



# City of Westminster Cabinet Report

<b>Decision Maker:</b>	<b>Cabinet</b>
<b>Date:</b>	<b>30th October 2017</b>
<b>Classification:</b>	<b>For General Release</b>
<b>Title:</b>	<b>2016/17 Annual Accounts and Outturn</b>
<b>Wards Affected:</b>	<b>All</b>
<b>Policy Context:</b>	<b>To manage the Council's finances prudently and efficiently</b>
<b>Financial Summary:</b>	<b>This report presents the Statement of Accounts for the Council and its Pension Fund and provides a narrative as to the outturn position for the financial year ended 31<sup>st</sup> March 2017.</b>
<b>The Report of:</b>	<b>Steven Mair, City Treasurer Tel: 0207 641 2904 Email: smair@westminster.gov.uk</b>

## 1. EXECUTIVE SUMMARY

- 1.1. The General Fund revenue position saw a net outturn of £17.201m underspend against approved budget. This compared to a Period 10 (January 2017) forecast underspend of £15.273m. The most significant change between Period 10 and outturn being the impact of the reduction in debtors – arising as a result of work undertaken throughout the year to promote the proactive monitoring and recovery of outstanding debts.
- 1.2. As set out in the 2017/18 Budget Setting and Council Tax Report (approved by Full Council in March 2017), £10.000m of the overall General Fund net underspend was earmarked as a contribution towards the Pension Fund deficit recovery. Approval for such a lump sum contribution was contingent on the finalisation of the outturn position being broadly as forecast – this being the case.

- 1.3. Net of the lump sum contribution to the pension fund, the remaining revenue underspend for the General Fund was thus £7.201m and represented 0.8% of the approved gross 2016/17 budget. This amount was added to the Council's general reserves – rising from £41.575m to £48.777m, again as broadly anticipated and approved in the 2017/18 Budget Setting and Council Tax Report.
- 1.4. The Housing Revenue Account (HRA) outturn position showed a net surplus of £9.980m and compared to a budgeted surplus of £7.340m – a variance of £2.640m (2.6% of the approved gross expenditure). This surplus increased HRA general reserves from £31.606m to £41.586m.
- 1.5. The net general fund capital outturn variance was £23.513m. It should be noted that the gross capital programme at the start of the year was £351.288m which was re-profiled to £151.193m.
- 1.6. The HRA capital programme gross expenditure was £57.559m compared to an approved budget of £64.907m – a gross underspend of £7.348m (11.3%). On a net basis after income budgets of £28.652m and income outturn of £29.043m are taken into account the net variance was £7.739m before borrowing and capital receipts were applied.
- 1.7. The table below summarises the above headline outturn positions:

**Table 1: Summary of 2016/17 outturn**

	Expenditure Budget (£m's)	Income Budget (£m's)	Net Budget (£m's)	Outturn (£m's)	Variance (£m's)	(%age)
<b>Revenue</b>						
General Fund	851.304	(851.304)	0.000	(17.201)	(17.201)	(2.0%)
Housing Revenue Account	101.656	(108.996)	(7.340)	(9.980)	(2.640)	(2.6%)
<b>Capital</b>						
General Fund	151.193	(74.794)	76.399	52.886	(23.513)	(15.6%)
Housing Revenue Account	64.907	(28.652)	36.255	28.516	(7.739)	(11.9%)

- 1.8. The accounts were closed and sent for audit in four working days – three days earlier than in the previous year. The Council's external auditors provided a draft opinion on these accounts on 9<sup>th</sup> May 2017, also three days ahead of the prior year performance and a final audit opinion on 17<sup>th</sup> July 2017. The setting of such a challenging timeframe not only sets the Council apart from all other public bodies (and 95% of the FTSE-100), but allowed financial management resources to be quickly focussed on supporting services in concentrating on the future rather than the past. A significant service transformational benefit also accrues through the setting of aspirational closure timeframes in so far as it enforces fundamental review of process and procedures and drives best practice.

1.9. The public inspection period is now a nationally set timeframe which means that the final audit opinion was made on 17<sup>th</sup> July 2017. This timeframe has been brought forward for 2017/18 and the final audit opinion will currently be sought at Audit and Performance Committee in June 2018.

## **2. RECOMMENDATIONS**

2.1. That Cabinet note the 2016/17 Annual Accounts which were formally signed-off at 17<sup>th</sup> July 2017 Audit and Performance Committee.

## **3. REASON FOR DECISION**

3.1. This report is for Cabinet to note the formal sign-off of the 2016/17 accounts and outturn by Audit and Performance Committee in July 2017. No formal decisions are required by Cabinet.

