London Councils Executive

London Councils – Consolidated Pre-Audited Financial Results 2016/17

Item no: 8

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Date: 20 June 2017

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Summary: This report highlights the pre-audited consolidated financial position for London Councils for the 2016/17 financial year. The provisional consolidated revenue position is shown followed by a separate revenue summary for each of London Councils three funding streams, together with explanations for the significant variances from the approved revised budget. The pre-audited consolidated balance sheet and the provisional level of London Councils reserves as at 31 March 2017 are also shown, together with overall conclusions and prospects for 2017/18 and beyond, after taking into account known commitments. The provisional revenue outturn and reserves position is summarised as follows:

Revenue Account (£000)	**Revised Budget**	**Actual**	**Variance**
Total Expenditure	397,981	395,259	(2,722)
Total Income	(395,489)	(395,704)	(215)
Use of reserves	(2,492)	(2,629)	(137)
Bad Debts provision	**-**	30	30
Net Deficit/(Surplus)	**-**	**(3,044)**	**(3,044)**
General and Specific Reserves (£000)	**General Reserve**	**Specific Reserve**	**Total**
As at 1 April 2016	10,283	2,358	12,641
Transfer (to)/from revenue	(2,328)	(301)	(2,629)
Provisional Surplus for the Year	1,793	1,251	3,044
As at 31 March 2017	**9,748**	**3,308**	**13,056**[1]

[1] As detailed in table 12 at paragraph 64, reserves are reduced to £5.59 million once approved commitments of £7.466 million arising from 2016/17 onwards are taken into account.

Recommendations: The Executive is asked:

- To note the provisional consolidated outturn surplus of £3.044 million for 2016/17 and the provisional outturn position for each of the three funding streams;

- To approve the carry forward of £29,000 into 2017/18 in respect of planned NOTIFY system developments;

- To approve the carry forward of the underspend of £15,000 in respect of the YPES be held in reserves for the specific future funding of this service, in accordance with usual practice;

- To note the carry forward of £227,000 into 2017/18 in respect of TEC system developments, subject to final approval by the TEC Executive on 20 July;

- To note the provisional level of reserves of £13.056 million as at 31 March 2017 (paragraphs 62-63), which reduces to £5.59 million once known commitments of £7.466 million are taken into account (paragraphs 64-65);

- To note the updated financial position of the London Councils as detailed in paragraphs 66-67 of this report; and

- To agree to receive a further report in November 2017 after the completion of the external audit by KPMG LLP to adopt the final accounts for 2016/17. The final accounts will be signed off at the meeting of the Audit Committee on 21 September 2017, at which KPMG will formally present the Annual Audit Report for approval.

London Councils – Consolidated Pre-Audited Final Results 2016/17

Executive Summary

1. The provisional revenue outturn for 2016/17, split across London Councils three funding streams is as follows:

	Grants	TEC	Joint	Consolidated
	£000	£000	£000	£000
Total Expenditure	8,632	377,657	8,970	395,259
Total Income	(8,657)	(378,688)	(8,359)	(395,704)
Use of Reserves	(492)	(643)	(1,494)	(2,629)
Bad Debts provision	-	30	-	30
Surplus	**517**	**1,644**	**883**	**3,044**

2. Once figures relating to potential carried forward amounts are taken into account, the headline surplus of £3.044 million reduces to £2.773 million, as follows:

	Grants	TEC	Joint	Consolidated
	£000	£000	£000	£000
Surplus for the Year	**517**	**1,644**	**883**	**3,044**
TEC balances c/f	-	(227)	-	(227)
YPES balances c/f	-	-	(15)	(15)
NOTIFY balances c/f	-	-	(29)	(29)
Adjusted underlying Surplus	**517**	**1,417**	**839**	**2,773**

3. The provisional level of reserves for each funding stream as at 31 March 2017 is as follows:

	Grants	TEC	Joint	Consolidated
	£000	£000	£000	£000
Audited Reserves at 1 April 2016	**1,992**	**4,269**	**6,380**	**12,641**
Transfer (to)/from Revenue	(492)	(643)	(1,494)	(2,629)
Provisional surplus/ (deficit) for the Year	517	1,644	883	3,044
Provisional Reserves at 31 March 2017	**2,017**	**5,270**	**5,769**	**13,056**

4. However, once all potential and known commitments of £7.466 million are taken into account, the estimated level of uncommitted reserves reduces to £5.59 million, as follows:

