



CITY OF WESTMINSTER

MINUTES

Housing, Finance and Corporate Services Policy and Scrutiny Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Housing, Finance and Corporate Services Policy and Scrutiny Committee** held on **Monday 9th January, 2017**, Rooms 5, 6 & 7 - 17th Floor, Westminster City Hall, 64 Victoria Street, London, SW1E 6 QP.

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

Also Present: Councillor Daniel Astaire, Cabinet Member for Housing, Regeneration, Business and Economic Development, Steve Mair (City Treasurer), Pete Carpenter (Director of Pensions and Investments), Barbara Brownlee (Director of Housing and Regeneration), Guy Slocombe (Director of Property, Investments and Estates), Tara Murphy (Scrutiny Officer) and Reuben Segal (Senior Committee and Governance Officer)

1 MEMBERSHIP

- 1.1 It was noted that Councillor Paul Dimoldenberg had replaced Councillor Adam Hug.

2 DECLARATIONS OF INTEREST

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

3 MINUTES

- 3.1 **RESOLVED:** That the minutes of the meeting held on 7th November 2016 be signed by the Chairman as a correct record of proceedings.

4 WORK PROGRAMME AND ACTION TRACKER

4.1 RESOLVED:

1. That the agenda items for the next meeting on the 6th March be agreed. The item on Estate Regeneration Programme Review would include information regarding the provision, circumstances and mechanism for out of borough social housing placements.

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

4.2 **ACTIONS:** Provide members with the results of the “Your Voice” Staff Survey and the action plan produced to address issues of concern raised (**Tara Murphy, Scrutiny Officer**)

5 UPDATE FROM CABINET MEMBERS

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

5.2 The Cabinet Member for Housing, Regeneration, Business & Economic Development responded to questions on the following issues:

Regeneration

5.2.1 Church Street - The Committee noted that discussions are taking place with the Metropolitan Police regarding their taking a long term void shop on Church Street as a base for their neighbourhood teams serving Westminster. This will replace the facility at Paddington Green until new facilities are provided as part of that development. The Cabinet Member was asked about the development at Paddington Green. He explained that the Church Street discussion related to a local neighbourhood initiative and was different to the policing operations that were provided at Paddington Green. The latter was an issue for the Metropolitan Police and the Mayor’s Office for Policing and Crime (MOPAC).

5.2.2 Ebury Bridge & Tollgate Gardens_-The Committee asked why the Council was still developing options for delivery of the Ebury Bridge Project when a vote by residents had taken place in 2013 and a planning decision obtained in 2014. The Cabinet Member explained that property markets rise and fall while the Council’s social housing lists change and increase. He stated that there was a need to reconsider how best to balance the community’s needs whilst also maximising the use of the land to ensure that the Council delivers the best regeneration possible. He stated the Council will continue to look at the available options and will then revert to residents for their views.

In response to a supplementary question, the Cabinet Member stated that he shared member’s frustration that regeneration has taken longer than expected. However, much had been accomplished. This included a nursery being built at Orchardson Street, Affinity Sutton taking possession of the Tollgate Gardens site, community space being provided in Church Street and ongoing consultation with residents on the Green Spine. While the regeneration of Ebury Bridge, Tollgate Gardens and Church Street were moving forward these were complex projects with many different elements. Unfortunately, some partner developers had withdrawn from projects which was out of the Council’s control.

- 5.2.3 Lessons Learned – The Cabinet Member was asked what, on reflection, he would do differently in relation to housing regeneration. He advised that he would not tie the regeneration schemes to a resident vote on the basis that the Council is bound by the outcomes. This prevents the Council from amending schemes where required or to take alternative decisions for wider benefits.
- 5.2.4 Housing Zone - Members asked for clarification on the funds allocated to Westminster under the Housing Investment Programmes provided by the GLA. Barbara Brownlee, Director of Housing & Regeneration, advised that the Council would not be losing any funding following the review by the Mayor of London of all commitments made under the Housing Investment Programme. The first funding agreement, which related to Lisson Arches, will be signed in the next few months. This had been delayed due to genuine development issues which had now been resolved. The second agreement was taking longer to complete as the Council was negotiating for a grant rather than a loan with a value of £23.5 million. She was confident that the Council would obtain the former. The GLA was also in discussions with the Council about the provision of additional funding.

Affordable Housing

- 5.2.5 The Cabinet Member was asked whether the Westminster Home Ownership Accelerator Scheme was in operation. The scheme enables tenants to build up an equity stake in home ownership at the end of their three-year tenancy in an intermediate rented home. The Cabinet Member reported that the scheme which is being delivered by Dolphin Living is open. He recommended that members visit the organisation's website where they could view a video on how the scheme works.