## **4. BACKGROUND**

### ***Financial Context of the Council***

4.1. The Council manages significant levels of cashflows and assets exceeding £7bn. The council is the UK's largest collector of Business Rates at £1.8bn, most of which it passes to central government and GLA.

4.2. The Council holds £2.6bn in operational and investment property which is actively managed to generate approximately £24m annually to support delivery of services.

4.3. Approximately £0.4bn of fees and charges are generated annually to support delivery of services and which also helps keep council tax as the lowest rate in the UK.

4.4. Further context around the Council's finances can be found within the City Treasurer's Narrative Statement contained within the Accounts. Westminster as an overall entity is responsible for the sound governance of over £4bn in assets and transacts over £3bn on an annual basis.

- £2.1bn Property Plant & Eqpt
- £0.5bn Investment Property
- £0.1bn Other Long Term Assets
- £1.0bn Current Assets
- £1.3bn Pension Fund Assets
- £1.9bn Business Rates
- £0.6bn Grants & Contributions
- £0.4bn Fees & Charges
- £0.1bn Council Tax (Incl GLA)
- £0.1bn Capital Financing

4.5. The public inspection period for the accounts is now set nationally. Formal Audit and Performance Committee sign-off of the accounts took place on 17<sup>th</sup> July 2017

## 5. GENERAL FUND REVENUE OUTTURN

5.1. The General Fund revenue position saw a £17.201m gross underspend against approved budget, broadly in line with the £15.273m forecast at the end of January 2017. Against a gross controllable expenditure budget of £851.304m, this underspend represented a 2.0% variance.

5.2. The overall change in the outturn position between January and March was largely accounted for by impact of the reduction in debtors arising as a result of work undertaken throughout the year to promote the proactive monitoring and recovery of outstanding debts. A review of the balance sheet reveals that overall short term debt levels fell from £137m to £73m, and the lower quantum and greater assurance that can be placed on those remaining balances have improved the revenue position.

5.3. As referenced in the 2017/18 Budget and Council Tax Setting Report, dependent upon outturn being as then forecast, £10.000m of the projected surplus would be used to assist in alleviating the Pension Fund deficit. This has now taken place. The remaining £7.201m has been credited to the Council's General Reserves – which accordingly rose from £41.575m to £48.777m.

5.4. An analysis of the surplus on the General Fund Revenue Account by Cabinet portfolio is set out in the table below:

**Table 2: Cabinet Portfolio Variances**

	<b>Outturn v Budget (£m's)</b>
Leader of the Council	(0.611)
Deputy Leader and Business, Culture & Heritage	0.666
Public Protection & Licensing	(1.418)
Planning and Public Realm	0.328
Housing	(2.012)
Environment, Sport and Community	(0.963)
Finance, Property & Corporate Service	(2.976)
City Highways	(9.481)
Children, Families and Young People	(0.341)
Adult Social Services and Public Health	(0.389)
	<u>(17.201)</u>

5.5. The following sets out an overview of the principal reasons behind the above variances for each Cabinet Portfolio:

## **Leader of the Council – Underspend (£0.611m)**

### Major Variances:

- PPC Directorate Development- (£0.244m) - The directorate realised an underspend of £0.244m from vacancy management.
- Change Programme Management Unit- (£0.955m) - An underspend on salaries in CPMU of £0.764m was due to vacancies held in year and a £0.191m underspend due to secondments.
- Chief of Staff - (£0.092m) - Underspend is from £0.029m funding received for prior year's European Parliamentary Elections, salaries and allowances £0.071m and legal fee charges £0.042m. This is partly offset by a forecast shortfall in Land Charges income of £0.050m.
- Campaigns and Customer Engagement - (£0.111m) - An underspend of £0.111m on salaries due to secondments which will be reimbursed by external bodies.
- Policy and Strategy - £0.791m - Community Infrastructure Levy income was lower than expected which was offset by additional income received from TfL and a further underspend from secondments.

## **Deputy Leader and Business, Culture and Heritage – Overspend £0.666m**

### Major Variances:

- Economy and Shape Placing - (£0.215m) - Economy and Infrastructure underspent by £0.215m. This was largely due to the level of vacancies held during the re-organisation of the department.
- WAES - £0.002m - There was a small variation on the account at year end.
- City Promotions, Events and Filming - £0.879m - The adverse variance was largely caused by a shortfall in outdoor media income of £0.912m. This is partly offset by a salary underspend from part-year vacancies £0.033m.