	Grants	TEC	Joint	Consolidated
	£000	£000	£000	£000
Provisional Reserves at 31 March 2017	**2,017**	**5,270**	**5,769**	**13,056**
Underspends c/f into 2017/18	-	(227)	(44)	(271)
Committed in setting 2017/18 budget	(75)	(488)	(1,183)	(1,746)
One-off payment to				

boroughs in 2017/18	(156)	(340)	(330)	(826)
Potential ESF grant commitments in 2017/18	(1,574)	-	-	(1,574)
Provisional commitments for 2018/19-2019/20	-	(2,534)	(515)	(3,049)
Uncommitted Reserves	**212**	**1,681**	**3,697**	**5,590**

5. A comparison of the provisional outturn surplus/(deficit) position against the forecast outturn position reported to the Executive and the TEC and the Grants Committee during the course of the year, excluding the overspend position on taxicard, is as follows :

	Grants	TEC	Joint	Consolidated
	£000	**£000**	**£000**	**£000**
Forecast at Month 3	(302)	(699)	2	(999)
Forecast at Month 6	(854)	(767)	(137)	(1,758)
Forecast at Month 9	(759)	(868)	(368)	(1,995)
Provisional Outturn	(517)	(1,644)	(883)	(3,044)
Movement between M9 and provisional outturn	242	(776)	(515)	(1,049)

6. The £242,000 negative movement for the Grants Committee is due to a reduction in ESF borough contributions of £423,000 and ESF grant income of £153,000 attributable to the year, a net increase in administration costs of £21,000, offset by a reduction in ESF payments to providers attributable to the year of £349,000 plus an additional transfer from reserves of £6,000.

7. The £776,000 movement for TEC is highlighted in Table 7 and explored in detail in the analysis of actual income and expenditure against the approved budgets in paragraphs 18-34 below and is mainly due to an increase in Lorry Control PCN income, net of an increase in the bad debt provision, of £410,000, an improvement on the net position for spend on Freedom Pass issue costs and replacement Freedom Pass income of £140,000, an increase of £202,000 in respect of the reduced cost of the administration of the London Tribunal, an increase in the underspend of £100,000 in respect of IT system development costs; offset by additional general running costs and central recharges of £119,000.

8. The £515,000 movement for the Joint Committee is primarily due to a reduction in the net salaries underspend of £38,000, an overspend on adjusted running costs and central recharge expenditure of £327,000 offset by increases in the underspends related to the commissioning budget (£153,000) and improvement and efficiency projects (£21,000). Additional income arose from movements in member contributions (£30,000), investment income (£25,000) and adjusted movement on other income (£160,000), which is explained in full at paragraphs 45-49. Net movement of £468,000 has arisen from the legitimate charging

of central costs to TEC, the Grants Committee and externally financed projects and tenants, as detailed at paragraph 50.

9. The IAS19 (formerly FRS17) Pensions Deficit has increased from £23.026 million as at 1 April 2016 to £29.989 million as at 31 March 2017, an increase of £6.963 million. The reason for this increase 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 an increase in the defined benefit obligation. Whilst returns on assets such as equities has been strong during the year, it has been overshadowed by an increase in the defined benefit obligation due to a reduction in the discount rate (which is based on corporate bond yields) and an increase in future inflation rates which are both used in the calculation of the obligation. This deficit will continue be recovered through future employers' pension contribution rates and will not be a potential call on existing London Councils reserves.

10. The actual financial results and the actual level of reserves will be confirmed during the course of the external audit of the 2016/17 accounts, which will be undertaken by KPMG LLP in July and August. The Audit Report and the audited accounts relating to this year will be reported to the meeting of the Audit Committee on 21 September 2017 and on to the November meeting of the Executive for adoption.

11. The financial year 2016/17 is the second year of the three-year financial strategy period agreed by the Leaders' Committee in December 2014 covering the period 2015/16 to 2017/18. The projected level of uncommitted reserves across all three funding streams of £5.589 million continues to leave the organisation in a strong position to continue to deliver the priorities contained in the business plan, to meet expectations arising from the recent Challenge process and support other member-led initiatives that could potentially arise in the short to medium term.

Introduction

1. Following the repeal 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. Following recommendations by the Audit Committee, the Leaders' Committee appointed KPMG LLP as London Councils external auditor for a three year period commencing 1 April 2015.

