

Grants Committee

London Councils Grants Committee – Item no: 17 Pre-Audited Financial Results 2015/2016

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Summary : This report details the provisional pre-audited final accounts for London Councils Grants Committee for 2015/16. The summary figures are detailed in the box below:

| Revenue Account | Budget £000 | Actual £000 | Variance £000 |
|---|---|---------------------------------------|--------------------------|
| Expenditure | 10,500 | 8,912 | (1,588) |
| Income | <u>(10,250)</u> | <u>(9,523)</u> | <u>727</u> |
| Sub-Total | 250 | (611) | (861) |
| Net Transfer from Reserves ¹ | (250) | (499) | (249) |
| Reduction in bad debt provision | - | <u>(57)</u> | <u>(57)</u> |
| Deficit/(Surplus) for the year ² | - | <u>(1,167)</u> | <u>(1,167)</u> |
| Position on reserves | General/Specific Reserves £000 | Unusable Reserves £000 | Total £000 |
| Audited as at 1 April 2015 | 1,324 | (1,568) | (244) |
| Transfer (to)/from revenue | (499) | 316 | (183) |
| Surplus/(Deficit) for the Year | <u>1,167</u> | - | <u>1,167</u> |
| Provisional as at 31 March 2016 | <u>1,992</u> | <u>(1,252)</u> | <u>740</u> |

¹ Excludes transfers of £80,000 from the Pensions Reserve and £301 to the Accumulated Absences Reserve for the year in 'Actuals'.

² Excludes £397,000 Actuarial gain on Pension Fund for the year in 'Actuals'

Recommendations: London Councils Grants Committee is asked:

- To note the provisional pre-audited outturn position and the indicative surplus of £1.167 million for 2015/16; and
 - To note the provisional level of reserves at paragraphs 17-19 and the financial outlook, as detailed in paragraphs 20-23 of this report.
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Pre-audited Accounts 2015/16

1. Following the abolition of the Audit Commission Act 1998, with effect from the 2015/16 financial year, London Councils is no longer obliged to produce an annual statutory account to a statutory deadline for each of its three funding streams, as the successor legislation, the Local Audit and Accountability Act 2014, does not apply to joint committees. However, under the London Councils Agreement (as amended), London Councils has on-going obligations to prepare and arrange for the independent audit of the three annual accounts, outside of any statute, and there is still a requirement to submit audited accounts under the Companies Act 2006 for London Councils Limited. As a result of these continuing obligations, the London Councils Audit Committee agreed in March 2015 that London Councils should continue to prepare three separate accounts under the existing Local Authority Accounting Code of Practice and that the accounts should be independently audited and presented to members broadly in accordance with the previous statutory timescale. A procurement exercise was subsequently undertaken and in December 2015, following recommendations by the Audit Committee, the Leaders' Committee agreed to appoint KPMG LLP as London Councils external auditor for a three year period commencing 1 April 2015.
2. KPMG LLP will, therefore, audit the three accounts for 2015/16 during July/August 2016 and present the accounts to the Audit Committee, along with the annual audit report, for approval on 22 September 2016. At its November 2016 meeting, the London Councils Executive will be asked to adopt the three audited accounts and the annual audit report, with the Grants Committee being asked to separately adopt the audited accounts for the Grants Committee at the November meeting. This report, therefore, details the provisional financial results prior to audit and provides commentary on the variances against the revised approved budgets for the year – in effect, the format is the same as the revenue forecast monitoring report presented to this Committee three times each financial year at the end of each quarter.

Provisional Outturn 2015/16

3. Members approved the original budget for 2015/16 in November 2014, which was ratified by the Leaders' Committee shortly afterwards. Table 1 below compares the provisional outturn figures for income and expenditure for 2015/16 against the approved budget for the year. The audited outturn figures for 2014/15 are also shown for comparative purposes.

