2011/12 Financial Year Outturn Report

Audit & Performance Committee Meeting 27 June 2012

Key Messages for 11/12 Outturn

- **Reserves:**

General Fund Reserves have strengthened from an opening position of £15.6M to Closing Reserves of £22.1M. Earmarked Reserves have been created for the provision for future costs of £8.1M. The major additions include: Athena Programme £3.7M, future Redundancy costs £2M, Parking Olympic Reserve £1.4M and MRP Provision for borrowing repayment £1M.

- **Revenue:**

The Council has been able to add £6.5M to General Fund Reserves in 2011/12. This has been achieved through managing the overall budget lines to achieve a gross underspend of £16.3M. This has enabled the funding of redundancy and other change costs of £10.7M. This was always the intention so the net underspend is relatively small in that context. The Council also generated additional Income of £7M, (£1.6M New Homes Bonus, £1.6M Concessionary Fares, £0.5M from ABG income/Metro-WiFi and £3.3M CLG/internal capitalisation).

- **2011/12 Savings Programme:**

The Delivery Assurance process has ensured that over 99% of the £60M savings programme has been delivered. Property missed its savings target by £0.9M and SEB/Strategic Support under-delivered against the £0.5M general target. Shortfalls were offset by gains elsewhere.

- **Redundancy and other change costs:**

In setting the 2011/12 Budget, the Council established a balanced Operating Budget, including the £60M savings target. As at year-end, Westminster has incurred total redundancy/other change costs of £10.7M: redundancy £8M and Other £2.7M. The total change costs of £10.7M include £1.4M relating to Tri-Borough (redundancy £0.9M and programme/general costs £0.5M). Of the total, £2.8M of the redundancy costs has been capitalised by agreement with CLG and £0.5M of programme costs internally capitialised.

- **Balance Sheet:**
  - **Debt:** year-end total debt is £77.5M. This is a net reduction of £2M for the year, with a £4.6M increase in Sundry Debt and £6.6M decrease in Service Specific Debt.
  - **Capital Expenditure:** The Capital outturn is £31.9M which is a variance of £7.5M to the £39.4M Budget (excluding HRA). Of this, £6.5M is slippage almost half of which relates to BSF in Children's Services.
  - **Cash/Financing:** At year-end, Cash and Near Cash (overnight deposits etc) were £203M, Short-term Investments £122M, and Borrowing £336M. Cash/Financing has been actively managed in year and this has reduced Corporate Items expenditure.

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SECTION 1: CLOSING GENERAL FUND AND EARMARKED RESERVES

At its meeting on 12 December 2007, the Committee approved a new Reserves Policy as follows:

"The Reserves policy assumes that the medium term financial plan generates a broadly balanced budget on a sustainable basis by the end of the three year business planning period. Reserves should reflect the agreed financial strategy and should represent the quantified impact of risks and opportunities over the current three year business planning period, weighted to allow probability."

The Council's Closing Reserves for 2011/12 are £22.1M. With Opening Reserves of £15.6M, this represents in a £6.5M contribution to General Fund Reserves. The Service Area/Corporate surplus (£16.3M) and additional Corporate Income (£7M) have enabled us to fund our net redundancy and change costs (£7.4M, including all redundancy and other change costs net of capitalisation), allowed for the creation of a number of Earmarked Reserves (£8.1M).

Looking to future financial years, at year-end we established four Earmarked Reserves:

1. A Reserve of £3.7M to cover business change and transition costs associated with **Programme Athena**. This Tri-Borough commitment is critical to WCC as a number of existing contracts on HR/Finance/Procurement expire. Change/transition costs will be substantial. This Reserve is based on current projections and an equal share for the three Boroughs;
2. **Parking Olympic Reserve** of £1.4M, to cover the various risks to Parking income associated with Olympic activity;
3. **Redundancy costs Reserve** of £2M. Original plans for savings and headcount reductions assumed that Phases 7 and 8 would be complete within 2011/12. However, some £2M of costs will fall in 2012/13 due to slippage; and
4. **MRP Provision for borrowing repayment** of £1M. This has been set aside to cover the repayment of future debt. Local authorities are subject to a series of complex regulations regarding the repayment of borrowings on capital financing. These calculations are multi-year and introduce volatility into Revenue. This Reserve makes some provision for this variability.

SECTION 2: REVENUE OUTTURN

1. Operating Budget

The Council set a balanced Operating Budget at £1 billion of expenditure (£929M General Fund and £89M HRA). The outturn against the General Fund Operating Budget is a £16.3M surplus from Service Areas and Corporate Items. This is comprised of a £10.7M gross Service Area underspend (£9.3M net of the £1.4M Parking Olympic Reserve) and £2M upside from Corporate Items.

