City of Westminster

Cabinet

Date	**9 July 2018**
Classification:	**For General Release**
Title:	**2017/18 Annual Accounts and Outturn**
Wards Affected:	**All**
Financial Summary:	**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 31st March 2018.**
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1. EXECUTIVE SUMMARY

1.1. The General Fund revenue position saw a net outturn of £10.088m underspend against approved budget. This compared to a Period 10 (January 2018) forecast underspend of £8.182m.

1.2. The revenue underspend for the General Fund represents 1.2% of the approved gross 2017/18 budget. In total £7.106m will be left as an addition to the Council's general reserves increasing the balance from £48.777m to £55.883m, as broadly anticipated and approved in the 2018/19 Budget Setting and Council Tax Report. This will increase the Council's ability to withstand financial shocks and will strengthen financial standing. The remaining £2.982m has been added to the general fund reserve balance but early in 2018/19 will be allocated to finance the My Westminster programme.

1.3. The Housing Revenue Account (HRA) outturn position showed a net deficit of £0.439m compared to a budgeted surplus of £1.955m – a variance of £2.394m (2.2% of the approved gross expenditure). This deficit decreased HRA general reserves and together with financing of capital projects reduced the carry forward balance from £41.586m to £25.366m.

1.4. The net General Fund capital outturn underspend of £29.522m represents 17.2% of the approved and re-profiled budget of £171.480m. It should be noted that the gross capital programme at the start of the year was £365.961m.

1.5. The HRA capital programme gross expenditure was £82.167m, compared to an approved budget of £135.371m – a gross underspend of £53.204m (39%).

1.6. The value of the Council's Pension Fund was £1.336bn at 31 March 2018. The Fund experienced a rise in investment income and continued to benefit from strong equity markets in 2017/18 with its significant asset allocation in this category.

1.7. The accounts were closed immediately after the year-end and the draft financial statements sent to the auditors in advance of their audit visit on 3 April 2018. The Council has maintained its position as, not only the first local authority in the UK to produce its accounts, but also completing the closedown and audit process more promptly than any other major organisation, private, public or voluntary, in the country.

1.8. The audit of the accounts document and the supporting working papers was materially completed by the 20th April 2018 with only limited audit adjustments being identified, which were subsequently processed.

1.9. The setting of such a challenging timeframe not only set the Council apart from all other organisations but also 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 as it enforces fundamental review of process and procedures, and drives best practice.

2. RECOMMENDATION

2.1. That Cabinet take note of the audited 2017/18 Annual Accounts.

3. BACKGROUND

Financial Context of the Council

3.1. Context in respect of the Council's finances can be found within the City Treasurer's Narrative Report contained within the Accounts. Westminster City Council manages cashflows and assets in excess of £7 billion by:

- collecting £2.3bn of business rates and Council Tax, the largest amount in the country. 94% of this is passed onto central government and other agencies.
- administering the £1.4bn City of Westminster Pension Fund which provides pensions to over 5,700 pensioners and has 4,200 active members.
- managing £2.8bn of land, buildings and other assets, including investment property generating rental income of £20m each year.
- spending a total of approximately £0.85bn each year on Council services.
- accounting for £0.9bn pa of fees, charges, rents, grant funding and capital receipts, which are used to help deliver services and keep Council tax down.
- proactively investing cash balances to generate £6m interest each year.

3.2. The public inspection period for the accounts ran from 8th May to 19th June 2018, in line with the Accounts and Audit Regulations 2015. The accounts were signed off on 21st June with no objections having been received by the external auditors.

3.3. The accounts are shown in Appendix 1 and contain full details of the Council's finances for the 2017/18 financial year.

4. GENERAL FUND REVENUE OUTTURN

4.1. The General Fund revenue position saw a £10.088m gross underspend against approved budget, broadly in line with the £8.182m forecast at the end of January 2018. Against a gross controllable expenditure budget of £864.957m, this underspend represents a 1.2% variance. This variance arises from a number of issues across the Council.

4.2. In total £7.106m of the underspend of £10.088m will be left as an addition in 2018/19 to the Council's general reserves increasing the balance from £48.777m to £55.883m, as broadly anticipated and approved in the 2018/19 Budget Setting and Council Tax Report. This will increase the Council's ability to withstand financial shocks and will strengthen financial standing. The remaining £2.982m has been added to the general fund reserve balance, but in 2018/19, will be allocated to finance the My Westminster programme in addition to an additional small existing reserve as follows:

- £0.5m to deliver My Westminster Fund community based projects
- £1.742m to deliver the currently identified and scoped out My Westminster Projects
- £0.1m to establish the My Westminster Club
- £0.5m allocated directly to Discretionary Housing Payments (DHP) to help residents meet the costs of their housing
- £0.48m to be set aside to augment current or finance a later tranche of projects under the My Westminster programme

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

	Outturn vs Budget (£m's)
Leader of the Council	(1.055)
Planning and Public Realm	(0.592)
Housing	(0.129)
Environment, Sport and Community	(1.037)
Finance, Property and Corporate Services	(3.932)
City Highways	(3.664)
Children, Families and Young People	0.499
Adult Social Care and Public Health	(0.179)
Total	**(10.088)**

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

Leader of the Council (£1.055m net underspend)

- Policy and Strategy - The underspend of £0.531m was mainly due to a one-off income benefit of £0.400m that was recognised to offset historic CIL administration costs. A detailed review of legacy administration costs was undertaken, and the regulations allow historic costs to be offset from future income. In addition, £0.120m was due to careful management of staff costs. However, this was offset by an overspend on running costs of £0.011m.

