this, the Council must first understand how it occupies its real estate i.e. who uses it, for what purpose and how intensely. This will inform a strategy of rationalisation which is likely to include creation of local service hubs and accommodation for co-location, along with touch down areas to encourage and enable flexible working.
- 5.3 The Council shares some service provision with the Royal Borough of Kensington and Chelsea and the London Borough of Hammersmith & Fulham. We have asked our Tri-Borough team to compile data of Tri-Borough Property usage which will feed in to this strategy.
- 5.4 The Council's housing ALMO, City West Homes, is carrying out a separate review of surplus accommodation in its portfolio and that will be shared and form an important part of this strategy.
- 5.5 WCC commissioned the first stage report towards the end of last year that identified a number of potential opportunities for further exploration. This second stage piece of work is intended to bring a "fresh pair of eyes" to review the findings of the GVA report and to develop upon this, to generate work streams and deliverables. BNP Paribas have been appointed to conduct the Operational Property Rationalisation Strategy.
- 5.6 This strategy is driven by a £12m cost savings target that has been identified by EMT as part of the first stage review. There is recognition of the need to draw out opportunities for work space efficiencies across the operational portfolio. This will ultimately enable a reduction in the footprint of the operational estate.
- 5.7 The cost savings and new revenue from rationalisation of the operational portfolio have been identified an important contribution to the Council's budget arrangements. The rationale for the appointment of BNP Paribas is twofold, to seek to validate and confirm the identified saving target of £12m and to identify the opportunities available to the Council which will realise those potential savings.
- 5.8 Property as a resource should act as a facilitator and enabler to the Council's service provision. It therefore follows that an effective property strategy should reflect the Council's property needs translated from the scope and scale of services provided. It should also be noted that any strategy should be considerate of the cost of property in support of service provision.
- 5.9 Through the delivery of the Operational Property Strategy, BNP Paribas's work is to provide an overarching review of the entire operational estate and initiatives that are being undertaken across several services will feed in to this.
- 5.10 A number of workspace efficiencies and opportunities have already been identified which contribute towards the rationale for this project.
- **Desk Ratios & Decluttering** – Decluttering has consolidated the work environment, provided break out areas and touch-down space and permitted a new ways of working. Offices at City Hall and Lisson Grove are moving to a 7:10 desk ratio as part of a smarter working policy. Adopting a 7:10 desk ratio across the operational estate will generate savings, but the City Hall and Lisson Grove refurbishments will provide an environment to enable a more challenging ratio of 6:10, or 5:10 as RBKC are targeting.

- **Co-locations** – Identify areas of commonality linked to their operational working practices where sharing of space and back office functions results in economies of scale.
- **Hub Strategies/Interim Mini-Hubs** – Identify clusters of services (eg Queen’s Park, Stowe Centre, Porchester Leisure Centre, Churchill Gardens and Church Street) that would suit hub-working. Use existing space in estate offices to create mini-hubs for a phased delivery while we move towards creating the long term solution. The delivery of new hubs may be achieved through rebranding of existing facilities (libraries and Leisure Centre).
- **Potential Development Opportunities** – releasing surplus buildings and land as a result of rationalisation, for change of use, redevelopment and revenue generation. The Council does not have a measured survey of the portfolio yet (this is in production), but on a very high level assumption, releasing say 50,000 sq ft could lead to rental revenue of c. £2m pa
- **Alternative Delivery Models**
Two key functions for the Council are the provision of library facilities and sports and leisure facilities both of which form a considerable part of the operational footprint. Traditionally there has been the need for public intervention to address market failures in these areas. However, with technological and industry advances, is there an alternative method of delivery? This does not mean closing facilities, but modernising that way in which these services are provided.

BNP Paribas will investigate all of the above initiatives and corroborate within one overarching property strategy.

6 Project Objectives and Outputs

6.1 BNP Paribas will deliver a two stage report. First: an understanding of the portfolio and its current use, along with the service demands and local needs. Second: a strategy that delivers a smaller occupied portfolio, local service hubs, co-location and release of surplus assets. This must demonstrate cost savings and income potential as described above.