## **Public Protection and Licensing – Underspend (£1.418m)**

### Major Variances:

- Public Protection and Licensing - (£1.418m) - This is largely related to salary underspends including an early delivery of next year's digital MTP saving. Legal charges were also lower than budgeted and there was higher than budgeted income from licensing and fixed penalty notices for waste enforcement following a recent legislation change.

## **Planning and Public Realm – Overspend £0.328m**

### Major Variances:

- Development Planning - £0.328m - The overspend is made up of unrealised S106 agreement income of £0.230m, Building Control income being adversely affected by market conditions and an overspend on legal and

postage costs. These were marginally offset by staff vacancies in year and additional income from planning application fees.

### **Housing – Underspend (£2.012m)**

Major Variances:

- Housing Operations - (£2.012m) - Housing Operations underspent by of £2.012m. This underspend is made up of a number of variances including:
  - Supporting People (early delivery of MTP savings and contract efficiencies)
  - Housing Benefits (one off benefit relating to prior year income)
  - Temporary Accommodation (reduced unit costs as a result of more effective management)
  - Affordable Housing (bad debt improvement).

### **Environment, Sport and Community – Underspend (£0.963m)**

Major Variances:

- Community Services - (£0.057m) - This is due to increased income following an in-year rent review of Westbourne Green and an increase in residential bookings taken by Sayers Croft Outdoor Centre.
- Waste and Parks - (£1.081m) - This is largely the consequence of additional commercial waste income generated in year - (£0.678m) - and additional recycled waste income/rebates (£0.357m).
- Tri-Borough Libraries and Archives - £0.175m - This is due to under achievement of income within the Registrars Service. This can be attributed to a combination of repairs required at key wedding venues and delays in implementing the online booking system.

### **Finance, Property and Corporate Services and Chief Whip – Underspend (£2.976m)**

Major Variances:

- Property Investments and estates - £1.846m - Property Investments and Estates overspent by £1.846m. This was due an underachievement of commercial income, re-profiled Major Projects income and an overspend within the Link contract and rising rents in Victoria on Council occupied premises.
- City Treasurers - (£4.051m) - Reported underspend of £1.901m is due to increased interest earnings, salary savings, additional income and running cost reductions.  
As a result of the work undertaken to seek settlement of debtor balances it has been possible to release as a further underspend £2.150m of bad debt provision.

- Procurement Services - (£0.216m) - There is a reported underspend of £0.216m on salaries due to part-year vacancies in Procurement Development and Category Management.
- Managed Service Programme - (£0.046m) - There is a reported underspend of £0.046m which is mainly due to salary costs being lower than expected.
- Information Services and Strategy - (£0.468m) - An underspend of £0.468m mainly due to underspends on early realisation of CCTV contract savings, software maintenance, contracts, employee costs and income from other local authorities.
- Corporate Services Trading - (£0.311m) - An underspend of £0.311m. This is achieved from margin charged on agency staff through the Comensura managed platform contract.
- Growth, Planning and Housing - £0.426m - Overspend included a centrally held MTP saving of £0.117m that could not be delivered (Aerials), the cost of an unbudgeted contract £0.088m and other minor variances.
- Legal Services - (£0.136m) - A reported underspend of £0.136m due to part-year vacancies which were not filled in year.
- People Services - (£0.040m) - The outturn position is an underspend of £0.040m. The key reason is better than projected performance on school income by £0.026m and less expenditure than expected incurred on legal fees and postage by £0.014m.
- Director of Corporate Services - £0.020m - There is a reported overspend due to pay costs and recruitment costs which were partly offset by unbudgeted income.

### **City Highways – Underspend (£9.481m)**

#### Major Variances:

- Highways Infrastructure and Public Realm - (£1.269m) - The outturn position shows a favourable variance of £1.269m. This is largely due to contract efficiencies and underspends in salaries, energy costs and supplies and services.
- Parking - (£8.212m) - The outturn position is a favourable variance of £8.212m, largely as a result of increased income from parking bay suspensions and Moving Traffic Contraventions.

### **Children, Families and Young People – Underspend (£0.341m)**

#### Major Variances:

- Children's Services Commissioning - (£0.743m) - A net underspend of £0.743m as a result of MTP savings being delivered earlier in 2016/17 than planned.
- Family Services - £0.762m - Overall £0.762m adverse variance largely as a result of pressures in placement costs, Duty and Assessment staffing and client support and Emergency Duty team cost share.