- Corporate Strategy and Transformation - The underspend of £0.518m was a one-off benefit due to non-pay spend being lower than budget by £0.420m and lower staff costs through careful management £0.098m.
- Evaluation and Performance - The underspend of £0.239m was due to careful management of staff costs £0.273m, offset by an overspend on non-pay costs £0.034m.
- PPC Directorate Development - The £0.172m underspend was due to careful management of staff costs of £0.169m and an underspend on other running costs of £0.003m.
- Chief of Staff – A small underspend of £0.014m from across various budget lines.
- Campaigns and Customer Engagement - The overspend of £0.393m was mainly due to non-pay costs of £0.393m relating to external communication support for campaign projects, of which £0.056m was for the prior year and £0.337m was for in year spend.
- Lord Mayor's Secretariat - The overspend of £0.050m was due to staffing of £0.034m and other running costs £0.016m.
- Cabinet Secretariat and Members Services - The overspend of £0.046m was mainly due to actual staffing costs being greater than budget by £0.024m and other running costs of £0.022m.
- External Communications - The overspend of £0.036m was due to higher non-pay expenditure after a detailed review of all paid invoices.

Planning and Public Realm (£0.592m net underspend)

- Development planning – (£1.326m underspend) - The underspend was due to vacancies within the department of £0.920m, additional income generated during the year of £0.325m as well as other minor cost underspends of £0.081m.
- Public Realm (£0.516m overspend) – additional revenue costs of public realm scoping works
- Building Control (£0.218m overspend) - Reduced income generated in year as a result of market conditions

Housing (£0.129m net underspend)

- Homelessness (£0.032m underspend) - arose from re-procurement of Housing Options Service (HOS) contract and resultant reduction in contract-related costs.
- Other Housing Operations services (£0.097m underspend) - arose from staffing vacancies after reorganisation and miscellaneous contract and running costs.

Environment, Sport and Community (£1.037m net underspend)

- Waste and Parks (£1.124m underspend) - The outturn position was an underspend of £1.124m, largely arising from reduced waste volumes (£1.081m).
- Community Services (£0.157m underspend) - The outturn position was a favourable variance of £0.157m, relating to a combination of salaries and premises underspends and increased rental income at Westbourne Green.
- Public Protection and Licensing – Mortuary (£0.070m underspend) - We were reimbursed for staffing costs relating to Grenfell, which we would not normally receive reimbursement for, in the normal course of business.
- Policy and Strategy (£0.028m overspend) - The overspend was mainly due to running costs greater than plan.
- Tri-borough Libraries and Archives (£0.285m overspend) - The outturn position was largely due to under achievement of income within the Registration Service relating to the refurbishment of Old Marylebone Town Hall, and associated launch costs.

Finance, Property and Corporate Services (£3.932m net underspend)

- City Treasurers - The outturn was an underspend of £2.676m against budget. This was due to increased interest earnings of £2.410m, an over recovery of £0.402m from business rates collection, an underspend of £0.080m from the Revenue and Benefits contract and an over-recovery of £0.107m from fines and penalties. However, this was partly offset by an under recovery of £0.220m grant income and £0.142m other running costs.
- Electoral Services and Elections - An underspend of £0.160m was due to election costs being lower than expectation by £0.100m and other running costs of £0.060m.
- People Services - The underspend of £0.133m was due to in year vacancies and running costs of £0.084m and lower corporate training costs of £0.049m.
- Procurement - The underspend of £0.099m was due to an underspend in supplies and services which was mainly driven by capital Esourcing contract costs being lower than budget.
- Corporate Services Trading - The underspend of £0.092m was due to an over recovery of £0.150m from the management of the Matrix contract. However, this was offset by an under recovery on the traded income from Westminster Procurement Services £0.058m.
- Information Services - The underspend of £0.083m was due to contract spend with BT and Virgin Media being lower than budget by £0.291m and prior year s113 income of £0.149m. However, this was partly offset by an under recovery of capitalisation charges £0.130m, higher s113 charges of £0.112m from other boroughs, an under recovery of telephony savings of £0.035m and on other salaries and running costs of £0.080m.
- Corporate Management - The underspend of £0.061m was due to lower legal expenditure then planned.

- Chief Executive Officer - The underspend of £0.045m was mainly due to in year vacancies within the service £0.050m which was offset by an overspend on running costs £0.005m.

- Complaints and Customer - The underspend of £0.037m was due to a secondment of an officer to another authority £0.021m and other running costs £0.016m.

- Land Charges Service - The underspend of £0.028m was due to an over recovery of land charges income.

- Director of Corporate Services - The underspend of £0.008m was due to a salary underspend £0.041m which was partly offset by an overspend on other running costs £0.033m.

- Coroners Service - The underspend of £0.008m was due to running costs lower than plan £0.048m. However, this was offset by costs relating to the Westminster Bridge terrorist attack £0.040m.

- Property, Investments & Estates - The outturn for Property, Investment and Estates was an overspend on £644k. This related to the under recovery of developer income on the Luton Street and Sir Simon Milton UTC projects. This income will be received in 2018/19 in line with both projects' progress.

- City Promotions, Events and Filming - The overspend of £0.252m was mainly due to £0.300m income relating to Events and Filming. Non-controllable circumstances resulted in a downturn in the Events market (£0.200m). This was primarily due to the terror incidents in Manchester and London and the notification in December that the Odeon and Vue cinemas in Leicester Square would be closed for the majority of 2018 for refurbishment. The business rates charge for the advertising screens at Piccadilly Underpass was £0.140m higher than expected, which diluted the anticipated benefits from this initiative. The charge was expected to be challenged, however this could take two years to resolve. If successful, then this will be a benefit for the Council in future years. The shortfall was partly offset by a surplus of £0.078m from different Outdoor Media income streams and additional income of £0.110m for a secondment.

- Housing Benefits underspend of £0.182m was due to lower bad debt provision adjustment than anticipated

- Licensing - The outturn position was an underspend of £0.079m due to underspends in supplies and services, primarily related to reductions in legal charges.