6.2 The outputs expected are to include:-

- Schedule of operational properties and service occupiers.
- Space utilisation - analysis of floor space and how it is occupied.
- Analysis of total occupational costs, per building and per service.
- Opportunities for hub creation in conjunction with new projects being delivered by the WCC Major Projects Team.
- Identify early wins in terms opportunities for savings.
- Identify co-location opportunities.
- Identify properties that could be made surplus and categorised for:-
 - a) Re-use by services – potential for hub working.
 - b) Commercial letting or sale - proceeds to be recycled by WCC.

- c) Relocations – services that could be delivered from other parts of the Borough to release prime property.
- Quantify extent of opportunities in financial terms:-
 - a) Cost of adaptive work to existing space to deliver a workplace that is fit for purpose.
 - b) Anticipated operational savings.
 - c) Anticipated income from surplus property.
- Project delivery plan – (currently estimated to be a five year plan for delivery and realisation of potential savings).
 - a) Create delivery pipeline.
 - b) Detailing timetable for delivery.
 - c) Detail project savings/income generated per annum.

7 Project Progress and Delivery

- 7.1 The first workshop to engage with services was successfully carried out on 13th April. This was introduced by the Director of Property and run by BNP Paribas.
- 7.2 In addition to the service leads, representatives from Tri-Borough and City West Homes were also in attendance in order that property reviews of their estates feed in to and are in scope for the overall programme.
- 7.3 The workshop was well attended and generated a good deal of positive discussion in the room and attendees actively engaged in the workgroup sessions. Services are now aware of the objectives of the project and have been advised that further input will be required in order that the Council's consultants can build an accurate picture of current property use and need, and future use and need. BNP Paribas will review the feedback to identify common themes. It was encouraging to note that the attendees engaged freely and contributed positively to the process.
- 7.4 Each attendee left with a questionnaire to complete to build upon the information gathered on the day and to inform the 1:1 sessions which are currently being undertaken and will conclude by the end of May.

8 Key Issues

- 8.1 The attendees highlighted the following key themes that may well affect property need going forward that broadly fell within two categories:-

Service Drivers/Considerations

- Core/Statutory Requirements – the essential need for the service provision.
- Virtual/Online Engagement – increasing activity will influence the property need of the future and the ability to work smarter and become less reliant on physical location.
- Intelligent Partnering – WCC service can be located in delivery partners' accommodation.
- Alternative Delivery Models – reviewing how services can be delivered differently.
- Flexibility – the changing business landscape requires flexible accommodation to support it.

Operational Drivers/Considerations

- Clusters/Hubs – existing clustering of services indicative of hub location.
- Co-locations – complimentary services being delivered alongside each other via one front door.
- Collaboration – services identify shared goals and visions.
- Identify Infrequently Occupied Space – identify complimentary activities and opportunities to intensify use, or release real estate as surplus.
- Reduce Operational Footprint – surplus property identified to deliver new income streams.
- Reduce Operating Costs – contribute towards corporate savings goals.

8.2 The 1-2-1 sessions are currently being undertaken with the individual service departments. The purpose of these sessions is to:

- Collate detailed information and to verify existing data around the properties that are occupied by the individual service groups.
- To ensure that BNP Paribas have a full understanding of the entirety of the operational properties the service departments occupy and/or utilise and any partner organisations that they may share occupation with.
- To discuss particular properties that are fit for purpose and work well for the service group and also to discuss examples that are not fit for purpose.
- To discuss potential co-location/hub opportunities.
- To understand the service departments service delivery models and future objectives and plans.
- To understand who the service departments contracted service providers are.

9 Next Steps

9.1 The expected completion of Stage 1, the data collection exercise and analysis, is by the end of June 2016. Once all the 1-2-1 sessions have been conducted BNP Paribas will undertake inspections of selected properties across the operational portfolio.

9.2 It is envisaged that the combination of the data collection exercise, 1-2-1 workshops and physical inspections will fully equip BNP Paribas to draw the conclusions necessary during phase 2, in order to deliver a holistic property strategy for the Council. This will inform the property team in implementing the recommendations that will ensure delivery of the medium term savings target.

9.3 The expected commencement of Stage 2 is June 2016. This will include:

- Analysis of the data collated during stage 1.
- Verification of the £12m savings target and to draw out what the actual achievable savings would be.
- To present the opportunities available within the operational estate in order to deliver those savings.
- To present a time frame for the delivery of the savings target.