Table 1 – Provisional Outturn 2015/16 – Grants Committee

| 2014/15 Actual | | 2015/16 Revised Budget | 2015/16 Actual | 2015/16 Variance | |
|---------------------------|---|---------------------------------------|---------------------------|-----------------------------|---------------|
| £000 | Expenditure | £000 | £000 | £000 | % |
| 389 | Employee Costs | 378 | 381 | 3 | 0.8 |
| 16 | Running Costs | 46 | 63 | 17 | 37.0 |
| 129 | Central Recharges | 131 | 95 | (36) | (27.5) |
| 534 | Total Operating Expenditure | 555 | 536 | (19) | (3.4) |
| 7,404 | Borough commissioned services | 7,505 | 7,304 | (201) | (2.7) |
| 2,204 | Membership fees to London Funders | 60 | 60 | - | - |
| - | ESF commissions – 2013-15 | 500 | 952 | 452 | 90.4 |
| 60 | ESF commissions – 2016+ | 1,880 | - | (1,880) | - |
| 800 | One-off payment to boroughs | - | - | - | - |
| - | Debt write-off | - | 57 | 57 | - |
| 11,002 | Total Expenditure | 10,500 | 8,912 | (1,588) | (15.1) |
| | Income | | | | |
| (8,801) | Borough contributions towards commissioned services | (8,505) | (8,520) | (15) | (0.2) |
| (460) | Borough contributions towards the administration of commissions | (495) | (495) | - | - |
| (1,127) | ESF Grant – 2013-15 | (250) | (494) | (244) | (97.6) |
| - | ESF Grant – 2016+ | (1,000) | - | 1,000 | - |
| (17) | Interest on Investments | - | (14) | (14) | - |
| - | Other Income | - | - | - | - |
| (800) | Transfer from Reserves | (250) | (499) | (249) | (99.6) |
| (11,205) | Total Income | (10,500) | (10,022) | 478 | 4.6 |
| 29 | Increase/(Reduction) in bad debt provision | - | (57) | (57) | - |
| (174) | Deficit/(Surplus) | - | (1,167) | (1,167) | - |

4. The provisional surplus of £1.167 million compares to a forecast surplus of £1.141 million at the month 9 stage of the year, as reported to this Committee in March 2016, a marginal increase of £26,000. Included within the figures is a debt write off of £57,000, although this is fully offset by a reduction in the Committee's bad debt provision of £57,000. As highlighted in the forecast monitoring reports to Committee during the course of the year, a distinction is made between the transactions relating to the borough funded S.48 commissioned services (priorities 1,2 and 4) and those in respect of the ESF/borough matched funded commissions (priority 3). The provisional surplus of £1.167 million is split between the S.48 borough commissioned services and the ESF/borough funded commissions, as detailed in Table 2 below:

Table 2 – Payments for Commissioned Services 2015/16

| | S.48 borough | ESF/borough | Total |
|---|---------------------|--------------------|----------------|
| | £000 | £000 | £000 |
| Payments for commissioned services | 7,304 | 952 | 8,256 |
| Plus contribution to London Funders Group | 60 | - | 60 |
| Less returned payments | - | - | - |
| Sub-Total | 7,364 | 952 | 8,316 |
| Plus LC grants administration | 471 | 68 | 539 |
| Plus debt write-off | - | 57 | 57 |
| Sub-Total | 7,835 | 1,077 | 8,912 |
| Less Borough subscriptions | (8,000) | (1,015) | (9,015) |
| Less ESF grants income | - | (494) | (494) |
| Less Investment income | (14) | - | (14) |
| Less transfer from reserves | - | (499) | (499) |
| Reduction in Bad Debt provision | - | (57) | (57) |
| Deficit/(Surplus) for the year | (179) | (988) | (1,167) |

5. For the S.48 borough funded services, year-end liabilities of £307,416.46 were set up and are included in the provisional outturn figure of £7.304 million. These liabilities were fully paid by 9 June 2016. The provisional surplus of £179,000 is split between:

- a provisional underspend of £201,000 in relation to payments for commissioned services relating to 2015/16, represented by:

| | £ | Reason |
|-------------------------|-------------------|-------------------|
| St Mungo's | 36,000.00 | Unspent funding |
| Children England | 585.03 | Unspent funding |
| Eaves | 93,584.54 | In administration |
| Women's Resource Centre | 1,069.00 | Unspent funding |
| Thamesreach | 59,909.94 | Unspent funding |
| Women in Prison | 9,251.00 | Under-delivery |
| | 200,399.51 | |

and

- a provisional net overspend of £22,000 in relation to grants administration expenditure attributable to overspends of £13,000 in respect of salary costs and £23,000 for general running costs and central recharges, offset by £14,000 from investment income received on Committee reserves.
6. For the ESF/borough funded commissions, the provisional surplus of £988,000 is split between:
- A projected breakeven position relating to payments in respect of the expired 2013-15 borough/DWP ESF programme, where total residual payments to providers of £952,000 and administration costs of £56,000 have been funded by ESF grant of £494,000, a transfer from accumulated ESF reserves of £499,000 and borough contributions received in advance in 2014/15 of £15,000;