2. KPMG LLP will, therefore, audit the accounts for 2016/17 during July/August 2017 and present the accounts to the Audit Committee, along with the annual audit report, on 21 September. The audited accounts and the audit report will then be presented for adoption by the London Councils Executive at its November meeting. This report, therefore, details the provisional financial results for the three funding streams and the overall consolidated position and provides commentary on the variances against the revised approved budgets for the year – in effect, the format is similar as the revenue forecast reports presented to the Executive three times each financial year.

3. London Councils approved revenue expenditure budget for 2016/17 was £398.193 million, as agreed by the Leaders' Committee in December 2015. The corresponding revised revenue income budget was £395.724 million, with the budget balanced by the approved transfer of £2.469 million from reserves.

4. After a number of adjustments, budgeted expenditure was revised to £397.981 million, with a further £23,000 transferred from reserves for the year. The revised budget is shown in Table 1 below:

Table 1 – Revised budget 2016/17

	£000
Original Expenditure budget	398,193
Plus running costs expenditure budget adjustment	45
Plus carried forward funding: NOTIFY system developments	23
Less adjustment to Taxicard provider budget	(280)
Total Expenditure	**397,981**
Funded by:	
Original Income budget	(398,193)
Plus approved additional transfer from reserves	(23)
Plus increased central recharge income	(45)
Less reduction in Taxicard funding from boroughs/TfL	280
Total Funding	**(397,981)**
Net position	**Nil**

5. The format of this report will be:
   - A summary provisional consolidated outturn position for the year (Table 2);
   - The summary position for each of the London Councils three funding streams – the Grants Committee, TEC, and the core functions undertaken by the Joint Committee, (Tables 3-8);
   - Brief explanations will be provided for the main variances against the approved budgets that have emerged during the year for each funding stream;
   - The provisional consolidated balance sheet for 2016/17, including the effect of IAS19 Retirement Benefits (Table 9);
   - The provisional position on London Councils reserves as at 31 March 2017, adjusted for all current and future commitments to provide an updated position on residual uncommitted reserves position (Tables 10-13); and
   - Commentary on the current financial position of the London Councils and the link into the prospects for future years (paragraphs 66-68).

6. Some of the figures included within the results are provisional and may be subject to further clarification (and possible changes) in the run up and during the course of the actual external audit of the accounts by KPMG LLP. London Councils budgets and reports on a gross accounting basis in accordance with UK Generally Accepted Accounting Practice (GAAP). This means that in some instances, additional expenditure will be shown in the revenue account, which is offset by accrued additional income, leaving a neutral or near-neutral effect on the bottom line. Examples of this are illustrated in respect of Freedom Pass issue costs (paragraph 19) and in respect of certain activities undertaken by the Joint Committee (paragraphs 39 and 48).

7. Table 2 below summarises the provisional consolidated revenue outturn position for the year.

Table 2 – Comparison of Income and Expenditure against Consolidated Revised Budget 2016/17

2015/16 Actual		**2016/17 Revised Budget**	**2016/17 Actual**	**2016/17 Variance**	
	Expenditure	**£000**	**£000**	**£000**	**%**
5,104	Employee Costs	5,340	5,171	(169)	(3.2)
2,986	Running Costs	2,852	3,175	323	11.3
407	Central Recharges	487	583	96	19.7
8,497	**Total Operating Expenditure**	**8,679**	**8,929**	**250**	**2.9**
8,277	Direct Services	8,574	9,167	593	6.9
364,274	Payments in respect of Freedom Pass and Taxicard	368,677	367,426	(1,251)	(0.3)
7,304	Borough commissioned services	7,505	7,458	(47)	(0.6)
952	ESF commissioned services	1,880	-	(1,880)	(100.0)
60	Contribution to London Funders	60	60	-	-
825	One-off borough payment	1,651	1,651	-	-
196	Improvement and Efficiency	265	178	(87)	(32.8)
416	Research and Commissioning	640	322	(318)	(49.7)
72	YPES Regional Activities	50	56	6	12.0
57	Debt write-off	-	12	12	-
390,933	**Total Expenditure**	**397,981**	**395,259**	**(2,722)**	**(0.7)**
	Income				
(365,238)	Contributions in respect of Freedom Pass and Taxicard	(368,790)	(368,446)	344	(0.1)
(8,520)	Borough contributions towards commissioned services	(8,555)	(8,022)	423	4.9
(8,681)	Charges for direct services	(8,974)	(10,098)	(1,124)	(12.5)
(5,888)	Core Member Subscriptions	(5,766)	(5,796)	(30)	(0.5)
(180)	Borough contributions towards YPES	(180)	(180)	-	-
(309)	Borough contribution towards LCP payments	(326)	(357)	(31)	(9.5)
(651)	Government grants	(1,131)	(99)	1,032	91.2
(104)	Interest of Investments	(75)	(95)	(20)	(24.3)
(606)	Other Income	(289)	(630)	(341)	(118.0)
(1,776)	Central Recharges	(1,513)	(1,981)	(468)	(30.9)
(2,135)	Transfer from Reserves	(2,492)	(2,629)	(137)	(5.5)
(394,091)	**Total Income**	**(397,981)**	**(398,333)**	**(352)**	**(0.09)**
(135)	Increase/(Reduction) in bad debt provision	**-**	30	30	-
(3,293)	**Deficit/(Surplus)**	**-**	**(3,044)**	**(3,044)**	**-**
	Applied to Funding Streams				
(1,167)	Grants Committee	-	(517)	(517)	-
(1,030)	Transport and Environment Committee	-	(1,644)	(1,644)	-
(1,096)	Joint Committee Services	-	(883)	(883)	-
(3,293)	**Deficit/(Surplus)**	**-**	**(3,044)**	**(3,044)**	**-**

