



Audit and Performance Committee

Date:	Thursday 14th July 2016
Classification:	General Release
Title:	Period 2 Finance Report
Report of:	City Treasurer
Cabinet Member Portfolio	Cabinet Member for Finance and Corporate Services
Wards Involved:	All
Policy Context:	The efficient and effective management of the Council's financial affairs
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1. Key Messages

1.1 Please note this report is in a new format and is open to feedback. Improvements made include:

- Charts to show summary level performance for Cabinet portfolios
- Commentary for service areas and cabinet portfolios illustrated in a table along with relevant financial data which it is hoped are easier to read than the previously used text based format
- New sections on treasury and pensions providing a more in depth knowledge of the finances of Westminster Council
- Further improvements to be made during the year

Revenue – Forecast Outturn

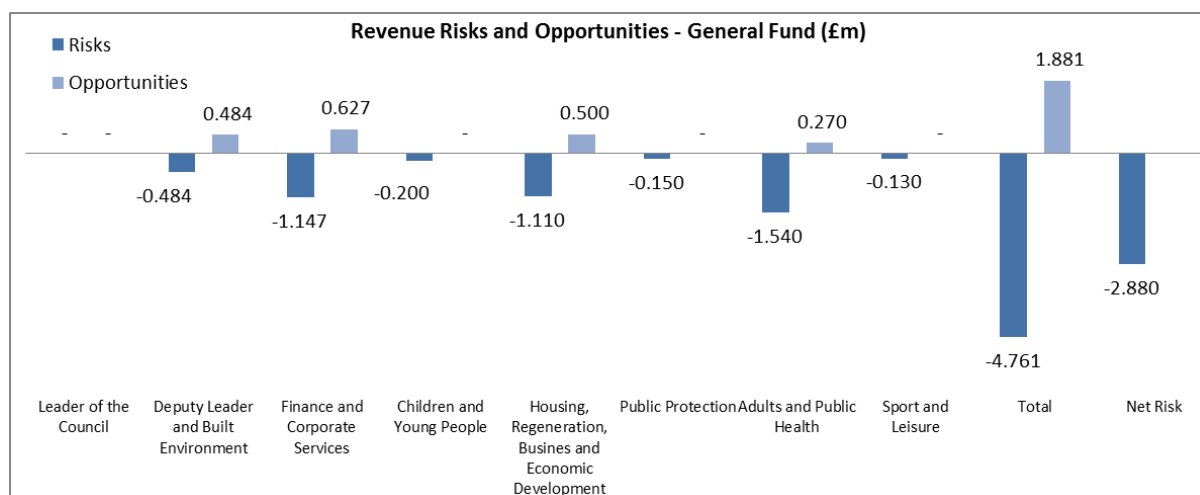
1.2 At the end of period 2, the General Fund is projected to outturn on budget at year end.

Revenue – Key Risks and Opportunities

1.3 Currently there are £4.761m of identified service area risks, which are being carefully monitored to minimise their potential impact. Set against these are potential opportunities of £1.881m. The charts below show the distribution of these within and Cabinet portfolios.

- 1.4 The net risk position of £2.880m is largely related to unmitigated costs of the Temporary Accommodation service (£1.00m).

Risks and Opportunities by Cabinet portfolios



Capital – Forecast Outturn

- 1.5 The overall gross General Fund capital programme for 2016/17 is £357.970m, which is partly funded from external contributions of £103.74m. This gross budget includes re-profiling from the 2015/16 approved capital programme.
- 1.6 As at the end of period 2 the forecast gross outturn is £319.280m, £38.690m lower than the approved budget. Key projects contributing to this variance are detailed in the table below.
- 1.7 All directorates will be carrying out a detailed review of budgets at the end of quarter 1. At the end of period 2, expected re-profiling is reported as £38.690m. The table below details the projects which make up this figure.