- A projected net underspend of £988,000 in respect of the new 2016+ ESF programme, the start of which has slipped into the 2016/17 financial year. Administrative costs, estimated to be in the region of £12,000, have been incurred in respect of preparatory bid work and may be subject to a retrospective grant claim once the new programme has commenced. However, at this stage, as no substantive spend was incurred in 2015/16 on the new programme, no ESF grant will be receivable. The underspend, therefore, effectively relates to the £1 million borough contributions made during 2015/16 in respect of the funding of the new programme.
7. In terms of grants administration on the combined programme, total administration costs of £444,000, excluding central recharges, on total spend of £8.817 million, excluding central recharges, equates to 5%, which compares to a figure of 4.3% for 2014/15. For the London Councils borough funded grants programme, administration costs of £390,000, excluding central recharges, on total spend of £7.835 million, excluding central recharges, equates to 4.98%, compared to 4.71% for 2014/15, with ESF administration costs of £54,000, excluding central recharges, on spend of £1.063 million, excluding central recharges, equating to 5%. The comparative figure for 2014/15 was 2.86%. The increase for this area of the programme is clearly linked to the lack of overall expenditure arising from the slippage of the new 2016+ ESF programme.

Balance Sheet as at 31 March 2016

8. The summarised provisional balance sheet position as at 31 March 2016 is shown in Table 4 below, compared to the position for 2014/15:

Table 4 – Balance Sheet Comparison 2014/15 and 2013/14 (inclusive of IAS19).

| | As at 31 March 2016 (£000) | As at 31 March 2015 (£000) |
|-------------------------------|---------------------------------------|---------------------------------------|
| Fixed Assets | - | 1 |
| Current Assets | 2,303 | 1,651 |
| Current Liabilities | (320) | (336) |
| Pension Fund Liability | (1,243) | (1,560) |
| Total Assets less Liabilities | <u>740</u> | <u>(244)</u> |
| Represented by: | | |
| General Fund | 1,992 | 1,324 |
| Pension Fund | (1,243) | (1,560) |
| Accumulated Absences Fund | <u>(9)</u> | <u>(8)</u> |
| | <u>740</u> | <u>(244)</u> |

9. The main features of the balance sheet as at 31 March 2016 are as follows:
- Fixed assets have decreased by £1,000 which reflects the annual depreciation charge;
 - Current assets have increased by £652,000 from £1.651 million to £2.303 million, which is attributable to an increase of £1.085 million in cash balances and a decrease of £433,000 in debtors. The reduction in debtors is due to decreases of £184,000 in respect of unpaid borough subscriptions, £158,000 in respect of advance payments to voluntary organisations under the ESF match funded programme, £87,000 in respect of unpaid ESF claims and residual variances of £4,000;

- Current liabilities have decreased by £16,000 from £336,000 to £320,000, which is attributable to reductions of £29,000 in respect of deferred funding for the ESF grant match funded programme offset by an increase of £9,000 in respect of amounts owed to voluntary organisations and residual variances of £4,000;
- The pension fund liability has reduced by £317,000 from £1.56 million to £1.243 million; the accumulated absence reserve has increased marginally to £9,000; and
- The above movements have resulted in an overall increase in the level of reserves to a £740,000 credit balance as at 31 March 2016, inclusive of the IAS19 deficit which is explored from paragraph 10 onwards and the accumulated absence reserve.

Effect of IAS19 (formerly FRS17)

10. International Accounting Standard 19 (IAS19), Employee Benefits (formerly Financial Reporting Standard 17, Retirement Benefits or FRS17), is an international accounting standard that all authorities administering pensions funds must follow. This includes London Councils through its Admitted Body status as part of the Local Government Pension Scheme (LGPS) administered by the London Pensions Fund Authority (LPFA).
11. IAS19 requires an organisation to account for retirement benefits when it is committed to give them, even if the actual giving will be many years to come and is, therefore, a better reflection of the obligations of the employer to fund pensions promises to employees. It requires employers to disclose the total value of all pension payments that have accumulated (including deferred pensions) at 31 March each year.
12. This value is made up of:
 - The total cost of the pensions that are being paid out to former employees who have retired; and
 - The total sum of the pension entitlements earned to date for current employees – even though it may be many years before the people concerned actually retire and begin drawing their pension.
13. IAS19 also requires London Councils to show all investments (assets) of the Pension Fund at their market value, as they happen to be at the 31 March each year. In reality, the value of such investments fluctuates in value on a day-to-day basis but this is ignored for the purpose of the accounting standard. Setting side by side the value of all future pension payments and the snapshot value of investments as at the 31 March, results in either an overall deficit or surplus for the Pension Fund. This is called the IAS19 deficit or surplus.
14. London Councils has to obtain an IAS19 valuation report as at 31 March each year in order to make this required disclosure. This is done through the actuaries of the LPFA fund, Barnett Waddingham. FRS17 was reflected in London Councils' accounts for the first time for the 2003/04 financial year and is apportioned across London Councils' three functions – this Committee, the Transport and Environment Committee (TEC) and the London Councils Joint Committee (JC) functions, in proportion to the actual employers pensions contributions paid in respect of staff undertaking each of the three functions. IAS19 has no effect on the net position of income and expenditure for the year. However, as detailed in paragraph 10 above, the IAS19 deficit or surplus needs to be reflected in the annual balance sheet. For London Councils Grants Committee, the Pension Fund deficit as at 31 March 2015 was £1.56 million.