- Legal Services - The overspend of £0.231m was due to a one-off implementation cost for the alternative business structure initiative of £0.086m and an under recovery from external income due to a downward trend in s106 legal work of £0.078m, an under recovery on fee charges of £0.100m and a net overspend on salaries and other running costs of £0.009m. However, this was partly offset by a lower s113 charge of £0.042m from the other boroughs.

- Committee, Governance and Members Services - The overspend of £0.024m was due to property costs relating to the use of Council House from London Business School of £0.026m and an overspend on salaries and running costs of £0.032m. This was offset by an underspend on Members allowances of £0.034m.

City Highways Underspend (£3.664m net underspend)

- Parking (£2.418m underspend) - The outturn position was a favourable variance of £2.418m due to underspends on concessionary fares and contract efficiencies. Over recovery of suspensions income was offset by reductions in paid for parking income.

- Public Protection and Licensing (£0.675m underspend) - The outturn position was a favourable variance of £0.675m due to a combination of underspends in salaries and supplies and services including early delivery of 2018/19 MTP savings, and over recovery of Fixed Penalty Notice income for waste enforcement following legislation change.

- Highways Infrastructure & Public Realm (£0.570m underspend) - The outturn position was a favourable variance of £0.570m, largely due to increased income in Road Management alongside salaries underspends in the Highways service.

Children, Families and Young People (£0.499m net overspend)

- Finance and Resources (£0.538m underspend) - this related to £0.163m Mosaic costs and a £0.375m pressures contingency to mitigate the overspend on Family Services.

- Children's Services Commissioning (£0.251m underspend) - A net underspend of £0.251m as a result of a non-pay expenditure being £0.142m less than expected; reduced Section 113 Shared Service costs of £0.074m and other minor variances of £0.021m.

- Family Services (£0.741m overspend) - Overall £0.741m overspend variance largely as a result of pressures in placement costs, Duty and Assessment staffing and client support.

- Education, Schools and Disability (£0.512m overspend) - There was a £0.512m overspend within Education and Children with Disabilities. This was made up of over-accrued income of £0.275m identified against SEN pupil recoupment; greater legal and tribunal case costs than expected of £0.111m and additional SEN transport pressures of £0.126m

- Safeguarding Review and Quality Assurance (£0.035m overspend) - made up of a number of minor variances.

Adult Social Services and Public Health (£0.179m net underspend)

- Adult Social Care Integrated Care (£0.179m - underspend) – The underspend was due to increased income from other Local Authorities in relation to the sale of block bed spaces.

  Public Health - Underspend (0.0m)

  There were over and underspends and in the Public Health Service and these are detailed in the following bullet points. The net savings reduced the planned transfer from reserves to derive a net nil contribution from the General Fund. Forecast transfer from reserves was significantly less than budgeted due to procurement and efficiency savings achieved and as detailed below:

- Families and Children’s - (£1.351m underspend) - Underspends relating to Savings in Families and Children's services were made through re-procuring large contracts and seeking efficiencies in delivery, particularly Children’s 0-5 service (£0.491m), School Nursing (£0.378m) & Childhood and Adults Obesity (£0.388m) and £0.094m from reduction in Community based activity.

- Sexual Health - (£0.085m underspend) - Savings were made from Young People's services which were combined and are now covered in the Support and Advice for Sexual Health (SASH) contract.

- Substance Misuse - (£2.675m underspend) - Core Alcohol and Drug programmes forecasted savings of £0.530m from lower costs re-procurement, particularly core drugs & alcohol services. Demand for complex placements was not as high as anticipated, leading to a saving of £0.358m, along with £0.374m for Reducing Reoffending which, although was planned for this year, will now commence in 2018/19. Further savings of £0.150m were identified from reduced demand for Community-based services. Due to the transformative nature of changes within Substance Misuse, the £1.263m contingency fund will no longer be required

- Salaries and Overheads – (£0.509m overspend) - An increase in the number of temporary staff led to an overspend in the salaries forecast.

- Public Health Investment fund - (£0.125m underspend) - Small underspends in projects due to lesser levels of demand in Learning disabilities and Supported Employment initiatives.

Where appropriate, grants within this directorate were added to reserves to match the resources to future years expenditure, for example, to smooth the impact of the potential fallout of the iBCF in 2020/21.

5. GENERAL FUND CAPITAL OUTTURN

5.1. The General Fund Capital Programme showed a net underspend of £29.522m against the 2017/18 approved net budget of £171.480m. It was not expected that the in-year underspend was likely to have any significant impact on the Council's long-term cost of funding the capital programme.

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

	Net Budget (£m's)	Net Outturn (£m's)	Variance (£m's)
Planning and Public Realm	4.250	2.954	(1.295)
Housing	22.379	18.415	(3.964)
Environment, Sport and Community	12.529	12.658	0.128
Finance, Property and Corporate Services	112.431	91.493	(20.939)
City Highways	17.485	15.977	(1.508)
Children, Families and Young People	0.807	0.304	(0.502)
Adult Social Care and Public Health	1.600	0.157	(1.443)
Total	**171.480**	**141.958**	**(29.522)**

4.3 The following sets out a summary of the key projects contributing to the above variances:

Planning and Public Realm (£1.295m underspend)

- The West End Partnership programme (£1.196m) – The programme of works had an underspend in 2017/18 due to delays in commencement of works, primarily related to works on the Oxford Street Transformation which has a revised delivery timetable. However an over-recovery of funding contributed to this variance, as TfL contributions were received earlier than expected.

- Public Realm Improvement Schemes £0.311m – An accelerated number of public realm schemes and works on these schemes was undertaken in quarter 4 of 2017/18. The increase in expenditure on these schemes was mostly offset by third party funding of these works.