Housing and Planning Act 2016

- 5.2.6 In response to a request for clarification on the higher value void levy, expected to start in 2017/18, Barbara Brownlee explained that this was indefinitely delayed.

Out of Borough Social Housing Placements

- 5.2.7 The Cabinet Member was asked whether the recent decision to purchase housing accommodation in Hounslow whilst also disposing of housing assets within Westminster represented value for money. He considered that it had been as it maximised the amount of housing the Council could provide. He clarified that the housing purchased in Hounslow is being used to provide affordable rented property and not temporary accommodation. He advised that the accommodation would be to a quality and delivered in a timeframe that could not be provided for the same price in Westminster. The accommodation was required in part because some regeneration projects were behind schedule and existing properties on the Ebury Estate which were in occupation were not fit for use.

In response to a supplementary question Barbara Brownlee stated that the City Council had discussed its plans with the London Borough of Hounslow. It had asked the Council not to place homeless or problem families in the borough and the Council had kept to this agreement.

Mayoral Consultations

- 5.2.8 The committee noted that the Mayor of London had published two documents for public consultation relating to Affordable Housing and Viability and a “Good Practice Guide” to Estate Regeneration. Members asked whether the resulting guidance was likely to see the Council having to revisit any of its regeneration plans. The Cabinet Member was of the opinion that it would not and that the Mayoral Strategy would support the Council in what it is attempting to deliver.

CityWest Homes

- 5.2.9 The Cabinet Member was asked whether a clause was required in the new repairs and major works contracts on improving communication with residents given how contentious these services are known to be for residents. He was also asked how quality service provision will be maintained when responsibility for the Intermediate Housing Service is transferred to and delivered by CityWest Homes. Councillor Astaire advised in respect of the former that the letting of new contracts will enable the Council to retain more control over works via a framework mechanism. The intention is to include as part of the contract terms proper monitoring KPIs so that performance issues can be addressed promptly. Good communications with residents would also feature as part of the contract. The Cabinet Member stated in response to the latter that a primary feature of the Council’s housing policy is to increase the availability of intermediate housing. He considered that the contract would ensure that the provision of services to facilitate this would be of the highest standard.

Employment

- 5.2.10 The Committee noted that the Council had achieved the 8th highest fall in the numbers of long-term unemployment in the 5 year period February 2011 to February 2016. The Cabinet Member was asked whether the Council was looking at how long-term unemployment is being tackled successfully in other in boroughs. He advised that it was. It was also engaging with other organisations such as the West End Partnership as well as seeking expert advice from service areas within the Council on addressing the particular challenges facing those who are long-term unemployed.

Broadband

- 5.2.11 In response to questions on broadband Barbara Brownlee advised that three providers had now expressed an interest in providing broadband to CityWest Home Estates. The City Council was also in discussions with BT about re-visiting the provision of broadband connectivity in the West End.

Berwick Street Market Procurement.

- 5.2.12 The Cabinet Member outlined the rationale for the decision to contract out the running of the market to an experienced private operator before summarising the timetable for the procurement. He explained that while he would have liked to have evaluated the tenders, due to proposed Executive portfolio changes, this would be a matter for the new executive member with responsibility for markets.

5.3 The Committee then submitted a number of questions in relation to the update from the Cabinet Member for Finance and Corporate Services.

5.3.1 Members asked for details of the New Homes Bonus grant that the Council was due to receive from central government. Steve Mair, City Treasurer, reported that the Council would receive £3.5m less in 2017/18 compared with 2016/17. However, the Council was due to receive an additional £1.3m in social care grant which reduces the net overall budget impact to £2.2m. He advised that officers had worked on the assumption that there would be a loss in the New Homes Bonus grant and had submitted manageable savings proposals to ensure that the Council budget for 2017/18 will balance. Details of this will be included in the budget papers to be considered by the Budget Task Group.

5.3.2 Members asked for an update on the Moxon Street development. Guy Slocombe, Director of Property, Investments and Estates stated that the decision to sell the site took place in 2013. The contract agreement for the sale of the land to Ridgeford included two conditions. The first is an implementable planning permission following resolution of any potential judicial review. The second related is a successful resolution of any right-to-light claims by neighbouring property owners. He advised that two judicial reviews in relation to the planning permission had been resolved and this condition has been discharged. Discussions relating to rights-of-light were taking place primarily with the Howard de Walden estate. In response to a supplementary question, Steve Mair advised that the anticipated capital receipt from the sale is incorporated in the draft budget for 2017/18.

5.4 **ACTION:**

- (i) Provide Members with details of the current and projected year-end underspend in the Council budget and the reasons for this (**Action for: Steve Mair, City Treasurer/Martin Hinckley, Head of Revenue and Benefits**)
- (ii) Provide an analysis of the likely impact of the new business rateable values for West End businesses. Will this require any changes to the Council's Discretionary Rating Appeals scheme and what changes are anticipated in the number of hardship applications this year? (**Action for: Steve Mair, City Treasurer/ Martin Hinckley, Head of Revenue and Benefits**)

6 **LUXBOROUGH STREET DEVELOPMENT**

6.1 The committee received a report that outlined the events which led to the council's decision to withdraw from proceeding with the development of the new Marylebone library at Luxborough Street.

