



City of Westminster

# Audit & Performance Committee Report

<b>Committee</b>	Audit and Performance Committee
<b>Date:</b>	18 <sup>th</sup> September 2017
<b>Classification:</b>	General Release
<b>Title:</b>	To consider how the aim to build up further general fund reserves over the next 5 years can be delivered and the risks for achieving this together with mitigation measures
<b>Wards Affected:</b>	All
<b>Key Decision:</b>	This will be a key decision for Full Council
<b>Financial Summary:</b>	General reserves are considered in the context of the Council's overall financial position
<b>Report of:</b>	Steven Mair, City Treasurer

## 1. Executive Summary

1.1 This report sets out briefings in respect of:

- General Reserves Background; and
- The Council's General Reserves Policy

1.2 In respect of General Reserves this report concludes that it would be highly desirable to increase the level of the General Reserve balance at the earliest opportunity. It is not considered at this point that further budget reductions should be made to accommodate an increase in reserves. However, any resources which become available should be added to the General Reserve when possible.

## 2. General Reserves Background

2.1 The Council's General Reserves includes the General Fund balance, this is held to:

- Comply with the law;

- Provide funds for emergencies or other unexpected requirements for funds;
- Mitigate against risks faced in day to day operations;
- Provide a balance to insulate it from the need to borrow on a short term basis due to uneven cashflows.

2.2 The table below details the movement for the Council's General Reserve balance since 2006/07. This can be considered a reasonable period of time over which to consider movements as the Council has faced a number of challenges during this time including significant turbulence in the wider economy.

Year	2006/07 £'000	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
<b>Closing Balance</b>	66,864	69,930	60,090	32,396	15,578	22,054	32,027	35,295	36,035	41,576	48,777
<b>Balance Movement</b>	-	3,066	(9,840)	(27,694)	(16,818)	6,476	9,973	3,268	740	5,541	7,201

2.3 The table demonstrates how over time there have been significant movements in the General Reserve balance including a three year period 2008/09 to 2010/11 when the general reserve balance decreased by £54.352m. Should this reoccur over the next three years starting in 2017/18 this would mean that the Council would have a **negative general reserve balance of £5.575m**. Such a position would actually constitute a breach of law.

2.4 When assessing what level of General Reserve balance should be held, the Council must consider a number of factors which include:

- Based on the Council's gross expenditure, approximately £2.33m is (budgeted) to be spent a day on the provision of General Fund services. The General Reserve balance when viewed in this context represents just 18 days of expenditure;
- The Council has been required to find budget savings year on year since 2010/11. It is becoming harder to identify low risk savings opportunities and thus the need to protect the General Fund by holding suitable levels of reserves to mitigate higher risk becomes more essential;
- Future levels of uncertainty are compounded by the Council's growing reliance on commercial income rather than Central Government core funding. This gearing effect necessitates higher reserves as in the view of the City Treasurer and based on experience from the past these income streams have the potential to fluctuate. Other emerging risks such as

Brexit have the potential to impact unfavourably on Westminster given the scale of its business community and contribution to the nation's Gross Value Added;

- Future transfer of responsibilities or “new burdens.” With the potential full localisation of Business Rates, the Government has already indicated that new responsibilities would transfer over to Local Government (to ensure the new Business Rate's scheme is revenue neutral). The Council must ensure it is well resourced to manage the responsibility of new services that could potentially be demand led (or historically under-funded).
- Demography - Customer needs and behaviours continue to change which brings new challenges and opportunities to the Council. Demographic changes have led to continuing pressures on social services budgets.

Westminster is faced with very high rates of international net migration and high part-time / second home ownership meaning a constant churn in customer base.

The age profile is changing as the number of families leaving is reflected in falling numbers of children in some age-groups. The children left are increasingly benefit dependent or in fee paying schools. Schools are good so the main issues are likely to be housing costs and the cost and availability of childcare, as well as possibly community safety.

A major concern is the increase in age of the population and the impact this is likely to have on adult care and public health costs.

There is the potential to see changes to population levels caused by uncertainty of status of existing overseas workers / residents as well as ability for new workers to come to the country

- Technology - The Council continues to look for development in service delivery and the technical advances and changes brought forward by the Council's Digital transformation have led to greater potential to reconsider service offering and service levels
- Brexit - is a major concern for Westminster, a key central borough of London. Westminster has a large amount of new start-up businesses. However there is also a high number of vacancies and major uncertainty regarding growth post Brexit.

The tourism industry is flourishing due to the weakness of Sterling, but since there is difficulty recruiting into that sector WCC may also struggle to retain businesses with a European or global focus.