Capital forecast outturn against budget at period 2

	Approved Gross Budget (£m)	Forecast Outturn (£m)	Variance to Budget (£m)	Prior Period Forecast Outturn (£m)
Capital Programme 2016/17	357.970	319.280	38.690	n/a
Comprising of:				
Marylebone Library	16.664	4.166	12.498	n/a
Huguenot House	21.365	16.024	5.341	n/a
Leisure Estate	83.100	62.325	20.775	n/a

2. Revenue Expenditure - Cabinet

2016/17 Budgets and Projected Expenditure – By Cabinet Member

2.1 As shown in Table 1 below, at period 2 Cabinet areas are projecting to outturn on budget.

P2 Forecast Outturn by Cabinet Member

Cabinet Portfolio Structure	Budget	Projected Outturn	Projected Variance	Risks Identified	Opp'nities Identified	Projected Net Risk
	£000	£000	£000	£000	£000	£000
Leader of the Council	4,927	4,927	-			-
Deputy Leader and Built Environment	(606)	(606)	-	484	(484)	-
Finance and Corporate Services	43,330	43,330	-	1,147	(627)	520
Children and Young People	33,722	33,722	-	200	-	200
Housing, Regeneration, Business & Economic Development	14,580	14,580	-	1,110	(500)	610
Public Protection	10,599	10,599	-	150	-	150
Sustainability and Parking	(61,915)	(61,915)	-	-	-	-
City Management and Customer Services	55,668	55,668	-	-	-	-
Adults & Public Health	69,814	69,814	-	1,540	(270)	1,270
Sport and Leisure	13,001	13,001	-	130	-	130
SERVICE AREA TOTAL	183,120	183,121	-	4,761	(1,881)	2,880

Council Tax	49,350	49,350	-
Business Rates Expenditure (Tariff)	75,919	75,919	-
Revenue Support Grant	57,851	57,851	-
Corporate Financing	183,120	183,120	-
Net (Surplus) / Deficit	-	-	-

Leader of the Council (Cllr Roe)

A nil reported forecast variance and no risks or opportunities are being reported at period 2.

Deputy Leader of the Council and Built Environment (Cllr Davis)

A nil reported forecast variance at period 2. Risks and Opportunities are detailed in the table below.

EMT Directorate	Forecast Variance to budget (£m)	Risks (£m)	Opps (£m)	Explanation
Policy, Performance and Communications	-	0.150	(0.150)	Potential risk of £0.150m relating to lower than expected commercial activities. However, the shortfall in income will be offset by under spend on pay due to vacancies not filled
Policy, Performance and Communications	-	0.334	(0.334)	Risk relates to the shortfall of income from Westminster CIL. CIL was initiated on the 1st May 2016, it is anticipated that the full income target of £1.00m will not be achieved in 2016/17. A proxy figure of £0.334m has been used as the potential shortfall. It is difficult to predict the actual income because income is only due when a development has started construction.

				Additional income opportunities of £0.344m from section 106 monitoring fees and Mayoral CIL income expected to be a one off benefit.
Total	-	0.484	(0.484)	
Net Risk Total			-	

Finance and Corporate Services (Cllr Mitchell)

A nil reported forecast variance at period 2 against budget. Risks and Opportunities are detailed in the table below.

EMT Directorate	Forecast Variance to budget (£m)	Risks (£m)	Opps (£m)	Explanation
Chief of Staff	-	0.100	(0.100)	Risk reported at period 2 on Coroner's Service from specialist fees of £0.100m. Mitigated by opportunities reported on Local Land Charges income (£0.050m) and on staff vacancies (£0.050m).
Corporate Services	-	0.427	(0.427)	Risk reported £0.427m on savings target for Bi-Borough restructure and capital ESourcing mitigated by opportunity reported of (£0.427m) on margins charged from agency staff contract with Comensura
		0.100	(0.100)	Risk reported of £0.100m on telephony charges mitigated by an opportunity of a salary underspend due to posts being vacant part of the year (£0.100m).
Growth, Planning and Housing	-	0.520	-	Allocation of digital transformation savings not yet identified £0.400m. Changes to the constitution for link could result in £0.120m additional cost.
Total	-	1.147	(0.627)	
Net Risk Total			0.520	

Children and Young People (Cllr Chalkley)

At the end of period 2, the forecast outturn for the Children's Services Department is on budget. Risks are detailed in the table below.

