City of Westminster

Audit & Performance Committee

Date:	18 June 2020
Title:	2019/20 Annual Accounts & Outturn
Financial Summary:	This report presents the draft 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 2020
Report of:	Gerald Almeroth, Executive Director – Finance & Resources

1. Background

1.1. This report presents the Council's 2019/20 outturn position for revenue and capital for the General Fund (GF) and Housing Revenue Account (HRA). As well as a summary of the pension fund and the Council's treasury management for the year.

1.2. The report also includes the 2019/20 statement of accounts and a summary of these accounts. The statement of accounts appended to this report are draft at this stage and an audited version of the accounts will be presented to the Committee at its July meeting for final sign off. These will be after the public inspection period which is due to end on 1st July 2020.

2. Executive Summary

2.1. The General Fund revenue position has seen a net outturn of £0.530m underspend against an approved budget of £181.993m. This compares to a Period 10 (January 2020) forecast underspend of £2.643m. The majority of this movement is due to income losses as a result of the covid-19 pandemic.

2.2. The revenue underspend will increase the Council's general reserves to £63.306m. This will assist the Council's financial resilience, especially to deal with the financial pressures that will result from covid-19.

2.3. The HRA revenue outturn is a surplus of £0.131m, against a budgeted surplus of £9.793m. HRA revenue balances have increased by the surplus to £17.365m

2.4. The general fund capital outturn represents a gross expenditure underspend of £71.527m against budget. This compares to a gross expenditure budget of £235.211m.

2.5. The HRA capital outturn has a variance of £31.721m against a budget of £149.854m.

2.6. The total value of the Pension Fund as at 31st March 2020 was £1.324bn. This is made up of investments in various assets – 66% equities, 23% bonds, 10% property, 1% infrastructure.

3. Recommendations

3.1. That the Audit and Performance Committee approve the draft 2019/20 statement of accounts subject to the public inspection period and the audit currently underway.

4. Revenue Outturn

4.1. The table below summarises the general fund revenue year end position:

Member Porfolio	2019/20 Budget £000	2019/20 Outturn Variance £000
Leader of the Council	8,714	(168)
Deputy Leader and Cabinet Member for Finance, Property & Regeneration	42,482	(2,819)
Deputy Leader and Cabinet Member for Adult Social Care and Public Health	53,663	(490)
Children's Services	33,266	50
Housing Services	24,279	358
Environment & Highways	(14,284)	1,059
Business & Planning	2,901	560
Community Services & Digital	20,893	775
Public Protection and Licensing	10,080	145
Net Controllable Budget	**181,993**	**(530)**
Funding:		
Council Tax	(56,683)	
Business Rates	(125,310)	

4.2. The Council has a total general fund revenue underspend of £0.530m for 2019/20. It is estimated that this would have been an underspend of c£1.9m pre covid-19. The Council has reduced income in the last 2-3 weeks of the financial year due to the pandemic in the following areas:

- Parking – approximately £0.700m of income losses due to covid-19
- Policy, Performance & Communication – waiver of the Westco contribution due to covid-19, leading to a £0.300m income loss for the Council

- PPL, Registrars and Highways – £0.280m of income losses due to covid-19

4.3. Leader of the Council - £0.168m underspend

4.3.1. Chief Executive's Office - £0.177m underspend: this is due to a net salary underspend of £0.122m and an underspend on legal fee charges of £0.084m partially offset by an overspend on staff development of £0.029m.

4.3.2. Cabinet Secretariat and Member Services - £0.160m underspend: the underspend is from careful management of staff costs and secondments of £0.094m, an underspend on Members Allowances of £0.032m and an underspend across a range of different non-pay budget lines of £0.034m.

4.3.3. Director of Policy and Projects - £0.463m underspend: the underspend is due to project budgets underspending by £0.490m and an underspend on salaries of £0.032m due to careful management of staff costs. This is offset by one-off redundancy post restructure of £0.039m and reprofiling of income by £0.020m.

4.3.4. Campaigns, Research and Insight - £0.444m overspend: the overspend of £0.444m is from a one-off agreement to waive the Westco 2019/20 contribution of £0.300m and one-off fees to Westco of £0.144m to support various campaigns and council initiatives relating to prior and current financial year.

4.3.5. Media & Digital Communications £0.184m overspend: the overspend is due to a one-off expenditure on staff costs totally £0.134m and non-pay costs associated with media monitoring and licence costs of £0.050m.

4.3.6. City Promotions, Events and Filming - £0.329m overspend: the overspend is due to an under recovery of the income target for events, filming and park hire of £0.413m, corporate cost spends on Banksy and Open House totalling £0.036m; increased bad debt provision of £0.123m; and an overspend on staffing by £0.013m. This has been offset by additional income from Outdoor Media of £0.199m plus an underspend on non-pay budgets by £0.057m.

4.3.7. The remaining balance is due to other minor variances across the portfolio.

4.4. Deputy Leader & Cabinet Member for Finance, Property & Regeneration - £2.819m underspend

4.4.1. Treasury and Pensions - £1.400m underspend: there is an underspend of £1.700m driven by average cash balances available for investment and yields continuing to be higher than initial assumptions, this is offset by a

£0.300m one-off charge against investment income surplus due to the consultancy cost on forward loan deals.

4.4.2. Procurement Services - £0.599m underspend: there is an underspend of £0.325m relating to the delay of the CapitalEsourcing platform into 2020/21, a £0.164m over recovery of corporate contract charges and a £0.110m net staffing underspend.

4.4.3. Housing Benefits - £0.973m underspend: This is due to a number of variances including the under recovery of HB overpayments of £2.199m, shortfall in HB Subsidy of £0.778m, overspend of £0.554m incentive payments to Capita. This is offset by a reduction in the bad debt provision of £2.288m, underspend of £1.137m in relation to discretionary housing payments and an unbudgeted DHP grant of £1.079m.