10 Delivery Timetable

- 10.1 Due to the complexity of the Council departments and the various service lines within each directorate, in order to engage with the relevant stakeholders, BNP have found it necessary to schedule quite a few more workshop sessions than originally envisaged. This has delayed the programme by approximately one month.
- 10.2 The expected delivery date for the final report is 30th September. While every effort will be made to continue to keep to this timetable it may be that the need for extra sessions and property inspections may delay Stage 1 beyond the expected delivery.
- 10.3 It is important to note that Stage 1 is arguably the most important phase of the programme and therefore an extension in the final deadline in order to fully complete Stage 1 is justifiable. Time lost collecting and collating data from stage 1 can be made up during the stage 2 preparation of the strategy

11 Health and Wellbeing implications

- 11.1 There are no health and wellbeing implications.

12 Financial implications

- 12.1 The cost savings and new revenue from rationalisation of the operational portfolio have been identified as an MTP saving. The saving identified in the MTP schedule of £12m is a target and is not yet based on detailed analysis. It is a rudimentary split between cost savings and new revenue generated from re-use of surplus property created by the rationalisation. However, given the size of the Council's portfolio and following an initial review, the target outcome is achievable.

The result of the work being carried out by BNP Paribas will drive out a more accurate figure for the estimated £12m target figure. It is to be noted that in order to release the £12m figure, there will be a requirement to provide service departments with alternative facilities and this may require the Council to invest in order to release the target savings of £12m.

13 Legal implications

- The Operational Property Rationalisation Strategy will ensure the efficient use of the Council's property assets in line with its fiduciary duty to the Council's taxpayers.
- In some instances the Council has a statutory duty to ensure that certain services are accessible to the local community and this will in turn affect the Council's ability to charge a full commercial rent. For example, WCC Children's Services have a statutory obligation to ensure a certain number of school or nursery places are available to the local community every year. To ensure the continued viability of the commissioned service provider, it would be necessary to compensate them by way of a reduced rent which is proportional to the loss in the provider's income, due to having to release spaces that the Council must make available to the community under its statutory duty.
- Best value under the Local Government Act 1999 introduced the principle that Local Authorities are obliged to "make arrangements to secure continuous improvement in the way in which functions are exercised, having regard to a combination of economy,

efficiency and effectiveness (Section 3 LGA 1999). This is a duty which underpins all Local Authorities' activities and functions and the Council must have regard to it in relation to the new Corporate Property Strategy and maximise the use of assets for the benefit of its area and Council taxpayers.

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

Guy Slocombe x 5465



Housing, Finance and Corporate Services Policy and Scrutiny Committee

Date:	13th June 2016
Classification:	General Release
Title:	Treasury Outturn Report
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 in a challenging environment.
Report Author and Contact Details:	George Bruce Tri-Borough Director of Treasury & Pensions gbruce@westminster.gov.uk

1. EXECUTIVE SUMMARY

- 1.1. This report presents the Council's Annual Treasury Outturn Report for 2015/16 in accordance with the Council's treasury management practices.
- 1.2. Under Part 1 of the Local Government Act 2003 (the Act), local authorities are required by regulation to have regard to the CIPFA Treasury Management Code (The TM Code) when carrying out their duties. The TM Code recommends that Full Council receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close. The code also recommends that a separate Committee scrutinise the report prior to its submission to Full Council.
- 1.3. Westminster has adopted the TM Code. The outturn report considers the performance of the treasury management function, the effects of the decisions taken and the transactions executed in the past year, and any circumstances of non-compliance with the organisation's treasury management policy statement and Practices.

1.4. As well as the Act and relevant regulations, authorities are also required to have regard to guidance issued by the Secretary of State and the Chartered Institute of Public Finance and Accountancy (CIPFA); namely:

- Guidance on Local Government Investments
- Guidance on Minimum Revenue Provision
- CIPFA Code of Practice on Treasury Management in the Public Services
- CIPFA Prudential Code for Capital Finance

This report meets the requirements set out in the above guidance.

1.5. The Act also requires Authorities to determine an affordable borrowing limit for the year, which cannot be breached. This report confirms that borrowing remained well within the limit set prior to the start of the financial year.