The deficit on the Pension Fund as at 31 March 2016, as determined from the latest valuation undertaken by the actuary, is £1.243 million, a reduction of £317,000.

15. The reason for this reduction in the pensions deficit is primarily due to changes in the financial assumptions in relation to discount rate yields and the CPI inflation rate that have led to a reduction in the defined benefit obligation.
16. Table 4 clearly demonstrates, therefore, that the Committee's balances are notionally reduced by £1.243 million as a result of the requirement to fully disclose the pension fund deficit on the balance sheet. However, recent and future reviews of the employers pension contribution rate is intended, over time, to assist in reducing the overall deficit and the Committee should, therefore, not view general balances as being a first call on funding the IAS19 pensions deficit. London Councils External Auditors (PwC) will also test the assumptions made by the actuary in arriving at this valuation in the course of their external audit during July/August.

Committee Reserves

17. The pre-audited position on the Committee's overall reserves, as at 31 March 2016, is detailed in Table 5 below:

Table 5 – Grants Committee reserves as at 31 March 2016

| | General Reserve (£000) | Pension Fund (£000) | Accumulated Absences Reserve (£000) | Total (£000) |
|--|-------------------------------|----------------------------|--|---------------------|
| Balance at 1 April 2015 | 1,324 | (1,560) | (8) | (244) |
| Transfer (to)/from Revenue Account | (499) | (80) | (1) | (580) |
| Actuarial Gain on Pension Fund | - | 397 | - | 397 |
| (Deficit)/Surplus for Year | 1,167 | - | - | 1,167 |
| Balance at 31 March 2016 | 1,992 | (1,243) | (9) | 740 |
| One-off payment to boroughs 2016/17 | (486) | - | - | (486) |
| Potential slippage of new ESF commitments into 2016/17 | (1,000) | - | - | (1,000) |
| Residual Balance | 506 | (1,243) | (9) | (746) |

18. The above table indicates that the Committee is projected to have provisional unaudited reserves of £1.992 million at the end of 2015, although following the return of a sum of £486,000 from reserves to boroughs in April 2016, an indicative uncommitted sum of £1.506 million effectively remains.
19. A sum of £449,000 relates to the £8 million S.48 borough funded commissions and equates to 5.61% of budgeted expenditure. This figure exceeds the desirable benchmark of £300,000, or 3.75%, established by the Grants Executive Committee in September 2013 and gives scope for the consideration of the return of further amounts to boroughs in the 2017/18 budget setting process in the autumn. The residual £1.057 million relates to the ESF/borough funded commissions and includes the £1 million collected from boroughs during the year in respect of the 2016+ new ESF programme. As the Committee is aware, the start of this

programme has slipped in 2016/17, so there is an expectation that this resource might possibly be applied during the course of the current year as the programme gains momentum.

Conclusions

20. The provisional surplus of £1.167 million has been split between those transactions relating to the boroughs S.48 commissioned services and those relating the ESF/boroughs funded programme. Provisional general reserves of £506,000 remain after allowing for the approved one-off payment to boroughs of £486,000 in 2016/17 and potential ESF commitments of £1 million relating to the new programme that are expected to slip into the current year.
21. The £26,000 increase in the provisional surplus of £1.167 million, compared to the £1.141 million surplus forecast at Month 9 is broadly attributable to:
- an increase in the underspend on borough funded S.48 commissions of £77,000; offset by
 - a net increase in administration costs of £51,000.
22. On the basis of an on-going £8 million S.48 commissioning budget, estimated reserves of £449,000, equating to 5.61% of the total budget, exceed the established benchmark of £300,000 or 3.75% and there is an option for the excess amount to be returned to boroughs as part of the 2017/18 budget process in the autumn.
23. The audit of these accounts by the external auditors, KPMG LLP, will take place during the summer, with the outcome reported to the Audit Committee in September 2016. The audited accounts will be presented to this Committee in November for formal adoption.

Recommendations

24. The Committee is asked:

- to note the provisional pre-audited outturn position and the indicative surplus of £1.167 million for 2015/16; and
- to note the provisional level of reserves at paragraphs 17-19 and the financial outlook, as detailed in paragraphs 20-23 of this report.

Financial Implications for London Councils

Financial implications are included in the main part of the report.

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Background Papers

GC Budget File 2015/16;

GC Final Accounts File 2015/16.

GC Revenue Forecast File 2015/16