- Safeguarding Review and Quality Assurance - (£0.068m) - There is a £0.068m underspend within Safeguarding, Review and Quality Assurance. This is made up of a number of minor variances.
- Education and Disability - £0.327m - There is a £0.327m overspend within Education and Children with Disabilities. This is made up from a £0.238m adverse variance for SEN casework review, £0.309m in year pressure on Home to School transport, £0.084m budget pressure in short breaks and direct payments for Children with Disability. Offsetting these pressures is an underspend variance of £0.157m due to strong traded income generation in Educational Psychology and NQT and other minor underspend variances totalling £0.147m
- Finance and resources - (£0.619m) - Within Finance and Resources there is a £0.619m underspend variance made up of in year savings with respect to the Building Schools for the Future programme and a number of other minor variances.

### **Adult Social Services – Underspend (£0.389m)**

#### Major Variances:

- Adult Social Care Integrated Care - £0.068m - Overspend attributed to pressures in non-residential care services - homecare, direct payments and day-care as they are being transitioned to a community based setting.
- Adult Social Care Strategic Commissioning and Enterprise - (£0.451m) - Underspends in the Short Breaks contract, 291 Harrow Road and the Occupational Therapy assessment contract. Other management actions include Direct Payment claw-backs, maximisation of NHS income, reviewing high cost placements and transfers to Continuing Healthcare
- ASC Procurement and Business Intelligence - £0.139m - Overspend of £0.122m relates to business rates at a Mental Health day service with the balance made up of minor variances
- Whole Systems Integrated Health and Care - (£0.145m) - Underspend is as a result of current expenditure being less than budget on various contracts (including Healthwatch).

### **Public Health - £0.0m**

#### Major Variances:

- Families and Children's - (£1.273m) - Underspends relating to The Tackling Childhood Obesity Team programme not being launched to plan, Health Visiting contract costs were lower than expected upon transfer from the NHS and other minor contracts savings.
- Sexual Health - (£0.203m) - Savings in Genito-Urinary Medicine (GUM) due to demand management strategies and tariff price reductions being negotiated.



- Substance Misuse - (£2.685m) - Budgets allocated to mitigate against the risk of higher demand for newly procured core services were not required in this year.
- Salaries and Overheads - £0.520m - An increase in the number of temporary staff has led to a overspend in the salaries forecast.
- Public Health Investment fund - (£0.360m) - Small underspends in projects due to lesser levels of demand in learning disabilities and supported employment initiatives.
- Income - (£0.554m) - Income for 2016-17 reported as higher than budget following the allocation of additional Department of Health funding.
- Movement in Reserves balance - £4.555m - Movement on the reserve as a consequence of variances described above.

## 6. GENERAL FUND CAPITAL OUTTURN

6.1. The General Fund Capital Programme showed a net underspend against 2016/17 approved budget of £23.513m. It is not expected that this in-year underspend is likely to have any significant impact on the Council's long term cost of funding the capital programme.

6.2. The table below sets out a summary of the variances between approved capital budgets and outturn by relevant Cabinet portfolio (overleaf):

**Table 3: Capital Outturn by Portfolio**

	<b>Net Budget (£m's)</b>	<b>Outturn (£m's)</b>	<b>Variance (£m's)</b>
Deputy Leader & Business, Culture and Heritage	6.742	5.361	(1.381)
Public Protection and Licensing	0.276	0.229	(0.047)
Planning and Public Realm	1.403	0.156	(1.247)
Housing	4.820	5.552	0.732
Environment, Sport and Community	5.100	4.452	(0.648)
Finance, Property and Corporate Services	41.938	29.790	(14.040)
City Highways	9.634	5.871	(3.763)
Children, Families and Young People	0.357	0.138	(0.219)
Adult Social Care and Public Health	0.635	0.575	(0.060)
	<u>72.797</u>	<u>52.124</u>	<u>(20.673)</u>

## **Deputy Leader and Business, Culture and Heritage – Net Underspend (£1.381m)**

Major Variances:

- Piccadilly Underpass Digital Media and The Flame advertising – Net Overspend £0.610m
- Various Schemes (Air Quality, Enterprise, The Strand/Aldwych, others) – Net Underspend (£1.991m)

Piccadilly Underpass and The Flame schemes reported overspends because final infrastructure costs from the contractor were returned above budget. The scheme has been successfully launched with a 10-year commercial deal to generate income from advertising.

A number of other schemes reported underspends with a net total variance to budget of £1.991m.

## **Public Protection and Licensing – Net Underspend (£0.047m)**

- Disabled Facilities Grants – Net Underspend (£0.014m)
- MTP ICT Capital Spend – Net Underspend (£0.033m)

There is a net underspend of £0.047m as a result of a small amount of additional income and delays to some minor ICT capital projects.