4.4.4. The remaining variance is due to other smaller movements across the portfolio.

4.5. Deputy Leader & Cabinet Member for Adults Social Care & Public Health - £0.491m underspend

Adult Social Care

4.5.1. Adults Social Care is reporting an underspend of £0.421m which is 0.8% of the annual budget of £54.256m in 2019/20. This is after the allocation of one-off funding received such as the Winter Pressures Funding, £1.323m and Improved Better Care Fund (iBCF), £15.807m.

4.5.2. The key drivers for the financial position are an underspend on pay from vacancies during the year, £0.277m, contractual savings of £0.325m and placement and packages spend being below budget by £0.281m. However, the placement and packages underspend is offset by the overspend on Mental Health, £0.462m. Further details are provided below.

4.5.3. Care & Assessment - Physical Support & Support with Memory & Cognition - £0.281 underspend: The underspend on placement and packages was anticipated and reported during the financial year 2019/20. Expenditure is driven by volumes and complexity of care, variance of £0.281m represents a variance of less than 1% against annual budget.

4.5.4. Health Partnerships, Learning Disabilities & Mental Health - £0.060m overspend: The key driver for the overspend is due to an increase in Mental Health spend both number of packages and unit cost, giving a net overspend of £0.462m which is 1.44% of the annual budget of £32m. However, contract savings of £0.275m, relating to Mental Health Supported Accommodation have been achieved. This is due to an earlier conclusion of negotiation and implementation of a revised service specification. The full year saving in 2020/21 is expected to be £0.300m. In addition, there is an underspend on staffing of £0.127m which predominantly relates to WCC share of 2 vacant senior posts.

4.5.5. Integrated Commissioning - £0.200m underspend: the underspend is primarily driven by staffing due to vacancies during the year whilst a staffing review is ongoing, £0.150m. In addition, a net saving across a range of different contracts, £0.050m.

Public Health

4.5.6. The final outturn position for 2019/20 for Public Health (PH) service is a nil variance. The service is fully funded by a Department of Health (DoH) grant, in addition to the budgeted drawdown from the accumulated Public Health reserve. This is to ensure that there is no impact upon the Council's General Fund. The budget for 2019/20 includes in year DoH grant of £30.425m plus £1.425m from the PH earmarked reserves. However, the amount required from the reserve is £0.436m less than budgeted. Majority of the budgeted expenditure is commissioned from third party providers on block and activity driven contracts which are in place to improve the health of everybody in the City of Westminster. Further details are provided below.

4.5.7. Substance misuse – £0.138m underspend: The favourable variance relates to decrease in spot-purchased placements during the year. This is due to the Core Drugs and Alcohol contract having sufficient capacity for referrals during the year. As a result, the Risk & Transformation fund was not required.

4.5.8. Sexual health – £0.058m underspend: This is mainly driven by a combination of underspends in the GUM and Contraception services. These services reported lower activity during the final two months of the year which is attributed to the Covid 19 pandemic.

4.5.9. Behaviour change – £0.179m underspend: This is mainly due to Integrated Healthy Lifestyle Service (IHLS) and Smoking Cessation service. These services were more closely aligned during the year and as a result, the costs for Smoking cessation were less than budgeted.

4.5.10. Families & Children – £0.157m underspend: The favourable variance is mainly due to the ending of the Childhood Obesity contracts. In addition to this, there has been underspend in Mental Health and Dental Health services.

4.5.11. Intelligence – £0.037m underspend: The favourable variance is due to the decrease spend on specialist software and publications. This is because fewer subscription to software licences were needed during the year than initially budgeted.

4.5.12. Employee costs (Public Health) – £0.133m overspend: This is due to vacancies which are covered by interim members of staff during the year.

4.5.13. Reserves transfers – £0.436m drawdown: The amount needed from the Earmarked Reserves less than budgeted due to the variances listed above.

Lord Mayor's Office

4.5.14. The portfolio also includes the Lord Mayor's office which has an underspend of £0.068m due to an underspend in staffing costs.

4.6. Children's Services - £0.050m overspend

4.6.1. Education - £0.515m overspend: At year-end, the Directorate had pressures in areas reported during the year of £0.040m in Passenger Transport, £0.415m in Short Breaks respite and placements and £0.480m of salary related pressures. This was partially offset by Speech and Language Therapy costs now charged to the DSG £0.420m.

4.6.2. Family Services - £0.193m overspend: There is an underspend of £0.890m in LAC and Leaving Care mainly due to the increased UASC rate from the Home Office. However, there are a number of offsetting overspend areas, including use of agency workers in Access and Assessment (£0.641m), increases in legal and Section 24 support costs in Child Protection (£0.220m), staffing costs in Safeguarding, Review and Quality Assurance (£0.145m) and Emergency Duty Team (EDT) pressures (£0.096m).

4.6.3. Operations and Programmes - £0.658m underspend: The Directorate had an underspend against third party budgets in the service (£0.100m) and the release of reserves for e.g. bad debt provision is also shown against this Directorate (£0.558m).

4.7. Housing Services – £0.358m overspend

4.7.1. One off refund from APRM, a housing agency contract that CWH had entered into, of £0.218m. The refund related to double payment to the contractor which the Council was reimbursed.

4.7.2. Underspend of £0.063m due to higher than budgeted salary recharges to other projects

4.7.3. Overspends on Legal Charges of £0.051m, IT charges to the P4P contract £0.183m and misc £0.021m.

4.7.4. Overspend of £0.384m within Temporary Accommodation

4.8. Environment & Highways - £1.059m overspend

4.8.1. City Highways - £1.198m overspend: City Highways are reporting a net overspend of £1.198m, an adverse movement of £0.798m compared to the Period 10 variance. Primarily due to parking income under recovered by £1.922m. Over recovery of Roads Management income partially offset this, as well as savings in energy costs due to inventory update to utility firms and introduction of LED lighting.

4.8.2. Waste & Parks - £0.274m underspend: Waste and Parks are reporting a net underspend of £0.274m against budget. Income across the service over-recovered; particularly Commercial Waste income at £0.785m in excess of the budget. Waste disposal underspent against budget. These were partially offset by a £1m MTFP saving was not achieved due to change in the strategic direction of the Council's Waste Strategy.