1.6. 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:

- investment activity during 2015/16
- borrowing activity during 2015/16
- the capital expenditure and financing for 2015/16;
- the UK economy and interest rates
- compliance with treasury limits and prudential indicators
- way forward for treasury in 16/17

1.7. The key Prudential Indicators and treasury position is set out as follows:

Prudential Indicator	2014/15 Actual £m	2015/16 Indicator £m	2015/16 Actual £m
Capital Expenditure	184	269	124
Capital Financing Requirement			
General Fund	165	115	209
Housing Revenue Account	276	278	262
Total	441	393	471
Total investments	605	533	629
Total borrowing	283	294	252
Total Net Investment	322	239	377

1.8 Capital expenditure was significantly below the estimate for the year mainly as a result of slippage. The Capital Financing Requirement (CFR) is greater than projected due to reserving capital receipts to offset against future years capital expenditure on short life assets. The net surplus for the authority increased from £322m to £377m over the year; this cash inflow of £55m was predominantly as a result of positive reserve movements and working capital.

This was reflected in the increase in investment balances. Borrowings are lower due to the repayment of principal on maturity.

- 1.9 Net investment above is substantially higher than that envisaged in the strategy due to reduced capital expenditure and other factors described in paragraph 1.8.

2. KEY MATTERS FOR COMMITTEE'S CONSIDERATION

Committee is asked to note this report.

3. BACKGROUND

- 3.1. The Council has fully adopted the recommendations in CIPFA's Code of Practice on Treasury Management in the Public Services. Specifically this includes:

- creation of a Treasury Management Policy Statement
- development and maintenance of Treasury Management Practices setting out how the treasury objectives will be met
- production of reports to Council including annual strategy in advance of the start of the year, a mid-year review and an annual review following the year-end
- delegation to City Treasurer of the responsibility for implementation and monitoring the policies and practices as well as the execution and administration of the treasury management decisions

- 3.2. This report presents the Council's Annual Treasury Report for 2015/16 in accordance with the Council's treasury management practices. This report covers:

- investment activity during 2015/16
- borrowing activity during 2015/16
- capital Expenditure & Financing
- the UK economy and interest rates
- compliance with treasury limits and prudential indicators
- the way forward in 2016/17

4. INVESTMENT ACTIVITY DURING 2015/16

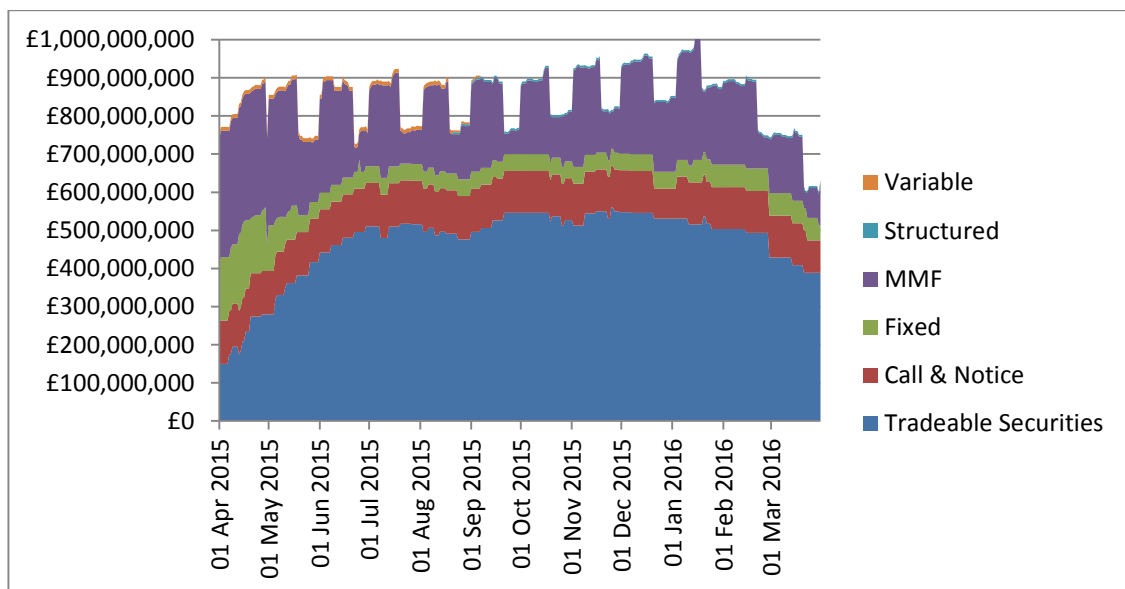
Position at 31st March 2016

- 4.1. The table below provides a breakdown of the cash deposits, together with comparisons from the previous year. Cash balances increased by £24.5 million over the year. Increased use was made of tradable securities (UK Government treasury bills and other shorted dated bonds) to increase credit quality while maintaining liquidity and yield.