## **Planning and Public Realm – Net Underspend (£1.247m)**

- Tree Base Improvements (£0.55m)
- Public Realm Improvement schemes (£1.192m)

The Public Realm Improvement schemes reported a net underspend which was entirely due to additional external income being received. Tree base improvements reported a net underspend due to minor operational delays.

## **Housing – Net Overspend £0.732m**

- Temporary Accommodation Purchases £0.638m
- Tresham House £0.094m

The main reason for the net variance to budget of £0.732m was delays to a number Temporary Accommodation schemes primarily related to the availability of suitable properties. Tresham house reported a small variance due to a minor variance to plan.

### **Environment, Sport and Community - Net Underspend (£0.648m)**

- Moberley Sports Centre – Net Underspend (£0.153m)
- Westbourne Green Skate Park – Net Underspend (£0.092m)
- Libraries Decoration Programme – Net Underspend (£0.040m)
- Various Schemes (open spaces, Sayers Croft works) – Net Underspend (£0.363m)

The majority of this budget relates to the Moberley Sports Centre Redevelopment and there is a net variance of £0.153m against budget for this project. This represents a small proportion of spend to date. The remaining variance of £0.495m is made up of a number of smaller underspends and relating to projects covering asset improvements in leisure facilities, parks, cemeteries and libraries.

### **Finance, Property and Corporate Services - Net Underspend (£14.040m)**

- Capital Contingency and Capitalisation – Net Underspend (£8.159m)
- Huguenot House Redevelopment– Net Underspend (£1.542m)
- Lisson Grove Improvements – Net Underspend (£1.281m)
- Luxborough Development – Net Underspend (£0.649m)
- Forward Management Plan – Net Underspend (£0.567m)
- End User Computing Refresh – Net Underspend (£0.516m)
- Landlord Responsibility Works – Net Underspend (£0.413m)
- Various Schemes (Mandela May upgrade, WAES Ark Atwood, Corporate licenses) – Net Underspend (£0.913m)

The main reasons for the net outturn variance of £14.040m were as follows:

The Capital contingency and Pension capitalisation was not required in 2016/17 and is reported as an underspend.

The Huguenot House redevelopment underspent by £1.542m due to acquisitions expected during the financial year not taking place due to availability.

The Lisson Grove Improvement Programme underspent on a net basis by £1.280m due to a delay in commencing the project as the process of compiling a specification for the works taking longer than envisaged.

The Luxborough development underspend of £0.649m was because of a change to the original delivery plan for the scheme. The library is now due to be re-provided at an alternative location to that which was originally earmarked for the scheme.

The Forward Management Plan underspent by £0.567m. This programme of works is managed by Amey and is now behind schedule. Management action is being taken to address this.

The End User Computer Refresh project has reported a £0.516m net variance due to a strategic decision to amend the profile of the replacement of obsolete laptop and desktop computers.

Landlord Responsibility Works – underspent by £0.413m because of interdependencies in the project plan delaying the progression of the works.

### **City Highways – Net Underspend (£3.763m)**

- Waterloo and Golden Jubilee Footbridge – Net Underspend (£0.305m)
- Local safety and traffic schemes – Net Underspend (£0.492m)
- Cycle Schemes – Net Underspend (£0.096m)
- Variances relating to prior year – Net Underspend (£2.720m)
- Various Schemes (Strand underpass, Victoria embankment sturgeons, highways maintenance) – Net Underspend (£0.150m)

The bulk of the net variance in year relates to adjustments relating to the prior year. This arose because expenditure which was accrued in the prior year was not required following negotiations with contractors. Other variances arose because of a range of issues with road management and access.

### **Children, Families and Young People – Net Underspend (£0.219m)**

- Investment and Improvement Programme – Net Underspend (£0.219m)

The vast majority of the expenditure was on projects delivering additional school places and refurbishment of schools which experienced some operational delays.

### **Adult Social Care and Public Health – Net Underspend (£0.060m)**

- Westmead / Carlton Dene – Net Underspend (£0.060m)

The portfolio reported a net underspend of £0.060m due to slippage of the Westmead / Carlton Dene project due to delays in its commencement.

## **7. HOUSING REVENUE ACCOUNT OUTTURN**

7.1. The Housing Revenue account generated a £9.980m surplus to increase its general balances from £31.606m to £41.586m – this was £2.640m above the budgeted target for the year and thus represents the net surplus against budget.

7.2. The overall net surplus consisted of a £13.415m over achievement of income in the year (£10.251m of which arose from the review of accounting practice that has seen income from lessees for major works recognised earlier than previous practice), offset by additional expenditure on repairs and maintenance (£4.783m), housing management costs (£1.692m) and other costs of £0.686m. Together these represent a £6.254m net surplus against the budgeted contribution to reserves of £7.340m.