- Bond Street (£0.271m) – £0.445m of expenditure was re-profiled to 2018/19 due to delays in Crossrail implementation. Limited site access reduced the programme undertaken in 2017/18.

Housing (£3.964m underspend)

- Temporary Accommodation Purchases (£1.063m) – Activity is dictated by the availability of suitable properties to purchase. There were 18 “Out Of Borough” properties purchased during the year at average cost of £0.262m each incl. all fees.

- Private Sector Housing Discharge Initiative (£3.000m) – Activity will commence in 2018/19 as originally planned.

Environment, Sport and Community (£0.128m overspend)

- Moberley Sports Centre Redevelopment £0.375m – Construction is on programme and Jubilee phase one is complete, with practical completion of phase two scheduled for September 2020. Moberly Leisure centre is expected to complete in July 2018. The 2017/18 current budget reflected the reduced construction progress in Q3 however, some of this progress was recovered resulting in an in-year overspend.

- Libraries 6 year redecoration programme (£0.290m) – Delays in design work on the four sites to be refurbished means that the majority of the 2017/18 budget has been re-profiled into 2018/19, as works cannot commence until the designs have been improved.

Finance, Property and Corporate Services (£20.939m underspend)

- Strategic Acquisitions (£4.494m) – The approved budget assumed completion would be achieved on 2 Upper Tachbrook Street, however, this was delayed. Strategic acquisitions are, by their nature, reactive and rely on properties becoming available to purchase.

- City Hall (£1.938m) – A revised payment schedule from the main contractor resulted in expenditure being re-profiled into next financial year. Also £1.100m relates to contingencies held against the project for professional fees and surveys which will now be utilised in 2018/19.

- Sir Simon Milton University Technical College £0.545m – The school is now open with the residential element expecting practical completion in May 2018. EFA income received exceeded budget by £0.400m.

- Lisson grove Programme (£0.364m) – A multi-disciplinary team have now been appointed to carry out further design and site investigation work on the site. An OBC will be completed in 2018/19 to take the project to the next stage. The approved budget included £0.300m relating to surveys on the site, which will now take place in 2018/19.

- Landlord Responsibilities (£0.779m) – The service have a schedule of works for works that are required however these have not progressed as quickly as anticipated.

- Digital Transformation £0.610m – The overspend was due to the opportunity to finance all 2017/18 Digital Transformation expenditure with flexible capital receipts without the need to capitalise part of the project costs as originally budgeted. A review of the MHCLG guidance for the use of flexible capital receipt evaluated that the Digital Transformation expenditure met the criteria of qualifying expenditure and in-year capital receipts were available to offset this cost.

- Capitalisation of Pension Contribution (£10.000m) – After the release of the statutory guidance from the MHCLG regarding the flexible use of capital receipts, a decision was made to contribute funds to the pension deficit. This would result in future savings, meeting the definition of qualifying expenditure. The £10m underspend was due to the fact it was anticipated that a contribution of £20m would be made this year. However, it was decided to move £10m of the contribution into 2018/19 when the Council would receive more qualifying capital receipts. Further details on Flexible Use of Capital Receipts can be found in section 5 of this report.

- Capital Contingency (£4.500m) – A budget was created for contingency purposes within the capital programme. The forecast was reduced each period as the likelihood of the budget being required became less likely, resulting in a nil outturn and an underspend against the budget.

City Highways (£1.508m underspend)

- Cambridge Circus Improvements (£0.469m) – There are £0.330m of utilities to be billed in 2018/19 relating to end of project works, as well as final stage 6 costs. Therefore this underspend will be re-profiled. The budget of £1.268m included an element of contingency which is now not required.

- Planned Preventative Maintenance Highways (£0.943m) – Against a gross budget of £9.5m, £0.642m of expenditure is to be re-profiled to 2018/19 due to delays on the below schemes, all of which will be complete in April 2018:
    - Tothill Street - Drainage works required before implementation can commence - £0.100m
    - Westbourne Terrace - presence of high voltage cables on site is delaying implementation - £0.300m
    - Third Party billing and reconciliations to be finalised - £0.242m

- Local Safety and Traffic Management Schemes (£0.475m) – TfL Income was fully claimed in year. The scheme on Sutherland Avenue was delayed due to adverse weather conditions and will be completed in 2018/19. Various smaller projects also had delays in commissioning and will be re-profiled to 2018/19.

- Waterloo and Golden Jubilee Bridges £0.524m – Access to site was limited for the first 9 months of the year due to security measures put in place by the Metropolitan Police, which changed the weight of the bridge. Therefore, approval was granted to re-profile the budget into 2018/19. However work accelerated from period 10 resulting in a higher than anticipated outturn.

Children, Families and Young People (£0.502m underspend)

- Remodelling of Early Help/Children's Services Investment (£0.502m) – The spend related to works at Bessborough Children's Centre. Works have been re-profiled and will be completed in 2018/19. The overall projected cost have not changed.

Adult Social Care and Public Health (£1.443m underspend)

- Beachcroft (£1.400m) – A full business case was approved in November 2017 and demolition works have commenced. Contractors have been appointed, with construction starting due to start in 2018/19, and estimated to complete in March 2020. Expenditure of

£2m was incurred in 2017/18, fully funded by the Affordable Housing Fund. The in-year underspend was due to delays to onsite commencement which resulted in a CIL payment of £1m slipping to 2018/19 and an underspend of £0.400m on enabling works.

Overview of Capital Programme and Delivery Strategies

4.5 The Council's capital programme is prioritised into three key areas, Development, Investment and Operational.

The table below shows the breakdown of the capital programme across these areas:

Designation	Net Budget *£000's*	Net Outturn *£000's*	Net Variance *£000's*
Development	33,226	28,108	(5,118)
Investment	16,000	15,713	(287)
Operational	122,255	98,137	(24,117)
	171,480	141,958	(29,522)

Development

4.6 Development projects are key schemes that help the Council achieve its strategic aims in line with City for All. This includes the long-term sustainability of Council services through income generation and meeting service objectives in areas such as affordable housing and regeneration.