Investment Type	Investment balance 31 March 2015 (£m)	Investment balance 31 March 2016 (£m)	Movement (£m)
Money Market Funds	200.00	79.90	(120.10)
Call Accounts	35.00	6.00	(29.00)
Notice Accounts	78.72	78.91	0.19
Term Deposits	109.70	44.00	(65.70)
Tradable Securities	149.99	388.68	238.69
Enhanced Cash Funds	31.32	31.71	0.39
Total:	604.73	629.20	24.47

Activity During 2015/16

- 4.2. Total cash balances during 2015/16 varied considerably, predominantly as a result of the significant peaks and troughs arising from the payment profile of business rates collection and rates retention payments to CLG and GLA. The investment balance therefore ranged between £603m and £1.018bn and averaged £848m. The table below indicates the daily composition of investment balances.



- 4.3. Liquidity was managed through cashflow forecasting and by maintaining sufficient call accounts and money market funds to meet unexpected transactions. At year end there was just one call account balance held with a highly rated European bank (Svenska Handelsbanken) and a further £80m of liquid balances invested in four money market funds. The funds return 0.40% - 0.55% depending on their investment approach (all are rated AAA by at least

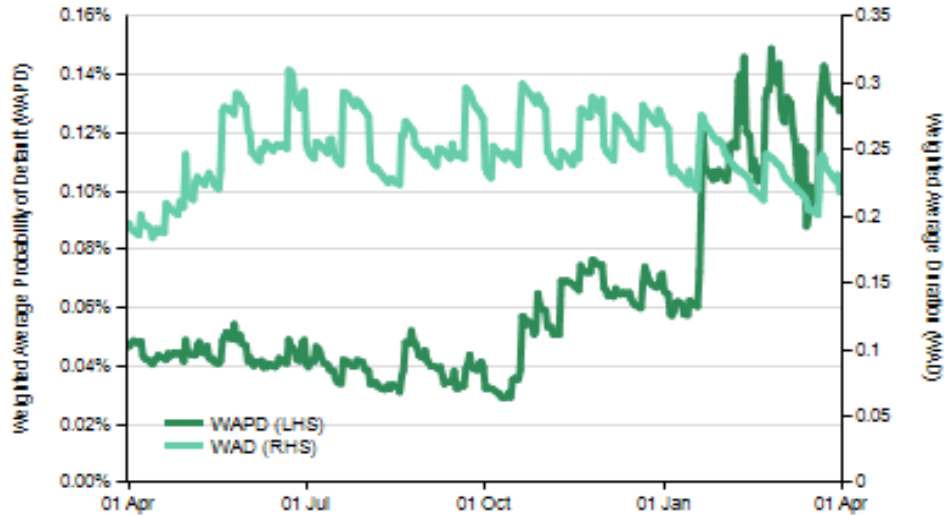
one, and in most cases two, rating agencies). The average money market balance was £204m over the course of the year, and peaked at £332m.

- 4.4. There are two notice accounts utilised, where rates are based on LIBOR plus a margin and notice is required for 65 days and 3 months. The balances have remained relatively static throughout the year, although for one of the accounts interest is added to the balance in the account rather than being repaid to the Council.
- 4.5. The term deposits at year-end comprise five fixed term bank deals. The longest duration is a two year deposit with RBS earning 1.1% and maturing August 2017. The remaining deposits are all shorter term fixed rate deals and were raised during 2015/16.
- 4.6. The Council has been reasonably active in tradable securities during the year, comprising commercial paper issued by Transport for London, Network Rail bonds, Supranational Bank bonds, UK Government issued gilts and treasury bills. The vast majority of these securities have been short dated and purchased on the secondary market (except UK Government treasury bills that are generally purchased on issue) with a few months remaining until maturity. It is the Council's policy to hold these assets to maturity and has no intention of disposing prior to this unless credit quality concerns arise. During 15/16 no securities were sold prior to maturity.
- 4.7. As at 31st March 2016 the Council had investments in two enhanced cash funds. These funds do not distribute income and instead any gains are accumulated into the unit price. Therefore the returns on the funds are reflected as unrealised gains which only become realised once units are sold. During 2015/16 there were no transactions in these funds.