In setting the Budget, provision was made for the exceptional volatility in financial markets, the possible impacts of the Hutton review of pension funding, and the complex impacts of new regulations including the full introduction of IFRS. During the year, careful management of financing arrangements, net cash balances, and the approach to the future funding of the pension fund has enabled us to recognise additional savings of £2.6M. Further, year-end review has resulted in a £1M reduced provision for IFRS/technical accounting risks.

2. Redundancy and Other Change Costs

Total redundancy/other change costs for 2011/12 are £10.7M:

- **Redundancy costs of £8M** - £6M for 2011/12 and £2M set aside in an Earmarked Reserve in 2012/13 to cover slippage in the redundancy programme. This includes £0.9M of Tri-Borough related redundancy costs; and
- **Other change costs of £2.7M** related to programme/general costs, including £0.5M relating to Tri-Borough.

These costs are partially offset by the use of £2.8M of CLG allowable capitalisation for statutory redundancy costs and £0.5M internal change capitalisation. This results in a net redundancy/change cost impact on Revenue of £7.4M.

Actual redundancy costs are £2M lower than forecast during the year. Main reasons were:

- 100 less employees being made redundant than projected at the time the Budget was set. This difference arose mainly during Phases 7 and 8. Phase 7 involved fewer staff and Phase 8 did not occur.
- Other change costs are £1.5M higher than forecast. At the time of the Budget, it was the intention that costs associated with the Customer Services and Out of Hours Programme would be capitalised. However, the CLG capitalisation restrictions and IFRS rules precluded this and the costs therefore fall to Revenue.
- Allowing for the element of CLG capitalisation, the net redundancy/other change costs for 2011/12 are £7.4M. This overall "gap" is consistent with the position projected in the Council's financial reporting since July 2011.

3. Service Area Revenue Outturn

The net Service Area surplus of £9.3M is comprised of the following:

- Favourable variances (underspends) – Commissioners (£0.4M), Finance & Operations (£0.7M), Adults (£5.6M), Children's (£0.8M), Housing (£2M), Built Environment (£0.2M), City Management (£0.6M) and Parking (£0.5M).
- Unfavourable variances (overspends) – Property (£1.2M).
- Broadly on Budget – SEB & Strategic Support, Libraries, and Sports & Leisure Services.

4. Savings Programme Outturn

The table below shows the savings programme outturn by SEB Area:

Service	2011/12 SAVINGS ANALYSIS									
	FY Budget Saving £000	Restructured FY Budget £000	Complete £000	Green £000	Amber £000	Red £000	On Hold £000	Projected FY £000	Projected FY Variance £000	Projected as % of FY Budget
SEB & Strategic Support	(4,325)	(4,736)	(4,236)	0	0	0	0	(4,236)	(500)	89%
Commissioning	(1,655)	(1,744)	(2,319)	0	0	0	0	(2,319)	575	133%
Finance & Operations	(6,528)	(5,778)	(5,778)	0	0	0	0	(5,778)	0	100%
Adults Services	(9,295)	(9,345)	(9,635)	0	0	0	0	(9,635)	290	103%
Childrens Services	(8,779)	(8,979)	(8,979)	0	0	0	0	(8,979)	0	100%
Housing	(6,560)	(6,560)	(6,560)	0	0	0	0	(6,560)	0	100%
Property	(7,096)	(7,096)	(6,212)	0	0	0	0	(6,212)	(884)	88%
Libraries & Leisure	(758)	(758)	(758)	0	0	0	0	(758)	0	100%
Built Environment	(3,159)	(3,159)	(3,159)	0	0	0	0	(3,159)	0	100%
City Management	(10,487)	(10,487)	(10,487)	0	0	0	0	(10,487)	0	100%
Corporate	(1,000)	(1,000)	(1,000)	0	0	0	0	(1,000)	0	100%
Total	*** (59,642)**	**(59,642)**	**(59,123)**	**0**	**0**	**0**	**0**	**(59,123)**	**(519)**	
Total %			**99%**	**0%**	**0%**	**0%**	**0%**			**99%**

** We have previously reported a savings programme of £60,665k for delivery in 2011/12. The reduction in the overall amount of £1,023k is as a result of redundancy figures reported in the Finance & Operations baseline when the "working assumption" was that these would be self-funding. These costs were subsequently incorporated into* *the change and redundancy costs Budget and this anomaly was corrected in Finance & Operations for consistency following a Cabinet query. The result was a reduction in the overall savings programme in 2011/12 by £1,023k.*

Over 99% of the required £60M of savings have been delivered. Most Service Areas, including Corporate Items, met or exceeded their savings targets. However, Property missed its savings target by £0.9M and SEB/Strategic Support under-delivered against the £0.5M general target. However, these shortfalls were offset by gains elsewhere.