4.7 Development schemes make up a sizable portion of the gross capital budget and include significant projects such as the Moberley Sport Centre Redevelopment, Seymour Leisure Centre, and Sir Simon Milton University Technical College, which will benefit those who live and work in Westminster.

Investment

4.8 One of the key objectives is for the Council to maximise its return on investments and grow income through active management of the investment portfolio. Income through these means will support the on-going financing costs of the capital programme.

4.9 In 2017/18 a gross budget of £16m was allocated to be spent on investment opportunities in the form of property acquisitions, of which over 98% was used. Property acquisitions are by their nature reactive, due to the need to wait for suitable opportunities to become available. Therefore spend each year can vary depending on which investment properties become available during that time.

Operational

4.10 The Council's operational capital strategy is centred on capital improvement works to the Council's operational property portfolio. However, there are other key objectives such as the need to ensure its assets meet health and safety standards and are fit for purpose in terms of statutory guidance and legislation, as well ensuring that the Council continues to invest in its current buildings and infrastructure to avoid incurring significant future costs.

4.11 Operational schemes make up the largest section in the capital programme and have a gross budget of £200m, with external funding resulting in a net budget of £122m. These include a variety of programmes including school expansions, cycle schemes, planned preventative maintenance of the highways and lighting, along with investment in leisure facilities, parks and open spaces.

6. Flexible Use of Capital Receipts

6.1. In March 2016, the MHCLG issued statutory guidance on the flexible use of capital receipts, which allows local authorities to use capital receipts received in the years for which this flexibility is offered, to fund the revenue costs for service reform and transformation. Qualifying projects are those that are forecast to generate ongoing savings in the delivery of public services and/or transform service delivery to reduce costs. This guidance covered the period 1 April 2016 to 31 March 2019, and applies only to capital receipts generated during this period. However in the Provisional Local Government Finance Settlement in December 2017, it was announced that this scheme would be extended for a further three years.

6.2. The Council identified two capital projects, Westminster City Hall refurbishment and Digital Transformation which have significant revenue spend, along with a contribution to the pension fund deficit which meet the definition of qualifying expenditure. Ongoing savings are expected from these projects and the Council received approval last year to part-fund these from capital receipts.

Pension Fund Deficit

6.3. The Council plans to utilise capital receipts in order to reduce the historic deficit on the Pension Fund and thus make future ongoing net savings in annual deficit recovery payments. Council approval for payment of increased deficit contributions is set out in the 1 March 2017 revenue budget report, para 2.1, bullet 10, with reference to para 5.34. By contributing three one-off annual £10m contributions funded from flexible capital receipts, instead of the pension fund deficit being completely paid in the late year of 2031/32 this will be brought forward to the early part of 2030/31, with total savings of £25.9m and the funding level improving from 79.3% to 82.1% by 2019/20.

Digital Transformation

6.4. The Digital Transformation Programme is an enabler which will deliver on-going revenue savings and efficiencies within Council services and enhance the contact experience of our customers. The Programme incurred £2.666m of spend in 2017/18, which is one-off expenditure that will aid the realisation of existing commitments and deliver future financial savings. The savings target is £3.517m over two phases, Base case £1.017m and Accelerate case £2.500m. The Base case captures existing Medium Term Plan (MTP) commitments that are dependent on the delivery of the digital platform to transform identified services.

City Hall Refurbishment

6.5. The refurbishment of City Hall meets the definition of qualifying expenditure in the Flexible Use of Capital Receipts guidelines. The completed scheme will deliver increased income streams for the Council from rental income as well as reduced running costs. The building will be more efficient than it previously was and the income will be generated from leasing out 10 floors of City Hall. It is anticipated that the Council will receive currently estimated savings stabilising at £4m from 2024/25 onwards

6.6. As part of the Capital Strategy approved in March 2017, approval was given to fund qualifying revenue expenditure on the City Hall Refurbishment via capital receipts. A subsequent Cabinet Report in June 2017 gave further approval for the use of up to £27.1m worth of capital receipts to fund qualifying revenue expenditure. When Full Council authority was given for the use of capital receipts, it was outlined that this would be subject to an annual review process for members to approve. During 2017/18, the Council spent £9.9m on revenue expenditure related to the refurbishment of City Hall.

7. HOUSING REVENUE ACCOUNT OUTTURN

7.1. The Housing Revenue Account (HRA) generated a £0.439m deficit, which was £2.394m under the budgeted target for the year. HRA general balances which covers the deficit and the financing of capital schemes reduced from £41.586m to £25.366m at the end of 2017/18.

7.2. HRA income of £109.463m, was an under achievement of £1.568m compared budget. This was mainly due to lower income from lessees for major works and from commercial properties.

7.3. Major works income from lessees was £3.828m less than budget as the number of projects reaching completion was below expectations following the mobilisation of new contractors. Commercial property income of £4.426m was below budget by £0.553m due to an increase in trading charges. Income from service and facilities charges exceeded budget by £1.464m on a gross basis. However, after accounting for costs the net income was £0.239m more than budget mainly from higher lessee service charges. Income from lease extensions and asset sales was higher than budget by £1.372m as the volume of activity exceeded budgeted levels. Dwelling rent of £74.348m was under budget by £0.126m, whereas non-dwelling rent was over budget by £0.137m. Several other income lines under recovered by £0.034m.

7.4. HRA expenditure of £109.822m, an overspend of £0.746m, was due to lower costs in housing management, repairs and maintenance and capital financing charges being offset by an increase in the provision for bad debts.