4.8.3. Service Improvement & Transformation Team - £0.122m overspend: additional project costs have been incurred in year leading to the reporting of an overspend.

4.8.4. The remainder of the overspend was due to miscellaneous costs across the central directorate costs for CMC.

4.9. Business & Planning - £0.560m overspend

4.9.1. Development Planning - £0.210m overspend: this was due to income from planning fees being £420k below budget at year end and this was partially offset by a £210k pay underspend achieved by holding vacancies during the transformation process. The main drop was in March as there were no Planning Performance Agreements or Major Applications.

4.9.2. GPH Directorate Costs - £0.350m overspend: this was due to overspends of £0.180m for the apprenticeship and graduate costs, £0.070m for budgeted HRA recharges that were not allocated, with the remainder due to overspends in other areas, primarily insurance costs and training.

4.9.3. The remainder of the overspend was due to other smaller variances across the portfolio

4.10. Community Services & Digital - £0.775m overspend

4.10.1. Libraries, Archives and Registration Services - £0.539m overspend: the libraries' commercial income saving target and a move to a self-service operating model were not delivered during the year (£0.330m). This was, in part, as a result of delays in commencement of refurbishment work at key income generating library sites and the procurement of self-service machines. There were also shortfalls in other Library income streams £0.186m as result of a lack of demand for new and pre-existing bespoke library services.

4.10.2. Additional costs associated with the disaggregation of Hammersmith and Fulham Council from the Library shared service delivery model (£0.086m). Also, an historic employee savings target of £0.080m was unachievable.

4.10.3. The Registration Service experienced a loss of income in March as a result of wedding ceremonies cancellations and refunds because of COVID-19, ending the year with a net overspend (£0.044m).

4.10.4. These overspends and income shortfalls had been mitigated by underspends in employees', premises and other Library resources costs (£0.187m).

4.10.5. Information Services - £0.141m overspend: the overspend derives from the use of external contractors to support increased demands on the service. This was recognised as a risk earlier in the year. The recruitment of permanent replacements is taking longer than planned, however the service continues to actively work towards reducing its reliance on contractor resources.

4.10.6. Community Services - £0.197m overspend: the net overspend position in Community Services resulted from pressures to income arising due to Covid-19, with the Leisure Management Fee waived for March 2020 (£0.228m under recovery) and cancelled bookings at Sayers Croft (£0.098m under recovery). This was offset by the backdated utility charges at Moberly Sports Centre being lower than anticipated (£0.129m).

4.10.7. The remainder of the variance on the portfolio is due to various other smaller movements across the portfolio.

4.11. Public Protection & Licencing - £0.145m overspend

4.11.1. Public Protection and Licensing are reporting a net overspend of £0.145k compared with a forecast to budget position as previously reported to the committee. The overspend is mainly due to the reduction in income in March 2020 due to Covid 19.

4.12. Housing Revenue Account – Housing Services

4.12.1. The HRA had an outturn underspend of £0.131m. This represents a variance of £9.662m against a budgeted surplus of £9.793m. The key variances are outlined below.

4.12.2. Housing Property - £5.861m overspend: The was mostly caused by a variance of £5.718m on the repairs service. This was due to an under-recovery of capitalised staff costs because of the postponement of major works projects. As a result, a greater proportion of the staffing costs for the Major Works team had to be charged to revenue than originally budgeted, but in line with their work on the reactive maintenance programme which is a revenue cost. The remaining £0.143m was due to other variances across the Housing Property service.

4.12.3. Housing Neighbourhoods - £9.782m overspend: Leasehold Operations showed an under-recovery of income of £7.202m. The two main budgets causing this were (1) Major works income which was under-recovered by £5.721m due to the postponement of a number of major works schemes, and (2) Leaseholder service charge income was under-recovered by £1.386m due to a £0.850m write off of debt, and lower than budgeted service charge bills. Other budgets showed an overspend of £0.095m, mostly due to additional service charge costs incurred in blocks where the Council is no longer the freeholder.

4.12.4. Income Services - £1.490m overspend: this was mostly due to lower income from HRA tenancies, both dwellings and non-dwellings. Estate Services have an overspend of £0.936m, with an overspend of £0.154m across a number of other budgets.

4.12.5. Housing Needs, Support and Safety - £1.142m overspend: Health and Safety and Fire Services shows an overspend of £0.923m due to having a high level of agency staff compared with permanent staff. The remaining £0.219m is due to the unbudgeted cash incentive scheme.

4.12.6. <u>Housing Customer Experience and Digital - £0.237m underspend:</u> this is due to an underspend of £0.077m on resident engagement and an underspend of £0.140m mostly on staff costs.

4.12.7. <u>Housing Innovation and Improvement - £0.015m overspend:</u> this is due to unbudgeted staff costs of £0.021m, offset by £0.006m of lower resident survey costs.

4.12.8. <u>Central Costs and Financing - £16.695m underspend:</u>

A number of variances as outlined below:

4.12.8.1. IT costs were overspent by £0.102m due to having to absorb additional staff costs not covered by the central recharge from the General Fund.
4.12.8.2. Bad debt provisions were under budget by £1.882m due to a revision in the methodology for calculating the major works provision.
4.12.8.3. Regeneration revenue costs showed an overspend of £0.173m.
4.12.8.4. Housing Support Services costs were overspent by £0.568m.
4.12.8.5. Investment Property income was under-recovered by £0.472m.
4.12.8.6. Central costs and depreciation charges were underspent by £2.888m.
4.12.8.7. Central recharges were underspent by £0.226m.
4.12.8.8. Debt Financing costs were lower by £1.223m
4.12.8.9. No revenue funds were appropriated to reserves (aside from the year end surplus) as planned and contingency budget was unutilised which resulted in a £11.790m underspend to support pressures reported within this report.