SECTION 3: BALANCE SHEET

1. Summary Balance Sheet

Work is continuing to finalise the 2011/12 Closing Balance Sheet as part of the year-end statutory reporting process. The audited final Balance Sheet will be completed by September as part of the Statutory Accounts. This will be reported to the Audit and Performance Committee at its meeting on 25 September 2012. A high level summary of the ***current draft*** of the Balance Sheet is provided below.

Closing 2011/12 - Summary Balance Sheet

	FY10/11 Closing £000	FY11/12 Closing* £000	Movement £000
Non Current Assets	1,974,704	1,948,713	(25,991)
Current Assets	308,710	555,127	246,417
	2,283,414	2,503,841	220,427
Current Liabilities	(189,063)	(348,207)	(159,144)
Non Current Liabilities	(763,997)	(825,280)	(61,283)
	(953,060)	(1,173,487)	(220,427)
	1,330,354	1,330,354	0

** closing position un-audited draft*

The major movements are explained as follows:

Non Current Assets: The movement is primarily due to the un-winding of long-term investments.

Current Assets: Short-term investments and cash balances have increased by £100M and £104M respectively. We have actively sought to improve cashflow by increasing the level of receipts in advance and the timing of the flow of NNDR monies which although received across the year are not payable until June/July. The other major increase in this area related to Accounts Receivable (Debt) which is addressed later in this paper.

Current Liabilities: These have increased due to a number of high value creditors who will be paid shortly after the Balance Sheet date.

Non Current Liabilities: The major movement in this area relates to the increase in Long Term Borrowing which has increased by £72M, the majority of which relates to borrowing of £68M to fund the HRA self-financing payment to CLG.

In 2011/12 we increased our control and management of the Balance Sheet, building on the organisational and process improvements in "Finance Foundations. The main areas of focus and the current status of these activities are set out below:

2. Year-end Debt Position

Management of debt within the Council is dealt with in two ways. The Council's debt is split between Sundry Debt, which is managed by Strategic Finance, and Service Specific Debt which is managed by Service Areas. Sundry Debt is a very small proportion of the overall debt at year-end comprising less than 20% of the total.

Service Area - Sundry Debt (SSC - Order to Cash Team)	Days 0-30 £000	Days 31-60 £000	Days 61-90 £000	Days 91-180 £000	Days 181-365 £000	Days >365 £000	Total £000
SEB & Strategic Support	600	21	16	26	27	198	889
Finance & Operations	4,490	5	4	6	18	78	4,601
Adults Social Care	921	182	155	336	316	692	2,602
Children's Services	361	105	1	194	1	2	664
Housing	507	6	-	-	0	21	534
Property	8	-	-	-	-	-	8
Libraries & Culture	11	10	2	2	1	1	26
Sports & Leisure	68	34	7	4	5	7	125
Built Environment	1,952	41	491	30	37	126	2,678
City Management	526	203	118	325	249	338	1,759
Parking	-	-	-	-	6	-	6
WAES	1	1	-	-	6	3	11
City West Homes	437	73	354	6	56	38	963
Total	**9,883**	**682**	**1,149**	**928**	**721**	**1,503**	**14,865**
% of Total Debt	66%	3%	6%	4%	4%	21%	
Service Specific Debt							
Property	3,083	65	48	329	428	2,678	6,631
Housing Benefit Overpayment	814	659	660	1,010	2,075	11,166	16,383
Housing TA Arrears	539	-	-	-	-	4,545	5,084
Commercial Waste	192	96	22	27	- 20	- 16	301
Parking	1,530	1,071	1,137	3,247	5,864	21,403	34,251
Total	**6,158**	**1,890**	**1,867**	**4,613**	**8,346**	**39,776**	**62,650**
% of Total Debt	10%	3%	3%	7%	13%	63%	
Grand Total	**16,041**	**2,572**	**3,016**	**5,541**	**9,067**	**41,279**	**77,515**

Overall, the Council's year-end net debt position is £77.5M comprised of £14.9M Sundry Debt and £62.6M of Service Specific Debt. This compares to the opening debt position of £79.5M, £10.3M Sundry Debt and £69.2M Service Specific Debt. Overall, this is a £2M reduction in debt over the year, an increase in Sundry Debt of £4.6M and a reduction in Service Specific Debt of £6.6M. The Sundry Debt increase relates to the first Metro-wireless payment of £4.3M, which has now been received. The Service Specific Debt decrease relates to a net reduction in Parking debt of £9M offset by increases in Property debt of £2.4M.