Performance

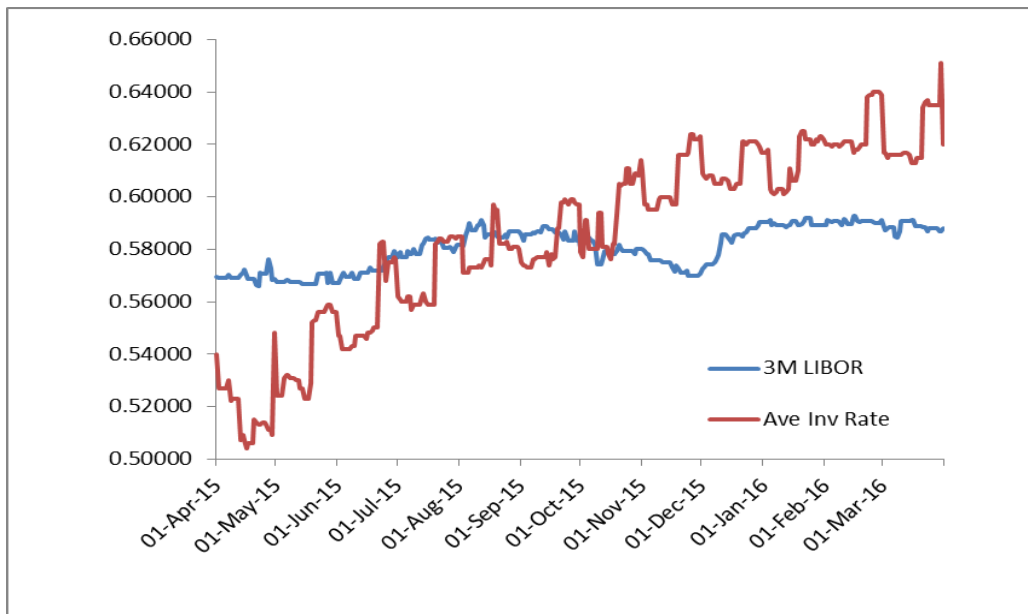
- 4.8. All investments entered into by the authority during 2015/16 were fully compliant with the Annual Investment Strategy. The strategy makes clear that the investment priorities are given to security of principal then liquidity over yield. To this extent all investments have only been made with counterparties of high credit quality. The chart below quantifies the credit exposure over the year by calculating the weighted average probability of default (WAPD) for each investment entered into over the course of the year and compares to the weighted average duration (WAD) of the portfolio.

Historic WAPD v. WAD



5.9 This chart shows the daily volatility (light blue) in the duration of the portfolio; generally as a result of the large swings in money market fund balances, which effectively have zero duration as a result of the instant liquidity. Over the course of the year the WAD did not materially increase. The credit risk of the portfolio (green line) has spiked at the year-end as global concerns on economic growth and exposures to a slowing China caused bank CDS rates to increase. This is expected to reverse in the current financial year.

5.10 The daily weighted average interest rate of return on the investments over the year is shown in the table below.



5.11 The average yield achieved has increased steadily in the year due to switching from money market funds to term deposits that earn additional interest due to their longer maturity. The rate achieved over the course of the year was in line with the benchmark 3 month LIBOR.

6. BORROWING ACTIVITY DURING 2015/16

Position at 31st March 2016

- 6.1 The Council operates a two-pool approach to the apportionment of its debt, with each revenue account bearing an appropriate proportion of external debt; reflecting the manner in which historic capital has been incurred. The HRA's gross indebtedness is measured by its Capital Financing Requirement and where the actual level of borrowing falls below this level, this is considered as borrowing from the General Fund in order that each revenue account is appropriately charged with the costs of its indebtedness.
- 6.2 The table below shows the details around the Council's external borrowing (as at 31 March 2016), split between the General Fund and HRA. This is a gross position not taking into account any internal cross lending.