7.3. Capital financing costs and transfers from earmarked reserves of £3.614m taken together with the £6.254m surplus outlined in the previous paragraph produced the

net £2.640m additional contribution to reserves over that contained in the approved budget.

7.4. The approved gross capital budget of £64.907m was underspent by £7.348m with an outturn of £57.559m. The most significant in-year variances to budget on specific schemes included

- (£3.428m) Delay in acquisition of family sized homes to meet housing need
- (£3.081m) Lift works to HRA stock – contractual delay due to logistics / eqpt.
- (£1.385m) External Works & Decorations delay due to Leaseholder consultation
- £1.970m Kitchen & Bathroom programme brought forward from 2017/18
- (£0.942m) Electrical Works delayed for further leaseholder consultation
- (£0.552m) Lisson Arches scheme delayed for further design work / ground survey
- £0.512m Lisson Arches Bridges – additional costs found following feasibility

## **8. CORE ACCOUNTING STATEMENTS**

### ***Balance Sheet***

8.1. The accounts use standardised international reporting standards (IFRS) to produce the Core Statements. This in turn is adjusted by statutory regulations relating specifically to local government accounts.

8.2. The Balance Sheet in Table 4 shows that the Council's net asset position reduced by £15.345m from £1.898bn in 2015/16 to £1.883bn in 2016/17.

**Table 4: Balance Sheet**

31 March 2016		31 March 2017	Movement
£'000		£'000	£'000
	<b>ASSETS</b>		
	<u>Non-current</u>		
1,952,377	Property, plant and equipment	2,070,430	118,054
42,746	Heritage assets	42,746	-
405,270	Investment property	454,840	49,570
1,831	Intangible assets	1,077	(753)
45,916	Long-term investments	41,284	(4,633)
12,394	Long-term debtors	15,229	2,835
<b>2,460,533</b>	<b>Total long term assets</b>	<b>2,625,606</b>	<b>165,073</b>
	<u>Current</u>		
514,833	Short-term investments	742,980	228,146
235	Inventories	179	(56)
137,666	Short-term debtors	73,369	(64,297)
117,580	Cash and other cash equivalents	170,302	52,722
2,250	Assets held for sale	2,250	-
<b>772,565</b>	<b>Current assets</b>	<b>989,080</b>	<b>216,515</b>
	<b>LIABILITIES</b>		
2,109	Short-term borrowing	2,069	(40)
259,931	Short-term creditors	471,584	211,652
6,151	Revenue receipts in advance	8,341	2,190
<b>268,191</b>	<b>Current Liabilities</b>	<b>481,993</b>	<b>213,802</b>
202	Long-term creditors	204	2
153,935	Provisions	121,504	(32,431)
251,465	Long-term borrowing	251,270	(195)
605,540	Other long-term liabilities	786,898	181,358
55,391	Capital receipts in advance	89,789	34,401
<b>1,066,533</b>	<b>Long-term liabilities</b>	<b>1,249,664</b>	<b>183,131</b>
<b>1,898,374</b>	<b>Net assets</b>	<b>1,883,029</b>	<b>(15,345)</b>
652,657	<b>Total Usable Reserves</b>	575,719	(76,938)
1,245,717	<b>Total Unusable Reserves</b>	1,307,310	61,593
<b>1,898,374</b>	<b>Total Reserves</b>	<b>1,883,029</b>	<b>(15,345)</b>

8.3. The £15.345m reduction in net assets was mainly due to the following factors:

- Reduction of £64m of short term debtors which was partly related to business rates safety net movements.
- Increase of £211m in short-term creditors, mainly to the GLA and DCLG for increased business rates income for 2016/17. The additional income from business rates was recognised as a creditor to the GLA and DCLG as per Collection Fund regulations.

- The reduction in provisions was mainly as a result of the reduction in business rates appeals.
- The £181m increase in long-term liabilities arose following the actuarial revaluation of the pension fund. Demographic changes, such as increasing life expectancy, contributed to the increase.
- The increase in capital receipts in advance of £34m. There was a £25m increase in s106/s278 payments for Highways and Planning. These must be held as creditors until the related works are complete and the income can be recognised.