5. Capital Outturn

5.1. The General Fund capital outturn is summarised below:

Member Porfolio	Approved Expenditure Budget £000	Approved Income Budget £000	Approved Net Budget £000	Outturn Expenditure £000	Outturn Income £000	Net Capital Outturn £000	Expenditure Variance £000	Income Variance £000
Deputy Leader and Cabinet Member for Finance, Property & Regeneration	88,676	(3,031)	85,645	41,035	(4,512)	36,523	47,641	1,481
Deputy Leader and Cabinet Member for Adult Social Care and Public Health	16,181	(500)	15,681	15,320	(265)	15,055	861	(235)
Children's Services	10,201	(7,663)	2,538	5,566	(4,386)	1,180	4,635	(3,277)
Housing Services	40,661	(32,051)	8,610	33,829	(30,698)	3,131	6,832	(1,353)
Environment & Highways	54,322	(25,679)	28,643	45,682	(26,424)	19,258	8,640	745
Business & Planning	4,618	(1,376)	3,242	3,350	(1,541)	1,809	1,268	165
Community Services & Digital	5,285	(49)	5,236	5,735	(3,968)	1,767	(450)	3,919
Public Protection and Licensing	1,759	(1,162)	597	1,545	(1,545)	0	214	383
Total for Cabinet Portoflio's	**221,703**	**(71,511)**	**150,192**	**152,062**	**(73,339)**	**78,723**	**69,641**	**1,828**
Flexible Use of Capital Receipts	13,508	0	13,508	11,622	(11,622)	0	1,886	11,622
Grant Total	**235,211**	**(71,511)**	**163,700**	**163,684**	**(84,961)**	**78,723**	**71,527**	**13,450**

5.2. In total, across the general fund the Council had total capital expenditure of £163.684m, with funding applied of £84.691m, a total net outturn position of £78.993m, compared to a net budget of £163.700m.

5.3. The funding of the capital programme is shown below:

Funding Source	Funding £000
Total Grant & Contributions	
Central Govt Grants	(5,258)
Grants from GLA Bodies (Incl. TfL)	(4,294)
Grants from non-departmental public bodies	(12)
Affordable Housing Fund	(29,279)
Community Infrastructure Levy	(4,694)
S106 Contributions	(3,495)
S278 Contributions	(12,104)
Other 3rd Party Contributions	(3,746)
Total Grants & Contributions	**(62,882)**
Capital Receipts	**(21,251)**
Borrowing	**(79,551)**
Grand Total of Resources	**(163,684)**

5.4. The Council's general fund capital programme is categorised into five categories:

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

- Efficiency - these schemes are funded in accordance with the government's "Flexible use of Capital Receipts" (FCR) initiative and to qualify, the schemes must be designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners.

- Investment - 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.

- Major Strategic Acquisitions –

- Operational - the Council's operational schemes are centred on capital improvement works to the Council's operational assets, meet health and safety standards and are fit for purpose in terms of statutory guidance and legislation.

5.5. The expenditure and funding per category is summarised in the table below:

Project Categorisation	Approved Expenditure Budget £000	Approved Income Budget £000	Outturn Expenditure £000	Outturn Income £000	Expenditure Variance £000	Income Variance £000
Development	101,611	(32,112)	73,657	(26,681)	27,954	(5,431)
Efficiency	13,508	0	11,622	(11,622)	1,886	11,622
Investment	20,000	0	0	0	20,000	0
Major Strategic Acquisitions	4,099	0	1,084	0	3,015	0
Operational	95,993	(39,399)	77,321	(46,658)	18,672	7,259
Total	**235,211**	**(71,511)**	**163,684**	**(84,961)**	**71,527**	**13,450**

5.6. In total there is slippage of £71.5m, however the majority of this slippage is due to the following six projects:

- Property Investment Acquisitions - £20m
- Capital Contingency - £10m
- Oxford Street District - £6.5m
- Temporary Accommodation Acquisitions - £3.1m
- AHF Payments - £2.7m
- Lisson Grove Refurb - £1m

5.7. The above projects equate to £43.3m or 60% of the total slippage on the programme. By way of comparison the 2019/20 capital programme included over 400 projects. Therefore 1.5% of projects have led to 60% of the variance.

5.8. Deputy Leader & Cabinet Member for Finance, Property & Regeneration – expenditure variance of £47.641m

5.8.1. Corporate Property Projects - £23.828m variance, reprofiled into future years: The key driver of this underspend is the reprofiling of the property investment acquisitions budget of £20m as no projects were identified that could provide the requisite return. In addition there is a need to reprofile budget due to delays in the refurbishment of Lisson Grove (£1.002m); in completing the Forward Management Plan (£0.943m); refurbishment of City Hall floors to be rented out to tenants (£0.569m); delays in the Mandela Way upgrade (£0.398m) due to planning permission issues; rescheduling of works associated with the decant/recant from Cosway Street (£0.453m); and a postponement of works relating to the Energy Monitor and Target (£0.200m). There remains an underspend of £0.263m across various Property projects that will need to be reprofiled.

5.8.2. Capital Contingency - £10.000m variance, reprofiled into future years: this is a corporate contingency budget, which is only used if any urgent capital projects came up in year, or if there are any unforeseen overspends. It was not needed this year.

5.8.3. Oxford Street District - £6.466m variance, reprofiled into future years: Oxford Street District has an in-year underspend of £6.466m relating to a delay in the appointment of the design and build (D&B) contractor, who were appointed in Autumn 2019, significantly behind programme. Work has started on some packages, with designs making good progress, but is slower than expected due to reconfiguration of certain workstreams.

5.8.4. Development Projects - £6.364m variance, reprofiled into future years: the underspend in development predominately relates to strategic acquisitions. These budgets are opportunistic purchased on known sites and prone to slippage. In total there was an in-year underspend of £4.769m across strategic acquisitions in Huguenot House and Church Street. Westmead underspent by £1.712m relating to the payments towards DfE's surrender of their lease on third avenue which has slipped into 2020/21 due to a delay in finalising the legal agreements. The remaining variance is due to smaller variance across a number of development projects.