7.5. Housing management costs of £51.798m under spent by £0.744m. Housing management costs include the City West Homes transformation programme for which a reserve of £3.162m is no longer required and has been released. Repairs and maintenance under spent by £0.291m with lower void and responsive repairs costs offset by higher planned maintenance costs. This underspend represents 1.48% of the annual repairs and maintenance budget of £19.662m.

7.6. Capital charges that are made up of depreciation expense and interest payments, underspent by £0.790m. Depreciation expense of £23.371m was £0.696m lower than budgeted because of improvements in the accuracy of recording components within the asset register. Borrowing costs were £0.094m less than budget as a loan was refinanced at a lower interest rate. A review of HRA debtors led to a reduction in the bad debt provision for tenants (£0.217m) which was offset by an increase in the provision for leaseholders (£3.223m). For leasehold debt, the age profile was analysed and a higher rate of provision set for debts older than a year rather than a flat rate being applied across all debt categories. The adverse variance was £2.570m against a budget of £0.500m.

7.7. All three capital groupings within the HRA underspent compared to budget. The main reason for the underspend on Major Works was due to the new term contractors taking some time to mobilise to deliver external works. Regeneration schemes were re-profiled owing to a variety of issues including stakeholder consultation, unforeseen delays, procurement issues and planning processes.

7.8. The most significant in-year capital variances to budget on specific schemes included:

- £3.636m Self Financing scheme – A greater number of suitable properties became available during 2017/2018 than was originally anticipated.
- £1.882m Almacantar/Edgware Road - The milestone payment of £1.935m that relates to start on site was expected in 2016/17 but was paid in 2017/18.
- £1.491m External Works & Laterals - Works progressing ahead of forecast.
- (£6.185m) Church Street Phase 2 - The reduced forecast expenditure was due to acquisitions not yet identified / implemented.
- (£4.831m) Lisson Arches scheme - The major works contract period was delayed as a result of the scale of unforeseen statutory services relocations required.
- (£4.880m) Luton Street - The terms of the deal with the developer had to be re-negotiated due to updated design resulting in an underspend.
- (£6.338m) Parsons North - The developer exiting the deal and the change to a self-delivery strategy led to an underspend.
- (£9.192m) Cosway Street - The start date slipped resulting in costs moving from 2017/18 to 2018/19.
- (£3.237m) Ashbridge - Expenditure reduced due to a change in the delivery model strategy.
- (£4.509m) Combined Heating programme- A delay in securing the Business Case approval resulted in an under spend.
- (£5.599m) Ebury Bridge – A full scheme re-design was required because the original scheme was considered financially unviable by the market.
- (£1.852m) Infill Schemes - The underspend was the result of programme delays.
- (£0.724m) Kemp House - The developers programme slipped resulting in practical completion not being achieved in 2017/18.
- (£1.670m) Lift works to HRA stock – Slippage of works while the new term contractor mobilised to deliver the programme.
- (£4.585m) External Repairs & Decorations - Legacy costs of £1m were contained. Contingency budgets were not required.
- (£1.531m) Fire Precautions work – The budget included specialist works, which have slipped to 2018/19.
- (£1.441m) Major Works General – Under spends on heating offset by additional expenditure on planned roofing.
- (£4.086m) Contingency – Not required on Regeneration or Other Projects schemes.

8. CORE ACCOUNTING STATEMENTS

Balance Sheet

8.1. The accounts use International Financial Reporting Standards (IFRS) to produce the Core Statements. These, in turn, are adjusted by statutory regulations relating specifically to local government accounts.

8.2. The Balance Sheet in the table below shows that the Council's net asset position increased by £338.371m from £1.906bn in 2016/17 to £2.244bn in 2017/18.

Balance Sheet

1 April 2016 Restated	31 March 2017 Restated		Note	31 March 2018
£'000	**£'000**			**£'000**
		ASSETS		
		Non-current		
1,952,377	2,107,037	Property, plant and equipment	Note 18c	2,382,425
42,746	42,746	Heritage assets	Note 19	42,846
405,269	454,840	Investment property	Note 20	385,314
1,830	1,077	Intangible assets		875
30,925	27,386	Long-term investments	Note 21a	2,433
12,394	15,229	Long-term debtors	Note 26	38,015
2,445,541	**2,648,315**	**Total long term assets**		**2,851,908**
		Current		
514,833	742,980	Short-term investments	Note 21a	864,800
235	179	Inventories		94
137,666	73,369	Short-term debtors	Note 26	93,842
117,580	170,302	Cash and other cash equivalents	Note 21b	161,238
2,250	2,250	Assets held for sale	Note 20	-
-	-	Investment property held for sale	Note 20	40,000
772,564	**989,080**	**Current assets**		**1,159,974**

		LIABILITIES		
2,109	2,069	Short-term borrowing	Note 21a	32,069
259,931	471,584	Short-term creditors	Note 27	642,430
6,151	8,341	Revenue receipts in advance	Note 13	5,635
268,191	**481,993**	**Current Liabilities**		**680,134**
202	204	Long-term creditors	Note 27	2,917
153,936	121,504	Provisions	Note 28	81,451
251,465	251,269	Long-term borrowing	Note 21a	221,230
605,540	786,898	Other long-term liabilities*		710,551
55,388	89,789	Capital receipts in advance	Note 13	71,490
1,066,531	**1,249,664**	**Long-term liabilities**		**1,087,639**
1,883,383	**1,905,738**	**Net assets**		**2,244,109**
652,657	575,719	Total Usable Reserves	MiRS	628,395
1,230,726	1,330,019	Total Unusable Reserves	Note 29	1,615,714
1,883,383	**1,905,738**	**Total Reserves**		**2,244,109**