EMT Directorate	Forecast Variance to budget (£m)	Risks (£m)	Opps (£m)	Explanation
Children's Services	-	0.200	-	<p>Children's Services are expecting a balanced outturn for 2016/17 against budget.</p> <p>Within Family Services there is a forecast overspend as a result of increased placements pressures of £1.095m along with Section 17 housing cost pressures of £0.150m and other minor variances of £0.168m.</p> <p>Within the Schools Commissioning and Education directorate there is a forecast overspend of £0.795m. This is due to an increase in demand for SEN transport of £0.590m as a result of increased parental awareness, in addition to £0.270m of staff costs incurred to reduce the backlog of Education Healthcare plan conversions.</p> <p>Children's Services been able to partially offset these pressures through cross directorate mitigations shown in Finance and Resources as well as budgets held for service pressures from prior year savings and efficiencies.</p> <p>In addition the Building Schools for the Future Programme has now concluded and will result in a positive variance of £0.223m. This is offset by expenditure on by Children's services to support the delivery of major projects and other minor variances of £0.011m.</p> <p>There is a risk of £0.200m is in respect of potential fostering allowances which the council may now incur following the Tower Hamlets judgment.</p>
Total	-	0.200	-	
Net Risk Total		0.200		

Housing, Regeneration, Business & Economic Development (Cllr Astaire)

A nil reported forecast variance at period 2. Risks and Opportunities are detailed in the table below.

EMT Directorate	Forecast Variance to budget (£m)	Risks (£m)	Opps (£m)	Explanation
Growth, Planning and Housing	-	1.110	(0.200)	Risks have been identified within Temporary Accommodation; there is a £0.500m run rate risk from 2015/16 and in addition £0.500m from risk of non-delivery of 2016/17 TA savings initiatives. In addition there is £0.110m risk of under delivery from the MTP HOS saving. Risks offset by better than forecast outturn position within Housing Benefits (£0.200m)
Growth, Planning and Housing	-	-	(0.300)	Opportunity of savings within rough sleeper and supporting people services (£0.300m)
Total	-	1.110	(0.500)	
Net Risk Total		0.610		

Public Protection (Cllr Aiken)

A nil forecast variance at period 2 is being reported. Risks and Opportunities are detailed in the table below.

EMT Directorate	Forecast Variance to budget (£m)	Risks (£m)	Opps (£m)	Explanation
City Management and	-	0.150	-	£0.150m risk to pest control income due to reduced service capacity as a result of resourcing issues.
Total	-	0.150	-	
Net Risk Total		-		

Sustainability and Parking (Cllr Acton)

A nil forecast variance and no risks or opportunities at period 2 are being reported.

City Management and Customer Services (Cllr Caplan)

A nil forecast variance and no risks or opportunities at period 2 are being reported.

Adults and Public Health (Cllr Robathan)

A nil reported forecast variance at period 2. Risks and Opportunities are detailed in the table below.

EMT Directorate	Forecast Variance to budget (£m)	Risks (£m)	Opps (£m)	Explanation
Adult Services	-	1.540	(0.270)	<p>The Customer Journey MTP saving may not be deliverable due to staff notice periods creating a risk of £0.350m.</p> <p>Opportunities of (£0.270m) may be realised from a reduction in agency staff expenditure through a realignment of existing post duties to bring forward the delivery of savings and will offset the MTP risk leaving a balance of £0.080m.</p> <p>Non MTP risks of £0.290m relating to the transfer of Learning Disabled Children to Adult Social Care. The mandatory National Living Wage on adult social care contracts also gives rise to a risk of £0.900m. However, detailed financial modelling of the National Living Wage risk will be completed in time for reporting in period 3.</p>
Adult Services	1.007			<p>Increase demand in non-residential care services is forecast to create an adverse variance of £1.007m.</p> <p>Positive variances which offset this balance are to be generated through increase payment claw-backs of £0.460m, contact underspends in Strategic Commissioning, Occupational therapy and Learning Disability service of £0.365m, £0.092m and £0.090m respectively.</p>
	(0.460)			
	(0.365)			
	(0.090)			
	(0.092)			
Total	-	1.540	(0.270)	
Net Risk Total		1.270		