5.8.5. Westminster Builds - £0.983m variance, reprofiled into future years: the budget for Westminster Builds (WB) assumed that 300 Harrow Road (Warwick) would transfer from the HRA to WB during 2019/20. However, the scheme will now continue in the HRA formally transferring in 2020/21 through an Agreement for Lease between the Council and WB. This has led to an underspend of £0.558m. Luton Street has underspent by £0.425m. This budget is the Council loan to WB, who in turn are investing the money into the Luton Street LLP as a Member's Loan. By managing its cashflow, the LLP has required less of the member's loan than previously expected at this stage.

5.9. Deputy Leader and Cabinet Member for Adult Social Care and Public Health – expenditure variance of £0.861m

5.9.1. Beachcroft £0.496m variance, reprofiled into future years: this relates to FF&E for the care home, which was due to be delivered in 19/20. However, following the decision to change operators the FF&E will be delayed until a new operator is onboard and can input into the care homes fit out.

5.9.2. Barney & Florey - £0.181m variance, reprofiled into future years: the on-going issue delaying the works has been the protracted negotiations with the landlord, NHS Property Services. The Council's Development team have now completed the required surveys and are working with commissioning officers and the incumbent provider to finalise detailed proposals.

5.9.3. The remaining schemes that have slipped are small scale, £0.080m Lupus St project, £0.060m Framework I upgrade (Mosaic), and £0.044m People first website scheme.

5.10. Children's Services – expenditure variance of £4.635m

5.10.1. King Solomon School Expansion - £1.969m variance, reprofiled into future years: phase 2 of the project (nursery) delayed due to planning constraints in particular, nearby trees requiring significantly revised foundation detail. The nursery project is now being run in parallel in phases 3 and 4 which are a new dining extension and internal refurbishment at KSA in order to minimise delays. No further delay of the provision of secondary school places. As KSA is an Academy any delay to places being offered will be picked up by DfE.

5.10.2. Portman – Boiler & Distribution - £1.302m variance: reprofiled into future years: delay in progressing the project through the Council's governance.

5.10.3. Hallfield Site Improvements - £0.837m variance, reprofiled into future years: delays in ground surveys and feasibility studies.

5.10.4. Schools Minor Works Projects £0.573m variance, reprofiled into future years: Projects reprofiled due re-prioritisation of scheduled work.

5.10.5. The remaining variance is due to minor reprofiling of other schemes in the portfolio.

5.11. Housing Services - expenditure variance of £6.832m

5.11.1. Temporary Accommodation Acquisitions - £3.100m variance, reprofiled into future years: reduction in anticipated number of purchases in 19/20 due to market supply although programme expected to complete in 20/21 and a number of purchases are underway.

5.11.2. Affordable Housing Fund Budget - £2.698m variance, reprofiled into future years: review of contract meant that the trigger for payment to WECH for Elgin Estate development was moved to 21/22, resulting in slippage. Payment triggered in April 2020.

5.11.3. Church Street Green Spine Public Realm - £1.034m variance, reprofiled into future years: project delayed due to review of activity.

5.12. Environment & Highways – expenditure variance of £8.640m

5.12.1. Ceremonial Streetscape - 0.596m variance, reprofiled into future years: some of the more complex designs put forward are still awaiting the necessary planning permission from Historic England. Once approval has been granted, these schemes will commence in 2020/21.

5.12.2. Berkeley Square North - £0.396m variance, reprofiled into future years: delays in this project due to adjacent site works on another development on the Square has impacted on WCC access to site and has resulted in WCC programme being delayed.

5.12.3. Bond Street - £0.382m variance, reprofiled into future years: expenditure has been reprofiled to 2020/21 due to ongoing issues with Crossrail implementation and access to elements of the site.

5.12.4. Christchurch Gardens - 0.358m variance, reprofiled into future years: issues in gaining access to site due to rough sleepers & protestors relating to extinction rebellion. Court injunction was sought and granted which delayed the start of the programme.

5.12.5. Cycle Schemes - £1.252m underspend: Cycle Superhighway Route 11 scheme is no longer going ahead after a successful legal challenge by WCC.

5.12.6. Jermyn Street - £0.807m underspend: large risk and contingency budget built into original project budget and change of project scope has resulted in an underspend on this scheme.

5.12.7. PPM Highways - £0.657m variance, reprofiled into future years: it is difficult to model the exact amount needed as this is dependent on weather and traffic volumes. Due to a particularly dry and mild winter where there were less potholes on the network. The funding will be rolled into next year's programme.

5.12.8. Newport Place £0.577m variance, reprofiled into future years: phase 2 of the development was due to begin after the Chinese New Year at the request of the developer. However, the scheme has now been rephased into early part of 2020/21.

5.12.9. Sherwood Street - £0.337m underspend: resurfacing works carried out were significantly lower than the initial programme of works and in addition risk and contingency was higher than required.

5.12.10. Waterloo Golden Jubilee Bridge - 0.719m variance, reprofiled into future years: review of the programme of works has resulted in an updated project start date with the main body of works taking place in 2020/21.

5.12.11. Other Schemes - £2.559m variance, reprofiled into future years: several schemes of which are reliant on external factors such as a TFL approvals and agreements with external partners to proceed totalling £0.544m (Abell and Cleland PR Scheme, Covent Garden Streetscape, St Georges Drive/Warwick Way Junction). The remaining £2.015m is due to the work taking longer than expected to complete on a number of other projects.

5.13. Business & Planning – expenditure variance of £1.268m

5.13.1. The underspend is made up of several small variances the largest of which is Connect Westminster (£0.503m) where a slower than expected uptake of the scheme has resulted in slippage to next financial year,

5.14. Community Services and Digital – expenditure overspend of £0.450m

5.14.1. End-user Computing Refresh - £2.119m variance (overspend): this was due to more devices being required than originally envisaged.