	31/03/2015 Balance £m	31/03/2016 Balance £m	Average Balance £m	Average Rate
General Fund	26.04	25.48	25.52	4.111%
HRA	257.78	226.05	255.97	4.768%
Total	283.82	251.53	281.49	4.709%

- 6.3 The outstanding loans comprise a combination of PWLB and Market loans, with a very small amount of historic mortgages advanced in the 1960s.

Activity During 2015/16

- 6.4 Total borrowings decreased by £32.3m as loans matured during the year and no new borrowing was undertaken.
- 6.5 Whilst opportunities for debt restructuring / repayment continued to be monitored, it was not considered that it was an appropriate opportunity at this stage to pursue this strategy as discount rates were deemed to be very low, and consequently premia considered high.

Performance

- 6.6 The portfolio average rate reduced slightly from 4.74% as a result of the small value of high coupon loans maturing.

	Average Balance £m	Average Rate
PWLB Loans	211.5	4.586%
Market Loans	70.0	5.08%
Total	281.5	4.709%

- 6.7 Market loans are structured as Lender Option Borrower Option (LOBO). The lenders, who are European banks, have the opportunity to increase the rate of interest but if this option is exercised the Council can immediately repay at no

additional cost. These loans were advanced between 1984 and 2005 with maturity between 2024 and 2065. The attraction of LOBO loans is that they offered a lower rate of interest than PWLB debt. To date, no lender has exercised an option and if this occurs the default position is to repay using treasury cash balances. There is no intention of using this structure for future borrowing. Opportunities to repay these loans are being investigated. To date, the LOBO loans have reduced interest paid expenses compared with the alternative of PWLB loans of the same term.

Municipal Bond Agency

- 6.8 Existing debt has been sourced mainly from the Public Works Loan Board, with occasional use of banks when these offered competitive rates. Prior to 2012, PWLB rates were priced at 0.15% over gilts. This was increased to effectively 0.8% (certainty rate) over gilts. Whereas a margin of 0.15% offered little scope for conventionally structured local authority borrowing to be priced below PWLB, a margin of 0.8% could potentially be improved upon.
- 6.9 A number of local authorities, including Westminster, have sponsored the Municipal Bond Agency with the aim of issuing collective bonds at prices below PWLB rates. The MBA hopes to make its first bond issue in late 2016. The Council is considering whether to participate either in the first or subsequent bond issues. The borrowing terms include a joint and several guarantee of the entire bond issue. The legality and risks associated with this guarantee are being evaluated.

7 CAPITAL EXPENDITURE & FINANCING

Capital Expenditure

- 7.1 The level and financing decisions of capital spend have a major impact on the treasury management position of the Council. The Council has a number of available sources of financing to apply to capital expenditure and makes decisions based on maximising the available resources.
- 7.2 The Prudential Code requires indicators to be set in respect of the overall level of Capital Expenditure for the General Fund and Housing Revenue Account. The table below sets out the indicator and the sources of financing used to fund this spend:

	2014/15 Actual £m	2015/16 Indicator £m	2015/16 Actual £m
General Fund Capital Expenditure	76	90	69
HRA Capital Expenditure	108	179	55
Total Capital Expenditure	184	269	124
Financed by:			
Capital Receipts	9	40	14
Capital Grants	58	88	39
Funded from Revenue	35	31	18
Major Repairs Allowance	17	17	23
Prudential Borrowing	65	93	30

- 7.3 The underspend on capital is mostly due to delays to HRA projects.