8.3. The £338.371m increase in net assets is mainly due to the following factors:

- Increase of £275m in Property Plant and Equipment –There was a significant increase in the capital spend on projects within Public Realm Improvement Schemes (e.g. Moberly Jubilee), Sir Simon Milton UTC and the Dudley House Academy. City Hall refurbishment spend was £28m.
- Decrease of £69m in investment property – Downward revaluation accounted for £23m, and £63m was due to reclassification of properties from investment to operational and held for sale. The decrease was offset by additions of £16m.
- Increase of £170m in short term creditors – this was due to an increase in NNDR amounts payable to GLA. These increased by £113m in arriving at the final position at the end of 2017/18.
- Increase of £121m in short term investments – This was mainly due to the increase in investments from loans & receivables, which was offset by the reduction in investments from 'available for sale financial assets'.
- Increase of £286m in unusable reserves – This was due to an increase of £68m in the Revaluation Reserve, representing unrealised gains on property plant and equipment, £70m in the Capital Adjustment Account, £76m in the Pension Reserve and £70m increase in the Collection Fund Adjustment Account for income that will be received in 2018/19 as per regulations. The remaining £2m was made up of smaller movements across other unusable reserves.

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

8.4. In addition to the normal budget monitoring report that is prepared 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.

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

Summary reconciliation from CIES to Outturn

	General Fund Balance (£m)	**Housing Revenue Account** (£m)	**Total** (£m)
Surplus of Provision of Services (as per CIES)	144.264	11.297	155.561
Technical accounting adjustments (as per MiRS)	(126.091)	(30.679)	(156.770)
Use of earmarked reserves	(8.085)	3.162	(4.923)
Net surplus against budget	10.088	(16.220)	(6.132)

8.6. The £126.091m general fund technical accounting adjustments in the above table consist primarily of the following areas:

- £70m adjustment on Business Rates to account for timing differences
- (£49m) neutralisation of depreciation and revaluation movements on the Council's operational and investment properties
- £95m of capital grants transferred to the Capital Grants Reserves prior to their future use when conditions or restrictions are met. This movement is to ensure capital and revenue income streams are kept separate as per statute
- (£16m) adjustment to the Pension Reserve which neutralises the current service costs and ensures that actuarial estimates are not charged to Council Tax
- £86m Capital Grants & Contribution applied
- (£56m) Revenue Expenditure Funded from Capital Under Statute
- (£20m) movements in investment property values
- £16m various other adjustments

Cash Flow Statement

8.7. There was a £9m decrease in the Council's cash and cash equivalents (that is, investments that mature in no more than three days), falling from £170.302in 2016/17 to £161.238m 2017/18. A summary cash flow can be found in the table below

8.8. There was a net outflow of £415m from the investing activities as the Council used its cash reserves to make short-term investments and for the purchase of PPE. This was offset by £32m capital receipts and £95m capital grants for use by the Council in supporting its City for All capital programme.

Summary Cash Flow Statement

2016/17		Note	2017/18
£'000			**£'000**

44,448	Net surplus/(deficit) on the provision of services		155,561
415,165	Adjustments to net surplus/(deficit) on the provision of services for non-cash movements	Note 31	226,796
(99,259)	Adjustments for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities	Note 31	(126,636)
360,354	Net Cash Flows from Operating Activities		255,721
(301,547)	Net Cash Flows from Investing Activities	Note 32	(288,750)
(6,085)	Net Cash Flows from Financing Activities	Note 33	23,965
52,722	Net increase/(decrease) in cash and cash equivalents		(9,064)
117,580	Cash and cash equivalents at the beginning of the reporting period		170,302
170,302	**Cash and cash equivalents at the end of the reporting period**		**161,238**

9. PENSIONS

Fund Account

9.1 The value of the Council's Pension Fund increased by £68m over the course of the year, rising from £1.268bn to £1.336bn. The table below summarises the major elements that comprise this net change.

2016/17 £'000		2017/18 £'000
38,715	Members Contributions Directly Paid in	**58,868**
(51,632)	Benefits Paid and Transfers Out	**(57,350)**
(5,052)	Management Expenses	**(5,734)**
9,891	Investment Income	**15,785**
209,356	Investment Returns	**56,708**
201,278		**68,277**

9.2 As part of the deficit recovery plan, increased contributions paid into the Fund resulted in the Fund returning to a positive cash flow (contributions versus pensions paid) of £1.5m, meaning that investments no longer need to be sold to fund pension payments in the financial year.

9.3 The Fund saw a sharp rise in investment income of 60%; this was due partly to the pooled property investments generating significant extra distributions to the Fund.

9.4 The Fund continued to benefit from strong equity markets and a large asset allocation to this area; the total increase in assets available to pay benefits saw a 5.4% increase

9.5 Management costs rose by 13.5% on the year. This was largely due to the increased value of the Fund over the last two years resulting in higher management fees, a transition to the London CIV in the Majedie portfolio and repositioning of the insight fixed income portfolio.

Net Asset Statement and Liability

9.6 The Pension Fund defined benefit obligation fell by £99m. This was due to both the fair value of scheme assets rising due to favourable equity market conditions and changes to the financial assumptions. Softening inflation and pension increases reduced the expectation of higher benefits being due in the future.