***Comprehensive Income and Expenditure Statement (CIES) and Movement in Reserves Statement (MiRS)***

8.4. In addition to the normal budget monitoring report that is reported monthly local government accounting requires the production of a comprehensive income and expenditure statement and a movement in reserves statement. The former is derived using international accounting standards and the movement in reserves statement is designed to adjust for technical transactions such as depreciation. These can be seen on pages 27 and 30 of the accounts

8.5. A reconciliation of the CIES with the budget monitoring is shown below:

**Table 5: Summary reconciliation from CIES to Outturn**

	<b>General Fund</b> (£m)	<b>Housing Revenue Account</b> (£m)	<b>Total</b> (£m)
Surplus of Provision of Services (as per CIES)	31.908	12.540	44.448
Technical accounting adjustments (as per MiRS)	(128.578)	(3.392)	(131.970)
Use of earmarked reserves	103.872	0.831	104.703
Net surplus against budget	7.201	9.980	17.181

8.6. The £128.578m general fund technical accounting adjustments in the above table consisted primarily of the following areas:

- £131m adjustment on Business Rates to account for timing differences
- (£58m) neutralisation of depreciation and revaluation movements on the Council's operational and investment properties
- £82m of capital grants transferred to the Capital Grants Reserves prior to their future use when conditions or restrictions are met. This movement was to ensure capital and revenue income streams are kept separate as per statute

- (£24m) adjustment to the Pension Reserve which neutralised the current service costs and ensures that actuarial estimates are not charged to Council Tax

8.7. £103.872m use of earmarked reserves were used in finalising a General Fund outturn of £7.201m surplus. This largely comprised:

- £117m drawdown of business rates safety net equalisation reserve as the Council moved to a levy position. The majority of this reserve is then redistributed to DCLG and GLA in line with Business Rates regulations.
- (£10m) creation of a pension deficit reduction reserve to reduce the Council's long-term pension liability.
- (£5.5m) creation of a Revenue Support Grant damping reserve to mitigate any future reductions in central government funding.

### **Cash Flow Statement**

8.8. There was a £52.722m increase in the Council's cash and cash equivalents (that is, investments that mature in no more than three days), rising from £117.580m in 2015/16 to £170.302m to 2016/17. A summary cash flow can be found at Table 3.

8.9. There was a net outflow of £224m as the Council used its cash reserves to make short-term investments. This was offset by £17m capital receipts and £82m capital grants for use by the Council for supporting its City for All capital programme.

**Table 6: Summary Cash Flow Statement**

2015/16 £'000		2016/17 £'000
56,761	Net surplus/(deficit) on the provision of services	44,448
132,657	Adjustment to net surplus/(deficit) on the provision of services for non-cash movements	415,165
(167,026)	Adjustments for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities	(99,259)
<b>22,392</b>	<b>Net Cash Flows from Operating Activities</b>	<b>360,354</b>
<b>(133,213)</b>	<b>Net Cash Flows from Investing Activities</b>	<b>(301,547)</b>
<b>(24,542)</b>	<b>Net Cash Flows from Financing Activities</b>	<b>(6,085)</b>
<b>(135,363)</b>	<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>52,722</b>
252,942	Cash and cash equivalents at the beginning of the reporting period	117,580
<b>117,579</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>170,302</b>



## 9. PENSIONS

9.1. The net assets of the Council's Pension Fund increased by £191.382m over the course of the year – rising from £1.066bn to £1.258bn. The table below summarises the major elements that comprised this net change:

**Table 7: Change in net assets of pension fund**

	Change in Net Assets (£m's)
Member Contributions	38.715
Benefits Paid & Transfers Out	(51.633)
Management Expenses	(5.052)
Investment Returns	8.799
Change in Investment Values	200.553
	<b>191.382</b>

9.2. An analysis of the £1.258bn net assets shows they are comprised as follows:

**Table 8: Analysis of pension fund net assets**

	Net Assets (£m's)
Fixed Interest Securities	171.389
Pooled Investment Vehicles	1,077.837
Futures & Forward Foreign Exchange	0.339
Income Due	3.144
Cash Deposits	1.35
Investment Liabilities	-0.256
Amounts Due for Purchased Investments	(1.884)
Other Current Assets	7.010
Other Current Liabilities	(1.204)
	<b>1,257.725</b>

## 10. OBJECTIONS

10.1. All objections relating to prior years have now been cleared. There were no objections to the 2015/16 accounts.

10.2. The public inspection period for the accounts is now set nationally. The accounts were signed off at the 17<sup>th</sup> July 2017 Audit and Performance Committee.

10.3. During the 2016/17 public inspection period, two objections were made in respect of LOBO (Lender Option, Borrower Option) loans that the Council has. This has been addressed with the external auditors and they issued draft opinions on the 22<sup>nd</sup> and 23<sup>rd</sup> September rejecting the objections. The final decision to ratify the external auditor's rejection of the objections is currently with the PSAA (Public Sector Audit

Appointments). The expectation is that the PSAA will approve the external auditor's position by the end of October.