For further information there are on-going pressures on Adult Social Care budgets and a forecast demand growth for care services. These include:

- increasing numbers of older people
- people with disabilities
- people with long term health conditions needing care.

These demographic pressures are exacerbated by increasing pressure from hospitals to discharge patients speedily, particularly during winter months. Also there is added pressure from:

- reduced capacity to make efficiencies from external care providers without affecting the quality of care they provide
- an increase in homecare costs.

The state of the market and unavoidable cost pressures will continue to be a major challenge. Acuity and level of complexity is increasing alongside demographic changes. There are workforce pressures from the London Living Wage and National Living Wage and the driving down of prices. These are all major dynamics that are impacting on the availability and quality of services. Internal reviews of all areas of expenditure are on-going in order to mitigate pressure from placements and demographic growth.

Public Health

At the end of period 2, the forecast outturn for Public Health is predicted to be on budget for 2016/17. Any budget pressures are currently expected to be contained within existing ring-fenced grant income.

At the last Spending Review the Chancellor advised that there would be further savings in the public health grant. This reflects an average real terms saving of 2.6% each year to 2020/21. Medium Term Savings Plans are being assessed in light of this.

In addition to these grant cuts, an Advisory Council of Resource Allocations (ACRA) consulted in regards to the future calculation of the Public Health Formula. It is not yet known what effect the proposed formula may have on the level of the Public Health Grant as the proposed grant figures are not yet available.

The concern is that there will be a reduction in the grant allocations as well as a reduction in the total National Grant pot. It is anticipated that WCC could take a higher hit as the Council is historically overfunded per head of population.

Sports, Leisure & Customer Services (Cllr Harvey)

A nil reported forecast variance at period 2. Risks and Opportunities are detailed in the table below.

EMT Directorate	Forecast Variance to budget (£m)	Risks (£m)	Opps (£m)	Explanation
City Management and Communities	-	0.036	-	Risk of £0.036m due to the Archives no longer receiving income from LBHF for help in running the service following the set-up of the Tri-Borough service.
		0.069		Risk of £0.069m of the saving identified for the Digital programme is a risk while further work is undertaken to verify how much can be removed whilst retaining a good service.
		0.025		Risk of £0.025m due to water charges for cemeteries have been higher than expected. The service will try to mitigate this by making one-off savings in the Parks and Cemeteries budgets
Total	-	0.130	-	
Net Risk Total		0.130		

3 Capital Expenditure

Table 2: 2016/17 Budgets and Projected Expenditure – By Cabinet Area

All Service Areas	Approved Budget 2016/17 £'m			P2 Forecast £'m			Gross Expenditure Variance	Gross Income Variance
	EXP	INC	NET	EXP	INC	NET	£'m	£'m
Adults & Public Health - Cllr Robathan	1.39	(0.82)	0.57	1.39	(0.82)	0.57	-	-
Children and Young People - Cllr Chalkley	9.13	(8.43)	0.69	9.13	(8.43)	0.70	-	-
Housing, Regeneration, Business and Economic Development - Cllr Astaire	67.22	(52.64)	14.57	67.22	(52.64)	14.57	-	-
Sustainability And Parking - Cllr Acton	-	-	-	-	-	-	-	-
Finance and Corporate Services- Cllr Mitchell	208.52	(28.62)	179.90	182.41	(28.62)	153.79	25.11	-
City Management and Customer services - Cllr Caplan	12.27	-	12.27	12.27	-	12.27	-	-
Sports and Leisure Services - Cllr D Harvey	7.12	(0.25)	6.87	7.12	(0.25)	6.87	-	-
Public Protection - Cllr Aiken	3.06	(0.64)	2.42	3.06	(0.64)	2.42	-	-
Deputy Leader and Built Env. - Cllr Davis	49.27	(12.34)	36.93	36.77	(12.34)	24.43	12.50	-
NET BUDGET POSITION	357.97	(103.74)	254.23	319.37	(103.74)	215.62	38.60	-
Net Expenditure funded by								
Capital Receipts			(113.56)			(113.56)	-	-
Borrowing			(140.67)			(102.07)	-	-
Total Funding for net expenditure			(254.23)			(215.62)	-	-