6.2 The report responded to questions raised following a request by a member to scrutinise the issue. These included the purpose of the project, details of the abortive costs involved, which costs are judged to be applicable to a future scheme on the site and why the project was aborted and the lessons learned.

- 6.3 The Committee considered the report and raised a number of questions: (i) how confident the Committee could be that the expenditure to date that would not be written off to revenue and could be re-used was accurate; (ii) what responsibility has been taken for the identified failures around the project; (iii) why Mace, who were awarded the contract to deliver the project, were able to participate in a second procurement after withdrawing their initial tender.
- 6.4 Guy Slocombe, Director of Property, Investments and Estates, advised that the estimated £832,000 of expenditure that would not be written off to revenue and could be re-used had been verified by the Council's Finance team. In response to a question whether any officers had lost their jobs following the withdrawal of the development, Guy Slocombe responded that it was the contractor that caused the scheme to fail but that the Director that led the scheme and the two Procurement officers working on it were no longer with the Council. Mace were able to participate in the second procurement as it was determined, following the first procurement, that none of the bidders could have delivered the project based on the terms. This was because shifts in the market made the contract unprofitable by the time matters were ready to progress. It was determined that Mace should be able to tender under the second procurement as it was not their fault that they couldn't deliver on their original bid. Following their withdrawal of their second tender and on the grounds that they did not evidence and sufficiently justify why they could not proceed, the Council took the decision that Mace would no longer be able to bid for any Westminster construction contracts.
- 6.5 The Committee noted the lessons learned which were set out in the report. The Committee asked whether there were any further changes in procurement processes. Mr Slocombe advised that a more rigorous and robust approach has been developed by the Procurement team. A dynamic procurement system has been developed which provides greater flexibility to determine which developers are suitable to bid for particular contracts. The procurement system has also been expanded to enable and encourage a broader range of suppliers to tender for projects such as this.
- 6.6 Mr Slocombe stated that while the Council could not predict the vagaries of the market, such as build cost inflation of 20-25% in this case, officers were confident that problems of this kind are less likely to be repeated in future. He explained that for contractors the speed of execution in awarding contracts is quite critical. Markets do not want to wait six months for this to take place. Unfortunately, the public sector is not as flexible as the private sector in this respect where there are specific procurement requirements that have to be followed. He advised that the Chief Executive had commissioned a report to investigate the Council's programme management and delivery processes. The likelihood is that this will result in the creation of a programme management team that will be tasked to try and speed up project delivery. However, the Council will still be hindered by its procurement regime and prolonged business planning process.
- 6.7 Members asked about the processes in place for monitoring development schemes. Mr Slocombe advised that all development projects, of which there

were over 30, are constantly reviewed and each has a formal review on a quarterly basis.

6.8 The Committee asked about the next steps for the project. Members were informed that an options analysis for the site was being undertaken and this will be considered by the Property Investment Board and Capital Review Group once finalised.

6.9 **ACTIONS:**

1. The Committee has requested information on whether any other schemes with similar sized costs have been aborted in the last 4-5 years.
2. Subject to his views, Members would like sight of the Programme Management report commissioned by the Chief Executive. **(Action for: Guy Slocombe, Director of Property, Investment and Estates)**

7 **TREASURY PERFORMANCE HALF YEAR STATUTORY REVIEW**

7.1 The Committee considered a mid-year review report on the Annual Treasury Strategy for 2016-17 in accordance with the Council's Treasury Management practices.

7.2 The Committee noted that there had been two breaches of compliance with the Treasury Management Strategy Statement – (i) two tranches of investments placed between May and July 2016 with the National Bank of Abu Dhabi (NBAD) and Qatar National Bank (QNB) totalling £59.8m and (ii) exceeding the counterparty limit on the Lloyds bank account since August 2016 because of overnight balances.

7.3 Whilst the investments with NBAD and QNB met the Council's required counterparty credit rating and are included on the list of approved counterparties issued by the Council's treasury advisor, Capita, they were not included in the permitted country of domicile for banks.

7.4 The committee asked about the action that the Finance Service had taken to prevent re-occurrence of the breaches. Pete Carpenter, Director of Treasury and Pensions, explained that since the matters had come to light Treasury management practices had been reviewed and improved. Multiple signatories are now required for certain levels of investment to be placed while overnight limits with Lloyds will be managed by not reinvesting maturing funds with this bank.