## **11. WHOLE OF GOVERNMENT ACCOUNTS**

11.1. The Whole of Government Accounts (WGA) is a consolidated set of financial statements for the whole of the UK public sector.

11.2. The external audit for the WGA took place and was signed off on 29<sup>th</sup> September with no significant issues.

11.3. The clearance of the objections by the end of October and sign-off of the WGA means that the external auditors will be able to formally certify the accounts.

## **12. CLOSURE OF ACCOUNTS PROCESS AND FINANCE TRANSFORMATION**

12.1. The earlier closure of the accounts in 2016/17 continues to derive from the Council's commitment to continual improvement in its financial management. Accelerated closure has given the Council an opportunity to play a primary role in the development of accounting practices that aim to simplify the accounts process and make them more transparent for the public.

12.2. The statutory deadline for publishing the accounts in 2017/18 has reduced from 30<sup>th</sup> June to 31<sup>st</sup> May meaning that the Council has anticipated and resolved many of the issues that may arise at other authorities in the reduction in timeframe.

12.3. Further improvements that took place in 2016/17 are:

- Lessons learned from the 2015/16 closure were identified and the frequency of "hard closure" during the year was reduced from monthly to quarterly. This allowed more time in the intervening period to resolve any identified issues during the year.
- Further developments in Agresso processes has simplified and reduced the timeframe for producing the Core Statements from the Trial Balance. The technical adjustments involved are quite complex for Local Government and automating this process has allowed more time to be spent reviewing and understanding the underlying data that underpin the statements.
- Further improvements in the Quality Assurance process included the establishment of an Accruals Panel in the final month before year-end to provide additional level of scrutiny, not just for the accounts, but primarily to strengthen budgetary control.

- External audit planning throughout the year gave opportunity to submit some notes to the accounts for early sign-off. Additionally, improved audit planning allowed schools testing to take place late February/early March and reduced the resources required for the year-end audit.
- De-cluttering reduced the size of the accounts by a further 37 pages or 16%, by removal of duplication across the accounts. This work will continue into and beyond 2017/18 to make the accounts as accessible as possible to the public.

12.4. Early closing has given the Council the opportunity to produce the Medium Term Plan and produce budget proposals for scrutiny at the beginning of October. This was achieved nearly five months ahead of 2016/17 budget timeline.

12.5. Early closing has also allowed the Council to embark on an ambitious programme of taking a lead role in the national development of Local Government accounting regulations. The main aim of this is to collaborate with the Local Government accounting body (CIPFA), the DCLG and external auditors to simplify technical accounting standards to and make the accounts more meaningful to the public. Discussions with CIPFA and DCLG have taken place and the Council's proposals are being considered with a view to being implemented for 2017/18 and 2018/19 accounts. The Council has also consulted with the Society of District Council Treasurers and has garnered support from them to move ahead with its ambitious and pragmatic agenda.

### **13. EXTERNAL AUDIT**

13.1. The Accounts and Audit Regulations 2015 require all local authorities to standardise at least a part of the thirty day period during which their accounts are open for public inspection. For the financial year ended 31<sup>st</sup> March 2017 that period is between the 3<sup>rd</sup> and 14<sup>th</sup> July 2017. Therefore the earliest possible date for sign-off was 17<sup>th</sup> July 2017.

13.2. The inspection period for 2017/18 has been brought forward and the earliest date that final sign-off of the accounts will be 15<sup>th</sup> June 2018.

### **14. LEGAL IMPLICATIONS**

14.1. There are no legal implications arising from this report.

Legal implications drafted by Rhian Davies, Chief Solicitor (Litigation and Social Care)

## BACKGROUND PAPERS

Westminster City Council - Statement of Accounts 2016/17 (Including Pension Fund)  
(See Appendix 1), the following link:

[https://www.westminster.gov.uk/s/redirect?collection=wcc-web-website&url=https%3A%2F%2Fwww.westminster.gov.uk%2F2016-2017-annual-accounts&index\\_url=https%3A%2F%2Fwww.westminster.gov.uk%2F2016-2017-annual-accounts&auth=jwvI9t85MqnJ3mQFgllRew&profile=default&rank=5&query=annual+accounts](https://www.westminster.gov.uk/s/redirect?collection=wcc-web-website&url=https%3A%2F%2Fwww.westminster.gov.uk%2F2016-2017-annual-accounts&index_url=https%3A%2F%2Fwww.westminster.gov.uk%2F2016-2017-annual-accounts&auth=jwvI9t85MqnJ3mQFgllRew&profile=default&rank=5&query=annual+accounts)