5.14.2. Libraries 6-year Decoration Programme - £0.879m variance, reprofiled into future years: delays with Property and third-party architect impacted the works at the three proposed sites (£0.727m). Delays in framework contract for procurement of self-service machines meant spend slipped in to FY 20/21 (£0.152m)

5.14.3. Leisure Review Maintenance - 0.461m variance, reprofiled into future years: phasing was based on a large Air Handling Unit project expected to take place during 2019/20, but which has had to be phased into 2020/21.

5.14.4. Leisure Facilities Capital Investment Programme - £0.447m variance, reprofiled into future years: team's capacity has been focussed on Leisure Review Maintenance project picking up urgent backlog items, however substantial works still required at Seymour where requirements have been held awaiting direction on the larger development programme

5.14.5. The remaining balance is due to a number of other smaller variances across the portfolio.

5.15. Public Protection & Licencing – expenditure variance of £0.214m

5.15.1. Safe and Secure Renovation – 0.240m variance, reprofiled into future years: the activity uptake not as high as initially anticipated.

5.15.2. Other Schemes - £0.026m variance (overspend): additional spend is as a result of increased spending on works that is funded by Disabled Facilities Grant.

5.16. HRA Capital – Housing Services

5.16.1. The HRA Capital Programme spent a total of £118.134m and resulted in an underspend by £31.721m. This balance will be slipped into 20/21 as all capital schemes are still progress. This is summarised in the table below:

Category	2019/20 Budget £000	2019/20 Outturn £000	Variance £000
Major Works	49,353	41,036	(8,317)
Regeneration & New Build Schemes	100,501	77,098	(23,403)
Total Capital Expenditure	**149,854**	**118,134**	**(31,721)**

Key reasons for the slippage are:

5.16.2. Major Works – £8.317m variance, reprofiled into future years:
Key projects that underspent are Fire Precautions (£7.838m), External Repairs and Decorations (£4.776m) and Electrical works (£2.410m). This was netted off against overspends within Lifts, Voids and Adaptations work £3.880m, Internal mechanical and engineering works £1.730m and general Capital Overspend of £1.097m in relation to Windows, Heating/Energy work and General asset management.

5.16.3. Regeneration and New Build Schemes - £23.403m variance, reprofiled into future years:
Tollgate gardens underspend considerably, by (£9.580m) due to delays in reaching practical completion. Further delays have also been experienced within other Church Street Ward developments, such as Parsons North (£1.847m), Ashmill, Ashbridge and Cosway (£3.791m). This is netted off against accelerated spend on Church Street Buybacks £1.961m, more spend on Lisson Arches due to additional works £1.245m and increased spend on Ebury £3.147m.

5.16.4. Furthermore, there was an underspend of across smaller sites, such as the Infills Programme and Queens Park Court (£9.982m) and contingency was also not used (£3.229m).

6. Pension Fund

Fund Account

6.1 The value of the Council's Pension Fund decreased by £94.8m over the year to 31 March 2020, falling from £1.418bn at 31 March 2019 to £1.324bn at 31 March 2020. The table below summarises the major elements that comprise this net change.

2018/19		2019/20
£'000		£'000
61,242	Members Contributions Directly Paid in	72,616
(58,189)	Benefits Paid and Transfers Out	(63,697)
(5,823)	Management Expenses	(6,834)
12,242	Investment Income	17,975
72,884	Investment Returns	(114,858)
82,356		**(94,798)**

6.2 As part of the deficit recovery plan, increased contributions paid into the Fund have resulted in the Pension Fund returning to a positive cash flow (contributions received versus pensions paid) of £8.9m. However, during the year £20m of these contributions were invested in the Insight Buy and Maintain Bond Fund, with withdrawals from other pooled fund managers taking place to maintain a positive cash balance. Deficit recovery contributions for 2019/20 totalled £31.82m.

6.3 Management costs have increased by 17.4% in the year, largely due to increased cost transparency which has resulted in greater capture of transaction costs. During the year, the Fund transitioned its Majedie UK equity allocation holdings to the LGIM Global passive fund until a new asset allocation strategy is agreed. This will lead to lower management fees in the short term.

6.4 The Fund has seen an increase in investment income of 46.8%, due to greater income received from pooled investments along with a £1.7m cash receipt in relation to the termination of the Majedie UK equity fund.

6.5 As a result of COVID-19 impacting global markets and complexities in illiquid asset valuations, the market value of the Fund's pooled equity and multi asset credit investments fell significantly over the final quarter of 2019/20. This resulted in a decrease in investment returns from £72.88m in 2018/19 to negative £114.86m in 2019/20.

Net Asset Statement and Liability

6.6 The Pension Fund defined benefit obligation has fallen by £104m. This is largely due to the present value of future promised retirement benefits falling by £186m as a result of a decrease in life expectancy assumptions, along with a decreased assumption in future pension and salary increases. However, this decrease in liabilities has been partly offset by a decrease in the fair value of scheme assets of £83m due to a fall in asset values following COVID-19.

2018/19		2019/20
£'000		£'000
(2,046,789)	Present Value of Promised Retirement Benefits	(1,860,231)
1,402,762	Fair Value of Scheme Assets (bid value)	1,319,740
(644,027)	**Net Liability**	**(540,491)**

6.7 An analysis of the £1.324bn net assets is shown below:

2018/19		2019/20
£'000		£'000
150	Equities	150
1,402,288	Pooled Investment Vehicles	1,300,427
120	Income Due	119
5,802	Cash Deposits	19,044
11,293	Other Current Assets	4,640
(1,321)	Other Current Liabilities	(846)
1,418,332		**1,323,534**

7. Treasury

7.1. As at 31 March 2020, net cash invested was £407.5m, a decrease of £98.3m on the position at 31 March 2019 as shown below:

	31 March 2020 (£m)	31 March 2019 (£m)
Total Borrowing	(221.2)	(223.2)
Total Cash Invested	628.7	729.0
Net Cash Invested	**407.5**	**505.8**

Investments

7.2. The Council's Annual Investment Strategy which forms part of the Treasury Management Strategy Statement (TMSS) for 2019/20 was approved by the Council on 6 March 2019. The Council's policy objective is the prudent investment of balances to achieve optimum returns on investments, subject to maintaining adequate security of capital and a level of liquidity appropriate to the Council's projected need for funds over time.