2016/17		2017/18
£'000		£'000
(2,052,314)	Present Value of Promised Retirement Benefits	**(2,014,651)**
1,274,628	Fair Value of Scheme Assets (bid value)	**1,335,977**
(777,686)	**Net Liability**	**(678,674)**

9.7 An analysis of the £1.365bn net assets shows is shown below:

2016/17		2017/18
£'000		£'000
173,673	Bonds	183,879
150	Equities	150
1,085,348	Pool Investment Vehicles	1,129,276
384	Futures & Forward Foreign Exchange	337
2,499	Income Due	2,790
	Debtors	13,218
1,726	Cash Deposits	10,321
(177)	Investment Liabilities	(229)
(1,710)	Amounts Due for Purchase investments	(9,663)
7,010	Other Current Assets	6,728
(1,204)	Other Current Liabilities	(831)
1,267,699		1,335,976

10. TREASURY

Interest Earnings

10.1 The Interest receivable against budget is shown below:

Budget Item	Actuals £000	Budget £000	Variance £000
1) Treasury Actuals on Agresso (31/03/18)	5,228	2,818	(2,410)
Subtotal Treasury Interest Receivable	5,228	2,818	(2,410)

2)Westminster Community Homes	522	522	0
3)Temporary Accommodation	852	852	0
4) Other	719	719	0
Other interest Items Receivables	2,093	2,093	0
Total	7,321	4,911	(2,410)

10.2 The average yield return for the year was 0.44%, compared with 0.62% for the prior year. This was due to the feeding through of the 0.25% base rate cut in August 2016. Yield expectations are starting to increase again looking forward, with the average return on investments currently 0.56% as at 31 March 2018.

10.3 The interest income earned in absolute terms increased to £7.3m, significantly overachieving the budget figure of £4.9m. The main reason for this was the significant increase in cash reserves held throughout the year; the final year-end position saw an increase of £83m on year-end investments from 31 March 2017 to £992.2m.

10.4 The Monetary Policy Committee's decision to raise the Bank of England base rate to 0.50% in November 2017 also led to gradual increases in the interest rates paid on investments.

10.5 Decisions taken within the approved Treasury Management Strategy to increase the amount available to local authority borrowers in November 2017 also meant that there was a wider choice of treasury investments and better opportunity to increase yields.

Breakdown of investments

10.6 The breakdown of investments as at 31 March 2018 is shown below:

Investment Type	Investment Balance 31 March 2017 (£m)	Investment Balance 31 March 2018 (£m)	Movement (£m)
Money Market Funds	143.4	129.6	**-13.8**
Notice Accounts	49.3	89.3	**40.0**
Term Deposits	310.0	385.0	**75.0**
Tradable Securities	374.6	336.1	**-38.5**
Enhanced Cash Funds	32.1	52.2	**20.1**
Total:	**909.4**	**992.2**	**82.8**

Interest Payable

10.7 The Interest Payable budget stayed on target across the year as no new borrowing was undertaken and the total borrowing for the full year was known at the start of the year.

Borrowing Type	Loans Balance 31 March 2017 (£m)	Loans Balance 31 March 2018 (£m)	Movement (£m)
PWLB	181.04	181.04	-
LOBO	70	70	-
Mortgage Annuity	0.26	0.23	**-0.03**
Total:	**251.30**	**251.27**	**-0.03**

Budget Item	Actuals £000	Budget £000	Variance £000
1) Treasury Actuals on Agresso (31/03/18)	**12,166**	**12,166**	**0**
Subtotal Treasury Interest Receivable	**12,166**	**12,166**	**0**

10.8 The total interest payable is shown below:

11. OBJECTIONS

11.1. All objections relating to prior years have been cleared and no objections were received by the auditors relating to the 2017/18 financial statements.

12. CLOSURE OF ACCOUNTS PROCESS AND FINANCE TRANSFORMATION

12.1. The earlier closure of the accounts in 2017/18 derived from the Council's commitment to continual improvement in its financial management. Accelerated closure gives the Council an opportunity to play a primary role in the development of accounting practices that aim to simplify the accounts processes and make them more transparent for the public.

12.2. The statutory deadline for publishing the accounts in 2017/18 moved from 30th June to 31st May, meaning that the Council anticipated and resolved many of the issues that may have arisen at other authorities due to the reduction in timeframe.

12.3. Further improvements that took place in 2017/18 were:

- lessons learned from the 2017/18 closure were identified, and the frequency of "hard closure" refined to maximise impact.
- further developments in Agresso processes were simplified, thus reducing 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 allowed more time to be spent reviewing and understanding the underlying data that underpin the statements.
- further improvements in the Quality Assurance (QA) process, which 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. QA also continued throughout the accounts process, including during the audit period.
- external audit planning throughout the year. This gave the opportunity to submit some notes to the accounts for early sign-off. Additionally, improved audit planning allowed schools testing to take place late in February/early March and reduce the resources required for the year-end audit.
- further de-cluttering by removal of duplication across the accounts. This work will continue into and beyond 2018/19 to make the accounts as accessible as possible to the public.

12.4 Early closing has 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 MHCLG and external auditors to simplify technical accounting standards to make the accounts more meaningful to the public. This work will continue throughout the year and will significantly improve transparency of the financial accounts.

13. EXTERNAL AUDIT

13.1. The accounts were signed off on 21st June after successful completion of the public inspection period, which ran from 8th May to 19th June 2018, in line with the Accounts and Audit Regulations 2015.

14. CERTIFICATION OF CONCLUSION OF AUDIT

14.1. Conclusion of the audit is dependent on a successful end to the public inspection period, with no outstanding objections, and the completion of the Council's Whole of Government Accounts (WGA) audit.

14.2. The Council submitted its completed WGA data collection tool (DCT pack) to the auditors on schedule and certification is expected in July.

15. LEGAL IMPLICATIONS

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

Legal implications drafted by Michael Carson, Senior Solicitor (Employment, Criminal and Commercial Litigation)

APPENDICES

Appendix 1 Link to the Westminster City Council - Statement of Accounts 2017/18

Appendix 2 Link to the Westminster City Council - Pension Fund Accounts 2017/18

Appendix 3 Grant Thornton Audit Findings Report Year ending 31 March 2018

Appendix 4 Grant Thornton Audit Findings Report for City of Westminster Council Pension Fund Year ending 31 March 2018

Appendix 5 Westminster City Council Letter of Representation 2017/18

Appendix 6 Westminster Pension Fund Letter of Representation 2017/18