8. The above results are split over the London Councils three separate funding streams – the Grants Committee, the Transport and Environment Committee and the core functions undertaken by the Joint Committee, including the financial results of London Councils Limited, to give the following financial results for the year.

Comparison of Income and Expenditure against Revised Budget – Grants Committee

9. Table 3 below summarise the provisional outturn position for the Grants Committee for 2015/16.

Table 3 – Provisional Outturn 2016/17 – Grants Committee

2015/16 Actual		**2016/17 Revised Budget**	**2016/17 Actual**	**2016/17 Variance**	
£000	**Expenditure**	**£000**	**£000**	**£000**	**%**
381	Employee Costs	382	417	35	9.1
63	Running Costs	18	26	8	44.4
95	Central Recharges	155	185	30	19.4
536	**Total Operating Expenditure**	**555**	**628**	**73**	**13.2**
7,304	Borough commissioned services	7,505	7,458	(47)	(0.6)
60	Membership fees to London Funders	60	60	-	-
952	ESF commissions – 2013-15	-	-	-	-
-	ESF commissions – 2016+	1,880	-	(1,880)	-
-	One-off payment to boroughs	486	486	-	-
57	Debt write-off	-	-	-	-
8,912	**Total Expenditure**	**10,486**	**8,632**	**(1,854)**	**(17.7)**
	Income				
(8,520)	Borough contributions towards commissioned services	(8,445)	(8,022)	423	5.0
(495)	Borough contributions towards the administration of commissions	(555)	(555)	-	-
(494)	ESF Grant – 2013-15	-	-	-	-
-	ESF Grant – 2016+	(1,000)	(63)	937	93.7
(14)	Interest on Investments	-	(17)	(17)	-
(499)	Transfer from Reserves	(486)	(492)	(6)	-
(10,022)	**Total Income**	**(10,486)**	**(9,149)**	**1,337**	**12.8**
(57)	Increase/(Reduction) in bad debt provision	-	-	-	-
(1,167)	**Deficit/(Surplus)**	**-**	**(517)**	**(517)**	**-**

10. The provisional surplus of £517,000 compares to a forecast surplus of £759,000 at the month 9 stage of the year, as reported to the Grants Committee in February 2017, a reduction of £242,000. As highlighted in the forecast monitoring reports to The Grants Committee and the Executive 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 £517,000 is split between the S.48 borough commissioned services and the ESF/borough funded commissions, as detailed in Table 4 below:

Table 4 – Payments for Commissioned Services 2016/17

	S.48 borough	ESF/borough	Total
	£000	£000	£000
Payments for commissioned services	7,458	-	7,458
Plus contribution to London Funders Group	46	14	60
Sub-Total	**7,504**	**14**	**7,518**
Plus LC grants administration	519	109	628
Plus repayments to boroughs	185	301	486
Sub-Total	**8,208**	**424**	**8,632**
Less Borough subscriptions	(8,000)	(577)	(8,577)
Less ESF grants income	-	(63)	(63)
Less Investment income	(17)	-	(17)
Less transfer from reserves	(191)	(301)	(492)
Deficit/(Surplus) for the year	**-**	**(517)**	**(517)**

11. For the S.48 borough funded services, a provisional breakeven position has been recorded. The provisional results include year-end liabilities of £754,576 for payments to commissions, which form part of the provisional outturn figure of £7.458 million. A sum of £325,233 in respect of these liabilities has been paid by 30 May 2017. The provisional breakeven position is analysed between:

- a net provisional underspend of £47,340 in relation to payments for commissioned services relating to 2016/17. An underspend position of £69,430 has been offset by an additional one-off payment of £22,000 to Ashiana, as agreed by the Grants Committee in March 2016. The provisional underspend relates to the following commissions, as detailed in Table 4a:

Table 4a – S.48 commissions underspend	£	Reason
St Mungo Community Housing Association	32,517	Unspent funding
Thames Reach	25,802	Unspent funding
Homeless Link	5,302	In administration
Tender Education and Arts	986	Unspent funding
Galop	1,827	Unspent funding
Women's Resource Centre	2,906	Under-delivery
Total projected underspend	**69,340**	

and

- a provisional net overspend of £68,000 in relation to grants administration expenditure attributable to overspends of £50,000 in respect of salary costs and £35,000 for general running costs and central recharges, offset by £17,000 from investment income received on Committee reserves. The overspend is primarily due to work surrounding the reletting of commissions in accordance with the priority themes agreed by the Leaders' Committee with effect from 1 April 2017.

12. For the ESF/borough funded commissions, the provisional surplus of £517,000 is attributable to the new 2016-18 ESF programme, which started in November 2016. Payments of £846,000 have been made to providers; however, all of these payments are treated as payments in advance and therefore do not impact on the 2016/17 outturn figures. Similarly, 50% of this amount (£423,000) that is funded out of the £1 million boroughs contributions levied during 2016/17 is treated as deferred income and equally has no impact on the provisional results for the year. Administrative costs, estimated to be in the region of £123,000, including the contribution of £14,000 to the London Funders Group, have been incurred in respect of the new programme, for which grant of £63,000 is expected to accrue.

13. In terms of grants administration on the combined programme, total administration costs of £443,000, excluding central recharges and repayments to boroughs, on total spend of £7.961 million, excluding central recharges and repayments to boroughs, equates to 5.57%, which compares to a figure of 5% for 2015/16. For the London Councils borough funded grants programme, administration costs of £373,000, excluding central recharges and the repayment to boroughs, on total spend of £7.876 million, excluding central recharges and repayments to boroughs, equates to 4.74%, compared to 4.98% for 2015/16. For the new ESF programme, administration costs of £70,000, excluding central recharges, have been incurred. As there was no actual expenditure on the programme, in accounting treatment terms, for 2016/17, there is no comparative benchmark against the 5% figure incurred in respect of administration costs for 2015/16.

14. Further commentary on the year-end position for the Grants Committee is included in paragraphs 66-68 of this report.

Comparison of Income and Expenditure against Revised Budget – Transport and Environment Committee.

15. Table 5 below summarises the provisional outturn position for TEC for 2016/17.

Table 5 – Provisional Outturn 2016/17 – Transport and Environment Committee

Actual 2015/16		Revised Budget 2016/17	Actual 2016/17	Variance 2016/17	
£000	**Expenditure**	**£000**	**£000**	**£000**	**%**
582	Non-operational Staffing	652	582	(70)	(10.7)
312	Running Costs	297	188	(109)	(36.7)
61	Central Recharges	74	102	28	36.5
955	**Total Operating Expenditure**	**1,023**	**872**	**(151)**	**(14.8)**
8,131	Direct Services	8,426	9,007	581	6.9
364,274	Payments in respect of Freedom Pass and Taxicard	368,677	367,426	(1,251)	(0.3)
37	Research	40	-	(40)	-
3	Reimbursement of parking PCNs	-	-	-	-
-	One off payment to boroughs	340	340	-	-
-	Debt write-off	-	12	12	-
373,400	**Total Expenditure**	**378,506**	**377,657**	**(849)**	**(0.2)**
	Income				
(365,238)	Contributions in respect of Freedom Pass and Taxicard	(368,790)	(368,446)	344	0.1
(8,601)	Charges for direct services	(8,892)	(10,004)	(1,112)	(12.5)
(97)	Core Member Subscriptions	(97)	(97)	-	-
(11)	Interest on Investments	-	(1)	(1)	-
(3)	Parking PCN income collected	-	-	-	-
(106)	Other Income	(84)	(140)	(56)	(66.6)
(296)	Net transfer from Reserves	(643)	(643)	-	-
(374,352)	**Total Income**	**(378,506)**	**(379,331)**	**(825)**	**(0.2)**
(78)	Increase/(Reduction) in bad debt provision	-	30	30	-
(1,030)	**Deficit/(Surplus)**	**-**	**(1,644)**	**(1,644)**	**-**