7.3. The table below provides a breakdown of investments, together with comparisons for the previous financial year end.

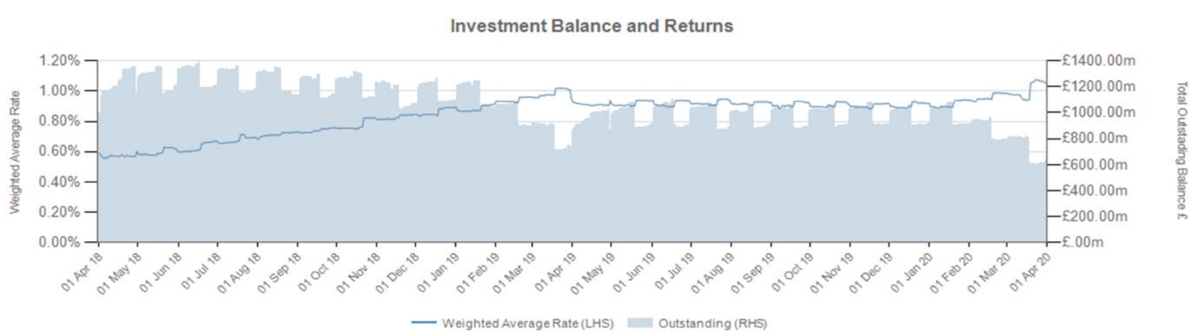
	Investment Balance 31 March 2020 (£m)	Investment Balance 31 March 2019 (£m)	Movement
Money Market Funds	30.1	59.7	-29.6
Notice Accounts	18.6	89.5	-70.9
Term Deposits	580.0	465.0	115.0
Tradeable Securities	0.0	114.8	-114.8
Total:	**628.7**	**729.0**	**-100.3**

7.4. Liquid balances are managed through Money Market Funds, providing same day liquidity. Cash has been invested in less liquid instruments, particularly term deposits. The average level of funds available for investment in 2019/20 was £952.7m.

7.5. Daily investment balances have steadily decreased from £729.0m at 1 April 2019 to £628.7m at 31 March 2020.

7.6. On 4 August 2016, the Bank of England reduced the bank rate to 0.25%. It stayed at 0.25% for over a year. On 2 November 2017, there was an interest rate increase to 0.50%. On 2 August 2018, there was another rate rise to 0.75% where it stayed until 11 March 2020 when it reduced to 0.25%. This was followed by a second decrease on 19 March 2020 to 0.10%.

7.7. Although surplus cash for investment has reduced, cash has been invested with higher interest rate paying counterparties. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Council's capital programme.



7.8. All investment/overdraft limits specified in the 2019/20 investment strategy have been complied with except for one instance of cash received after close of banking business:

- £11.008m on 29th April 2019

7.9. Also, on the 30th October 2020 the Council breached its authorised overdraft limit by £47.4m at our clearing bank Lloyds. This arose from a failure of HSBC bank to repay £49.2m requested from the Council's HSBC call account.

7.10. The original/budgeted average balance for 2019/20 was £900m, while the actual outturn average investment balance for the year was 952.7m. The average investment balance peaked in July 2019, reaching £994.6m.

7.11. The table below shows the forecast investment income to be achieved in the year: budget versus actual and the variance. The Council's budgeted investment return for 2019/20 is £9.810m, and performance for the year is £3.120m above budget.

	Budget £000	Actual £000	Variance £000
Investment Income	-9,810	-12,930	-3,120

Borrowing

7.12. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital expenditure activity of the Council and resources used to pay for the capital spend. It represents the 2019/20 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

7.13. At £221m, the Council's borrowing was within the Prudential Indicator for external borrowing, namely, that borrowing should not exceed the estimated CFR for 2019/20 of £905m. The final CFR for 2019/20 was £830m.

7.14. As at 31 March 2020, the Council has maintained an under-borrowed position of £609m. This meant that the capital borrowing need (the Capital Financing Requirement) was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

7.15. The table below shows the details around the Council's external borrowing as at 31 March 2020, split between the General Fund and HRA.

Total Borrowing	31 March 2019 (£m)	31 March 2020 (£m)
HRA	196.0	196.0
General Fund	27.2	25.2
Total Borrowing	**223.2**	**221.2**

The breakdown of the existing loans is shown below:

Borrowing Type	Loan Balance 31 March 2019 (£m)	Loan Balance 31 March 2020 (£m)	Movement
PWLB	151.0	151.0	0.0
LOBO	70.0	70.0	0.0
Mortgage Annuity	0.2	0.2	0.0
Greater London Authority	2.0	0.0	-2.0
Total:	**223.2**	**221.2**	**-2.0**

7.16. During 2019/20 the Council repaid 2.04m of loans using investment balances. These consisted of a £2m interest free loan from the Greater London Authority and £0.042m of mortgage annuity loans.

Forward Borrowing

7.17. As anticipated in the 2019/20 TMSS, the Council has undertaken no new borrowing for the financial year due to the high level of cash holdings. Officers are monitoring market conditions and reviewing the need to borrow at current low rates if a requirement is identified for either the General Fund or Housing Revenue Account (HRA).

7.18. Due to the overall financial position and the underlying need to borrow for capital purposes, it is prudent for the Council to lock in affordability by placing some forward borrowing for the amounts it can be relatively certain it will need, whilst maintaining some forward flexibility as projects may or may not proceed within the expected timeframes.

7.19. During 2019/20, the Council arranged forward borrowing loans totalling £400m. These loans have enabled the Council to agree competitive rates in advance of need which eliminates the "cost of carry", that is, the difference between loan interest cost and the rate of return on cash investments.