➤ Inflation – there are several potential inflationary impacts:

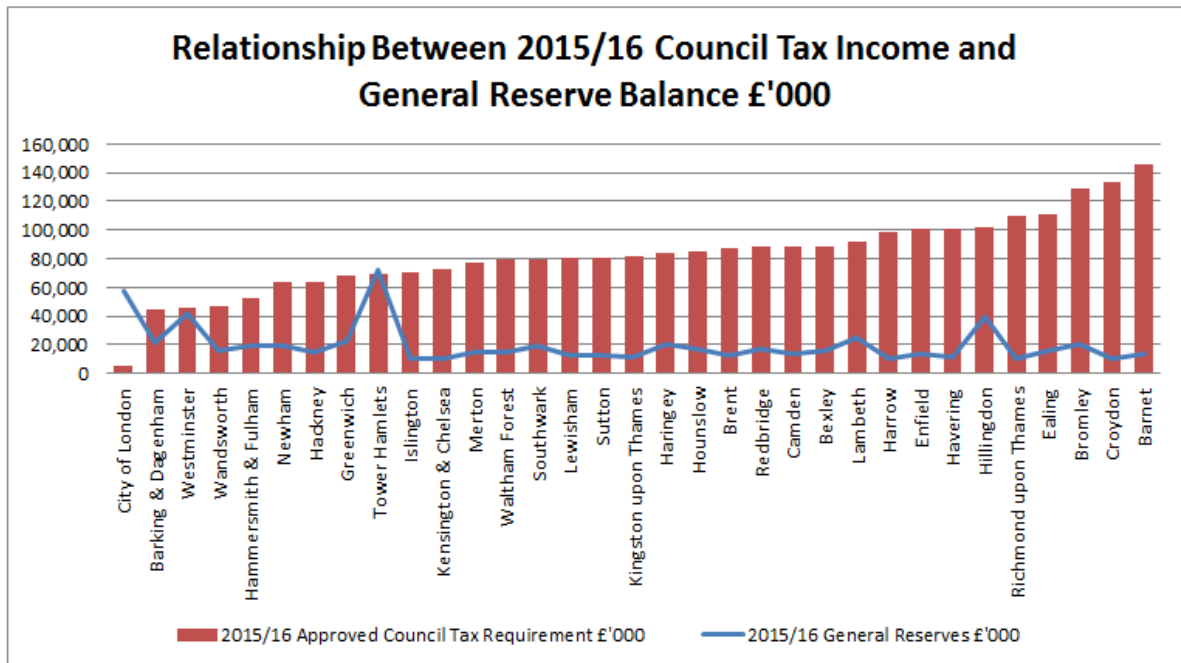
- Cost-Push Inflation effect of Exchange Rate
- Demand Pull impact if economy declines / grows
- Change to labour supply could impact on wage rates
- Potential impact of imposition of Tariffs / Free Trade agreements
- Each 1% change in inflation adds around £6m to the Council's cost pressures

➤ Competition

As well as individual factors influencing demand the Council will have to consider competitive forces in certain service areas. Especially trading activities.

Although for various services and charges the Council holds a monopoly position some services do face challenge from the private sector and also other public sector providers. Therefore it is not always possible to consider a price point or level of quality that covers costs

➤ The chart below shows for authorities in London, the relationship between their 2015/16 General Reserve balance and their approved 2015/16 Council Tax Income Requirement:



The Council has historically had the lowest rate for Council Tax in England but has the 3<sup>rd</sup> highest number of dwellings in London. Consequently and as shown in the chart, the Council’s level of income raised locally from Council Tax is amongst the 3<sup>rd</sup> lowest in London. This makes the Council particularly vulnerable to unexpected Central Government reductions, decisions and other economic impacts such as the recession in 2009 as its ability to raise funding locally by increasing Council Tax (if it chose to do) is limited.

### 3. General Reserves Policy

3.1 In assessing the level of General Reserves balance, the City Treasurer has taken into consideration the following:

- The wider economy currently appears to be more stable than in previous years although significant uncertainties remain particularly in respect of the UK’s exit from the European Union;
- The Council’s framework of governance and controls has been assessed by audit as being satisfactory. In addition, Internal Audit completed its audit of budgetary controls in February 2017 and concluded that the Council had provided “substantial assurance” on these controls;
- The overall track record of Directorate teams in recent years of delivering on-going budget savings has been successful.

- 3.2 However, there are a number of other factors which suggest that it would be highly desirable to increase the level of the General Reserve balance at the earliest opportunity as set out in the previous section.
- 3.3 It is not considered at this point that further budget reductions should be made to accommodate an increase in reserves. However, any resources which become available from the following should be added to the General Reserve where possible:
- In year revenue underspends as reported through the monthly revenue monitor to Cabinet;
  - One off revenue funds which become available e.g. one off unbudgeted income or rebates;
  - Short term underspends from unexpected upsides on budgets;
  - Any other spare resources which become available on an unforeseen or unbudgeted basis.
- 3.4 Should circumstances change then the Council would need to and would be able to address its budgetary challenges from a cost reduction perspective which would mitigate the potential loss of the proposals noted in paragraph 3.3

#### **4 Financial implications**

- 4.1 The financial implications are contained within the body of this report

#### **5 Legal implications**

- 5.1 Section 25 of the Local Government Act 2003 requires that when a local authority is making its budget calculations, the Chief Finance Officer of the authority must report to the Council on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves.

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

**If you have any queries about this Report or wish to inspect any of the Background Papers please contact:**

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**BACKGROUND PAPERS - 2017/18 Budget and Council Tax Report**