In general, the management of debt has historically been less than effective. In recent months, new processes and disciplines have been introduced to address this. Part of this has been a full year-end review, requiring input from SEB directors on the justification for, and actions plans on, current balances. This review has confirmed that, whilst debt management has been insufficiently rigorous, provisioning has been broadly adequate and risks to Revenue have been contained. Only two Service Areas have increased their debt provisions; Corporate Property £0.5M and Adults £0.1M. Both changes have been included in their Revenue outturn for the year. Given the significance of this issue, a separate report will be circulated to Cabinet/SEB on the future debt management programme.

3. Capital Expenditure Outturn

For 2011/12 the actual outturn is £31.9M which is £7.5M below the full-year £39.4M Budget (excluding HRA). The reduction is due to £6.5M of slippage and £1M of net underspend. Slippage represents 16% of the full year Service Area Budget of £39M.

The variance to Budget of £7.5M is due to the following:

- Finance & Operations - £0.6M below Budget; £0.3M underspend and £0.3M slippage in IT due to delays in Parking system change requests being approved;

- Childrens - £3.1M below Budget this is all due to slippage in BSF and summer works programme;
- Housing - £0.4M over Budget due to overspends;
- Property - £2.1M below Budget; £0.5M underspend and £1.6M slippage due to Emanual House £0.5M, Grosvenor Dock fit out £0.4M and Lisson Grove £0.3M;
- Libraries - £1M below Budget; £0.4M underspend and £0.6M slippage due to delays in the merger of Westminster Reference Library and Charing Cross Library;
- Built Environment - £0.4M below Budget. This is all due to slippage of two schemes; footway maintenance and improved lighting;
- City Management - £0.6M below Budget; £0.1M underspend and £0.5M slippage due to Hanwell Cemetery and Public Convenience barrier installation.

SECTION 4: STRATEGIC FINANCE PROJECTS

- **"Finance Foundations" and "Forging Finance"**: In 2011/12 we successfully delivered "Finance Foundations." This project involved two key activities; the separation of transactional from value-added activities and building capacity and capability of Finance staff. As a result, we were able to reduce Finance operating costs by £0.9M. This has established a firm base from which we can further develop our capabilities, systems and processes as part of "Forging Foundations;"
- **Programme Athena:** This procurement was launched in early 2012. The response from the market has been very positive and, following evaluation of the submitted Pre-Qualification Questionnaires, the selected bidders started the Competitive Dialogue process on 26 April for all 4 lots (Finance/HR, e-Sourcing, Asset Management, Business Intelligence). Through the remainder of 2012, business change and transition planning will continue in parallel with the remaining stages of procurement;
- **Trading Accounts:** During 2011/12 we explored ways of charging and reporting Corporate Services costs more transparently, from an estimated basis to a demand driven approach. In 2012/13 we will be preparing Trading Accounts for both Legal Services and the Business Development Unit on an aligned and consistent basis;
- **Debt Review:** as set out above;
- **Gateway Process:** A "gating" process has been introduced to monitor progress on capital projects and ensure only completed capital projects are identified as assets on our Balance Sheet; and
- **2011/12 Financial Management -** The year-end/closure process was delivered for the first time under the new "Finance Foundations" operating model. Overall the process has worked better than in prior years. However, a number of improvements have been identified. The three issues below are the most significant.
  - Systems/IT Issues:
    - Sharepoint: there were some performance issues with Sharepoint. IT and Finance are working together to move to the 2010 platform and a faster server;
    - Orchard Implementation: Orchard is the new financial system for City West Homes. Implementation occurred very late into 2011/12 with significant

migration issues. This resulted in issues in the 2011/12 year-end process in terms of the availability and accuracy of Housing data;

- Alignment of year-end timetables: despite greater attention to year-end planning and communications, the timetable was not effectively aligned with requirements of our third party providers (such as Vertex). This will be addressed in future planning;
- Monthly vs Year-end accounting transactions: it has been an objective for some time to move towards more comprehensive financial reporting each month, avoiding a build up of issues at year-end. This has been partially achieved in 2011/12, however we plan to undertake quarterly Balance Sheet soft-closes in 2012/13 to ensure that transactions are processed on a more timely basis in-year.