Finance and Corporate Services (Cllr Mitchell)

Huguenot House - £16.024m forecasted spend, re-profiling of £5.341m (75% expected spend against budget)

- Since setting the budget there has been clarity regarding the timelines. The Outline Business Case is currently being developed and is expected to be completed in October. At this point there will be authorisation to take the scheme forward and to spend against the capital budget for the next stage. Once the Outline Business Case has been approved, there is expected to be expenditure in this financial year for acquisitions and further design work.

Leisure Estate - £62.325m forecasted spend, re-profiling of £20.775m (75% expected spend against budget)

- Since setting the budget there has been clarity regarding the timelines. The Outline Business Case is currently being developed and is expected to be completed in October; at this point there will be authorisation to take the scheme forward and to spend against the capital budget for the next stage. Once the Outline Business Case has been approved, there is expected to be expenditure in this financial year for acquisitions and further design work.

Deputy Leader and Built Environment. - Cllr Davis

Marylebone Library - £4,166k forecasted spend, slippage of £12,498k (25% expected spend against budget)

- The delivery of this scheme is under review. In line with this there is expected to be a delay to the project.

A full review of the Capital programme will take place at the end of quarter 1. At that time re-profiling will be identified within the programme. At the end of period 2 the actual on the expenditure for capital was a credit of £6.238m.

4 HRA

4.1 Revenue Expenditure - 2016/17 Budgets and Projected Expenditure

As shown in Table 3 below, at period 2 the forecast outturn is a surplus of £7.340m, in line with budget.

Revenue Period 2 Forecast Outturn

Description	Approved Budget	Forecast Outturn	Variance
	£'000	£'000	£'000
Income			
Dwelling Rent	(75,764)	(75,764)	0
Non Dwelling Rent	(1,188)	(1,188)	0
Service & Facilities charges	(17,017)	(17,017)	0
Other Income	(13,410)	(13,410)	0
Total Income	(107,378)	(107,378)	0
Expenditure			
Housing Management	47,769	47,769	0
Repairs & Maintenance	16,267	16,267	0
Capital Charges	35,152	35,152	0
Bad Debt Provision	850	850	0

Total - Expenditure	100,038	100,038	0
Net Operating deficit/ (surplus)	(7,340)	(7,340)	0

- 4.2 For further information, the Housing and Planning Act 2016 requires local authorities to sell off high value void dwellings. Then make a payment to the Secretary of State or replace each sold dwelling with at least one new affordable home. Details of how this will work will be set out in regulation expected later in the year. As a result it is anticipated that dwelling rent might reduce as vacant dwellings are held or sold. Impact on the current year budget and the HRA in general will be established and reported soon after detailed regulation is published.

Capital Expenditure

- 4.3 As shown in Table 4 below, at period 2 the forecast outturn is £82.513m, in line with budget. There are no major variances reported at this stage, however it is anticipated some regeneration or elements of the major works projects will be delayed.