7.20. An analysis of these loans can be found in the table below.

Counterparty	Amount (£m)	Start Date	Maturity Date	Rate (%)	Profile
Phoenix Group	37.5	15 March 2022	15 March 2062	2.706	Annuity
Barings LLC	150.0	15 August 2022	15 August 2052	1.970	Maturity
Phoenix Group	12.5	15 March 2023	15 March 2066	2.751	Annuity
Rothesay Life Plc	200.0	08 May 2023	08 May 2063	2.887	Equal Instalment of Principal
Weighted average interest rate				**2.579**	

8. 2019/20 Accounts
Balance Sheet

8.1. The balance sheet in the table below shows the Council has net assets of £2.648bn. An increase of £169m in comparison to 2018/19.

31 March 2019		Note	31 March 2020
£'000			**£'000**
	ASSETS		
	Non-current		
2,532,109	Property, plant and equipment	Note 19c	2,686,180
42,846	Heritage assets	Note 20	44,578
472,825	Investment property	Note 21	499,757
724	Intangible assets		1,313
25,150	Long-term investments	Note 22a	88,104
67,604	Long-term debtors	Note 28	70,035
3,141,258	**Total long term assets**		**3,389,967**
	Current		
673,751	Short-term investments	Note 22a	543,945
101	Inventories		116
149,139	Short-term debtors	Note 28	97,962
49,922	Cash and other cash equivalents	Note 23	35,522
-	Assets held for sale		-
-	Investment property held for sale		-
872,913	**Current assets**		**677,545**

31 March 2019 Restated		Note	31 March 2020
£'000			£'000
	LIABILITIES		
(2,486)	Short-term borrowing		(16,828)
(350,078)	Short-term creditors	Note 29	(375,606)
(685)	Short-term provisions	Note 30	(687)
(3,643)	Revenue receipts in advance	Note 13	(20,609)
(356,892)	**Total current liabilities**		**(413,730)**
	Long term		
(4,321)	Long-term creditors	Note 29	(52)
(144,150)	Long-term provisions	Note 30	(72,299)
(222,521)	Long-term borrowing		(206,143)
(720,205)	Other long-term liabilities	Note 31	(642,354)
(86,180)	Capital receipts in advance	Note 13	(84,541)
(1,177,377)	**Long-term liabilities**		**(1,005,389)**
2,479,902	**Net assets**		**2,648,393**
(823,242)	Total Usable Reserves		(795,871)
(1,656,660)	Total Unusable Reserves	Note 17	(1,852,522)
(2,479,902)	**Total Reserves**		**(2,648,393)**

8.2. This increase in net assets is primarily due to an increase in long term assets, namely Property, Plant and Equipment and Investment Properties. This is in line with the latest valuations of our property portfolio and the expenditure the Council has incurred on the capital programme. The net asset position is further enhanced by a reduction in long term liabilities – primarily a reduction in the Council's pension liability and long term provisions.

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

8.3. Local government accounting requires the production of a comprehensive income and expenditure statement and movement in reserves statements, using international accounting standards. The movement in reserves statement is designed to adjust for technical transactions such as depreciation.

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

	General Fund Balance £m	Housing Revenue Account £m	Total £m
Surplus of Provision of Services (CIES)	12,534	(16,039)	(3,505)
Technical Accounting Adjustments (MiRS)	(36,193)	15,908	(20,285)
Use of Earmarked Reserves	23,129	0	23,129
Net Surplus against Budget	(530)	(131)	(661)

8.5. The technical accounting adjustments consist of movements for:

- Neutralisation of depreciation
- Revaluation gain/losses for the Council's property portfolio
- The transfer of capital grants to be capital grants reserve
- Revenue expenditure funded from capital under statute
- Adjustments to the pension reserve which neutralises the current service costs and ensures that the actuarial estimates are not charge to council tax

Cash Flow Statement

8.6. There was a £14.4m decrease in the Council's cash and cash equivalents (investments that mature in no more than three days) falling to £35.5m.

2018/19 Restated*		Note	2019/20
£'000			£'000
99,991	Net (surplus)/deficit on the provision of services		3,505
201,314	Adjustments to net (surplus)/deficit on the provision of services for non-cash movements	Note 33	116,090
(241,560)	Adjustments for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities	Note 33	1,289,209
59,745	**Net Cash Flows from Operating Activities**		1,408,804
160,022	**Net Cash Flows from Investing Activities**	Note 34	(1,464,683)
(331,101)	**Net Cash Flows from Financing Activities**	Note 35	41,479
(111,334)	**Net (increase)/decrease in cash and cash equivalents**		(14,400)
161,256	Cash and cash equivalents at the beginning of the reporting period		49,922
49,922	**Cash and cash equivalents at the end of the reporting period**		**35,522**

8.7. The decrease in the Council's cash position is mainly due to expenditure incurred as part of the Council's capital programme and an outflow of expenditure for investing activities. However, it should be noted that with investments of c£600m the Council are still in a healthy cash position.

9. Objections

9.1. At the time of writing the auditors have not received any objections in relation to the 2019/20 statement of accounts.

10. COVID-19

10.1. The Covid-19 pandemic has had a considerable impact on the Council. The Government's lockdown, announced on 20th March 2020, has meant that many of the businesses at the heart of the West End have been forced to close – significantly impacting on the local economy, which in turn impacts on the Council's commercial income. Furthermore, the Council has had to put considerable resources into ensuring that rough sleepers are safe during this period and that the most vulnerable in our community are cared for. This comes with additional cost pressures.

10.2. These additional costs have not had a dramatic impact on the financial outturn for 2019/20 as the pandemic only started to make a notable impact on the public's and businesses' behaviour in the last two weeks of March. However, the true scale of its impact on the Council's finances will be felt during 2020/21.

10.3. The financial impact of the pandemic will be reported to the committee during 2020/21.

11. Conclusion

11.1. Westminster City Council is a complex organisation in terms of its broad range of services and this is illustrated in its financial complexity as well. However, the Council is generally in a healthy position as at the end of the 2019/20 financial year with an appropriate level of general reserves for an organisation of this side and breadth. However, as noted above the Council faces significant challenges in 2020/21.