7.5 The report included an update to the Annual Investment Strategy for 2016-17 that detailed ways in which the return from the Council's short-term cash portfolio can be enhanced while maintaining security and liquidity. The opportunities presented included; Green Energy Bonds, Building Societies, Local Government Association and Other Bonds.

- 7.6 Mr Carpenter was asked about the investment approach that the Council should consider in the current environment of low interest rates and returns. He stated that the Council had close to £1 billion of potential cash investments made up of £400m held for NNDR Business Rates Appeals, £200m in general fund reserves and £200m of funding for affordable homes. He explained that when considering how to invest the sums the Council would need to consider the grounds upon which it was holding the investment money, what it would ultimately be used for and when this would be needed. It would also need to consider the Prudential indicators of risk, duration and return. The Council had previously financially planned over the shorter term and it was considered that it should look at medium and long-term planning of around 10 to 15 years.
- 7.7 He advised that the London Borough of Newham had a strategy whereby they treated their cash balances in a similar manner to the cash investments in their pension fund. The City Treasurer advised that subject to the Council approving proposals set out in the budget in March Westminster would use cash balances in the short term to invest in the Council's capital programme rather than facilitate this through borrowing.
- 7.8 The Committee then discussed the new investment opportunities set out in the report. Members asked about the level of risk involved in investing in Green Energy Bonds as there was a perception that solar and wind farms had varying levels of success. The City Treasurer explained that before proceeding with any such investment, internal and external due diligence would be undertaken covering the financial, planning and legal aspects.
- 7.9 Some support was expressed for the Council lending money to the Local Government Association through borrowing from the Municipal Bond Agency on the grounds that the investment was deemed to be low-risk and included a guarantee. However, a number of members expressed unease about the Council providing loans to organisations delivering services for the Council, where this will lead to the enhancement of services to Westminster stakeholders. The report explained that the operator of Westminster's leisure centres was seeking to borrow £1.25 million from the Council to finance a refurbishment of the leisure centres. Members had concerns that lending to organisations which it had a contractual relationship with would blur the boundaries of such a relationship. If there were a need to impose a financial penalty on the contractor for failing to meet agreed targets this could impact on their servicing of the loan. Similarly concern was expressed about the potential risk if the organisation was unable to make relevant payments because anticipated revenue failed to materialise and the borrowing is unsecured. The City Treasurer explained that before proceeding with any such investment, internal and external due diligence would be undertaken.
- 7.10 A number of Committee Members expressed the view that as the Council was investing taxpayers' money it should focus on investments with a reasonable return based on reasonable risk. Members considered that there was insufficient detail on the Treasury opportunities in the report to come to a conclusive view on their merits. The City Treasurer advised that officers were

presently working up full appraisals which he would present to committee once ready.

- 7.11 Officers were asked about the possible impact of Brexit on the Council's investment opportunities. Mr Carpenter commented that one of the weaknesses faced by the Council, which had also been highlighted in the previous item, is that it is unable to take speedy decisions due to having to comply with protocols. Officers were referred to the fact that interest rates were anticipated to rise in the near future which would improve the Council's Treasury opportunities. The City Treasurer reported that in 2008 the Council made £23 million due to higher interest rates compared to £4 million last year. However, he highlighted that the counter to rising interest rates is rising inflation. This would have a negative impact as it would lead to increased costs for the organisation.
- 7.12 **ACTIONS:** That a task group should be established to consider the previously specified Treasury opportunities. Other Treasury opportunities not covered in the TMSS should also be presented for consideration as well as a review of the policy on the countries in which deposits/investments can be invested. (**Action for:** Tara Murphy, Scrutiny Officer)

8 DRAFT TREASURY MANAGEMENT STRATEGY 2017/18 TO 2021/22

- 8.1 The Council is required under the Local Government Act 2003 (as amended) and other regulations to approve an Annual Treasury Management Strategy to cover: Borrowing Strategy, Investment Strategy and set Prudential Indicators together with borrowing limits for the next three years. In addition, the Council must approve an annual Minimum Revenue Provision Statement.
- 8.2 The Committee considered the draft strategy and asked questions in relation to the proposed investment and borrowing strategies. As interest rates are low, Members asked whether the Council should borrow now to finance future capital requirements before they rise. The City Treasurer explained that there was a risk in borrowing before finance is required as if proposed developments do not come forward as planned the Council would be paying interest on a loan it did not need.
- 8.3 Officers were asked whether the Council compares its proposed investment and borrowing strategies with those of other local authorities. Mr Carpenter advised that the Council was undertaking such an exercise which it would share at the task group that is to be established. As an example he highlighted that the City of London manages the authority's cash investments of around £400m via two investment fund managers.
- 8.4 **RESOLVED:** That the report be noted.

The Meeting ended at 9.09 pm

CHAIRMAN: _____

DATE _____