Capital Period 2 Forecast Outturn

Description	Approved Budget	Forecast Outturn	Variance
	£'000	£'000	£'000
Major Works	41,418	41,418	-
Housing Zone Regeneration	29,635	29,635	-
Other Projects	11,459	11,459	-
Total Capital Expenditure	82,513	82,513	-
Financed By:			
Major Repairs Reserves (MRR)	22,767	22,767	-
New Borrowing	29,700	29,700	-
Capital Grant - AHF	1,681	1,681	-
Capital Receipts - Other	18,365	18,365	-
Capital Receipts RTB/Non RTB	1,051	1,051	-
HRA Reserves	8,948	8,948	-
Total Financing	82,513	82,513	-
Net	-	-	-

HRA Reserves

- 4.4 The HRA general reserves stood at £31.606m on 1st April 2016. The Operating account will contribute an estimated £7.340m to the reserves this year and an estimated £8.948m will be used to finance HRA Capital expenditure. This will result in an estimated end of year balance of £29.998m. Other HRA balances stood at £56.435m on 1st April 2016. This includes earmarked reserves, accumulated right to buy and other capital receipts from

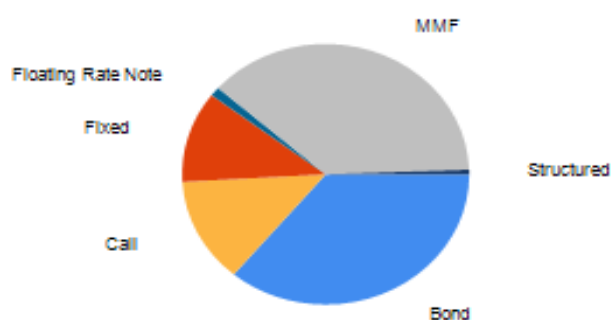
the sale of HRA assets. These reserves are available to finance HRA earmarked revenue and capital expenditure.

5 Treasury and Pensions

Treasury

- 5.1 The investment balance as at 10 June 2016 stood at £875.300m. The weighted average return in period 2 was 0.61%. This compared to an average investment balance of £848.000m in 2015/16, which generated an average return of 0.59%.
- 5.2 As at 10 June 2016 the current deposits by type are as follows, and the five largest counterparties are shown in table 7:

Current Deposit Allocation by Type



Glossary:

- MMF** – Money Market Funds, these are pooled funds which are secure and available on demand with relatively low returns.
- Structured** – Has a maturity date like a fixed term deposit, but it is completely dependent on the performance of the underlying financial asset(s) for its investment return.
- Bond** – a debt security which pays interest per the terms of the bond at fixed intervals. Very often the bond is negotiable/tradable in the secondary market.
- Call** – a call account requires a minimum balance on the account in exchange for a higher interest rate
- Fixed** – placed for an agreed period of time and as such pays a higher interest rate than money market funds
- Floating Rate** – varies in line with a market reference rate such as LIBOR or Bank base rate. Market reference is not the same as the interest rate on money market funds

List of Five Largest Counterparties

Counterparty Name	Amount (£'000)	%
Deutsche Managed Sterling Platinum	70,000	8.00
Aberdeen Sterling Liquidity Fund (Institutional)	70,000	8.00
Federated Sterling Liquidity Fund (Institutional)	69,500	7.94
JPM Liq Sterling Liquidity Institutional Dis NAV GBP	68,200	7.79
UK Government	54,772	6.26

Pensions

5.3 The Westminster Council pension fund valuation as at 31st March 2016 is as follows:

Manager	Asset Class	End Dec 2015 (£m)	End Mar 2016 (£m)	End Dec 2015 (%)	End Mar 2016 (%)	Benchmark Allocation* (%)
Majedie	UK Equity	241.8	241.5	23.1	22.8	22.5
LGIM	Global Equity (Passive)	243.2	239.9	23.2	22.7	22.5
Baillie Gifford	Global Equity	178.1	178.9	17.0	16.9	25
Longview	Global Equity	107.1	113.9	10.2	10.8	
	Total Equity	770.2	774.2	73.5	73.2	70
Insight	Fixed Interest Gilts (Passive)	17.9	18.4	1.7	1.7	20
Insight	Sterling Non-Gilts	154.7	158.5	14.8	15.0	
	Total Bonds	172.6	176.9	16.5	16.7	20
Hermes	Property	54.9	55.4	5.2	5.2	5
Standard Life	Property	50.5	51.1	4.8	4.8	5
To be Determined	Property/Infrastructure	-	0.0	-	0.0	-
	Total Property	105.4	106.5	10.1	10.1	10
	Total	1,048.2	1,057.6	100	100	100

Source: Investment Managers

Figures may not sum to total due to rounding

Investment Returns

5.4 The three year annualised return after fees of 7.7% exceeded the benchmark by 0.6%. All the fund managers either matched or exceeded their benchmarks.