Capital Financing Requirement

- 7.4 Ultimately all expenditure incurred by the Council has to be resourced in some way. Revenue expenditure must be resourced using revenue sources of finance. Capital expenditure, as shown by the table above, has a number of financing options available. If the Council is able to receive a grant for certain schemes, or charge to a revenue account, by way of example, this has the impact of immediately resourcing that expenditure. However, if these sources are not available, or sufficient to meet the extent of the planned expenditure, then Prudential Borrowing can be undertaken which defers the total resourcing. The amount of historic capital expenditure which has yet to be resourced is measured by the Capital Financing Requirement (CFR).
- 7.5 Ultimately this resourcing will take place through the Minimum Revenue Provision (MRP) mechanism which requires authorities to make an annual charge to the revenue account over the lifetime of the assets being financed in this way. Guidance issued by the Secretary of State set out recommendations for authorities to follow when determining this provision. The guidance requires authorities to produce an annual MRP policy in advance of the start of the year. The policy for 2015/16 was included within the Treasury Management Strategy report approved by Council in February 2015. The CFR increases each year by the value of capital expenditure met by Prudential Borrowing, and reduces as MRP resources this spend on an annual basis.
- 7.6 In addition to MRP which reduces the underlying need to borrow over time, authorities can also make additional MRP charges to revenue known as Voluntary MRP or apply capital receipts up to the value of any debt that has been repaid.
- 7.7 Another component of the CFR is the element relating to other long term liabilities; specifically finance leases and PFI contracts. This element of the CFR is written down each year by the principal elements of the lease repayments.
- 7.8 One of the key Prudential Indicators relates to the CFR and ensuring that gross borrowing does not exceed the CFR. The Prudential Indicator in respect of the CFR is set out below:

	General Fund £m	Housing Revenue Account £m	Total £m
Adjusted Opening CFR 31/03/2015	180.18	276.40	456.58
Prudential Borrowing in 2015/16	27.90	2.30	30.20
Capital Receipts applied to reduce CFR	(11.23)	(0.70)	(11.93)
Minimum Revenue Provision	(2.69)	-	(2.69)
MRP in respect of Other Long Term Liabilities	(0.90)	-	(0.90)
Closing CFR	193.26	278.00	471.26
Prudential Indicator projected closing position 2015/16	114.84	278.17	393.01

7.9 The increase in the General Fund CFR for 2015/16 is predominantly as a result of capital expenditure financed by Prudential Borrowing during the year.

8 THE ECONOMY AND INTEREST RATES

8.1 Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

8.2 These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in 2015/16 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

8.3 The sharp volatility in equity markets during the year was also reflected in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

8.4 The ECB commenced a full blown quantitative easing programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015.

8.5 As for America, the economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in

December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.

- 8.6 The UK elected a majority Conservative Government in May 2015, removing one potential concern but introducing another due to the promise of a referendum on the UK remaining part of the EU. The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

9 COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

- 9.1 During the financial year to March 2016, the Council operated within the treasury limits as set out in the TMS. The outturn for the Treasury Management Prudential Indicators are shown below.

External debt indicator	Approved limit (£m)	Maximum Borrowing in year	Days exceeded
Authorised limit ¹	516	285	None
Operational boundary ²	496	285	None

Maturity structure of borrowing	Lower limit (%)	Upper limit (%)	Actual at 31 March 2016 (%)
Under 12 months	0	40	0.0
1-2 years	0	35	0.0
2-5 years	0	35	18.0
5-10 years	0	50	13.0
10 years and over	35	100	69.0

Upper limits on interest rate exposure	Approved maximum limit	Actual as at 31 March 2016
Borrowing		
Fixed interest rate exposures	100%	72.17%
Variable interest rate exposures ³	50%	27.83%
Investments		
Fixed interest rate exposures	50%	4.7%
Variable interest rate exposures ⁴	100%	95.3%

¹ Authorised limit for external debt is the limit above which external debt must not go without changing Council Policy.

² Operational boundary for external debt is the limit against which external debt will be constantly monitored.

³ Variable interest rate include all debt under 1 year to maturity and LOBOs.

⁴ Includes all investments with maturity less than 1 year.

£ million	Approved maximum limit £m	Actual as at 31 March 2016 £m
Limit on investments for periods over 364 days	300	43.9

10. THE WAY FORWARD

- 10.1 The Council has a clear ambition to be a leader amongst its peers for effective performance of financial management, including treasury management function. As part of the Tri-Borough team for Treasury & Pensions, there is opportunity to learn from and influence other authorities to constantly improve the service.
- 10.2 Officers are currently exploring a range of options to improve on the treasury management and related investment strategies to ensure the best use of the available resources. During 2016/17 a report will be presented for Members to consider these future initiatives.

Background Papers

Cabinet Reports