5.5 The funding level as at March 2016 of 78%, using 2013 assumptions, is 4% higher than March 2013. This is currently subject to review by officers and a plan is being developed to reduce the deficit in the most economically advantageous way. This potentially may involve making use of the council's cash balances.

5.6 Key issues looking forward are:

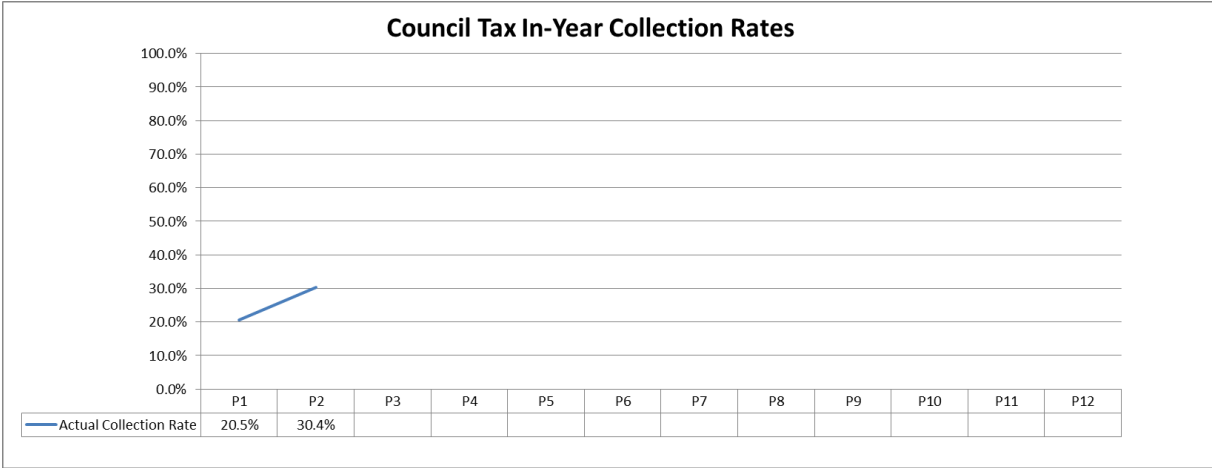
- actuarial valuation and contribution setting for all Council and the other employers
- solvency testing for employers and developing a policy for admitted (contractor) employers
- working with the London CIV to develop a fund manager structure and transfer assets
- review of pension fund risk register using better definitions of probability and impact
- working with HR to enhance the monitoring of contributions
- re-tender of the mandate for investment consultancy services
- training for Pension Committee and Board

5.7 The City Treasurers service are currently investigating Treasury and Pensions funding and financing and will be reporting back on options in the Autumn.

6 Council Tax and Business Rates Collection

Council Tax

6.1 As at the end of period 2, 30.4% of Council Tax had been collected. This means we are currently on track to collect 96.6% of Council Tax, exceeding our target of 96.5%. At the corresponding period last year we had collected 29.0% of Council Tax.



Business Rates

6.2 As at the end of period 2, 22.1% of Business Rates had been collected. This means we are currently on track to collect 98.5% of Business Rates, meeting our target. At the corresponding period last year we had collected 22.9% of Business Rates. This is shown in the chart on the following page.



7 Recommendation to Committee

7.1 That the Committee notes the Period 2 monthly monitor.

**If you have any queries about this Report or wish to inspect any of the
Background Papers please contact Steven Mair 020 7641 2904**