16. In addition to the transactions detailed in Table 1 above are costs and income associated with the London European Partnership for Transport (LEPT) TfL/EU funded. The provisional deficit shown below is reflected in TEC's short term reserves position. These transaction are summarised in Table 2 below:

Table 2 – Income and Expenditure relating to LEPT 2016/17

	£000
Employee Related Costs	75
Premises Costs	30
Running/Central Costs	31
Other Costs	37
Total Expenditure	**163**
Grant/Other Income	(163)
Deficit/(Surplus)	**-**

17. A provisional surplus on revenue activities of £1.644 million has been posted for 2016/17, the headlines of which are summarised in Table 7 below, compared to the position reported at the end of December 2016 (Month 9), highlighting the movement between the two positions.

From this provisional surplus figure, the TEC Executive is being asked to carry forward balances amounting to £227,000 in 2017/18 (paragraphs 26 and 32 below refer). If this request is approved at its meeting on 20 July, the provisional surplus reduces to £1.417 million. An explanation for each of the variances is provide in subsequent paragraphs:

Table 7 – TEC – Analysis of revenue account surplus 2016/17

	Outturn	M9	Movement
	£000	£000	£000
Freedom Pass non-TfL bus services	270	200	70
Freedom Pass survey and reissue costs (net of additional replacement Freedom Passes income)	734	594	140
Interest earned on investment of cash-balances	1	-	1
Research	40	20	20
Net position on Taxicard	-	-	-
Shortfall in replacement taxicard passes income	(13)	(17)	4
Net position on parking appeals	(88)	(97)	9
Net position on other traded parking services	2	(73)	75
Northgate PS Fixed Costs	(9)	2	(11)
London Tribunals Administration	193	(9)	202
Lorry Control Administration	(54)	(19)	(35)
Lorry Control PCNs	543	133	410
Freedom Pass Administration	8	17	(9)
Taxicard Administration	(94)	(32)	(62)
Non-operational staffing costs	70	88	(18)
Overspend on running costs/central recharges	(119)	-	(119)
Underspend on IT system developments	150	50	100
Rechargeable parking systems related work	21	-	21
Net additional in Health Emergency Badge income	9	11	(2)
Miscellaneous Income	21	-	21
Debt write-off	(12)	-	(12)
Increase in Bad Debt provision	(30)	-	(30)
Provisional surplus for the year	**1,644**	**868**	**776**

Freedom Pass non-TfL bus services (-£270,000)

18. In December 2015, TEC approved a budgetary provision of £1.7 million for 2016/17 to cover the cost of payments to non-TfL bus operators under the national concessionary fares scheme, the overall cost of which is demand led by eligible bus users. Claims from operators amounting to £1.43 million have been received and accepted for 2016/17, which has led to an underspend of £270,000, or 16%. This is broadly attributable to a 6% overestimate of the estimated increase on the 2015/16 costs, a 9% fall in journey volumes and 1% attributable to a reimbursement agreement with new operators that took over the services from the existing operators, the terms of which were more favourable to London Councils. The 9% fall on journey volumes was partially due to changes to eligibility age (3.5%) and also as result of network restructure and withdrawn services. Six of the LSP operators ceased services between September 2016 and January 2017 following network reviews, after the 2016/17 budget had been set.

Net Freedom Pass survey and issue costs (-£737,000)

19. The budget for the pass survey and issue processes for the year was £1.518 million. This budget covers the issuing of Freedom Passes to new applicants and for the replacement of passes which are lost, stolen or faulty. Provisional total expenditure for 2016/17 is £966,000, a provisional underspend of £552,000. In addition, a sum of £732,000 was collected during 2016/17 in respect of replacement Freedom Passes, £182,000 in excess of the £550,000 budgetary provision. In net terms, therefore, there was a surplus of £734,000, which, in accordance with approved Committee practice, will be transferred from the provisional surplus to the specific reserve created to fund the full 2020 freedom pass renewal process.

Interest earned on investment of cash-balances (-£1,000)

20. Cash-flow management undertaken at the City of London, who invest London Councils cash balances on behalf of boroughs, has yielded interest receipts of £1,131 against a zero budgetary provision.

Research Budget (-£40,000)

21. No expenditure on research was incurred during the year, against an approved budget of £40,000.

Taxicard (Net Nil)

22. Total payments to the contractor, City Fleet were £11.555 million, £528,000 below the revised total budgetary provision of £12.083 million. The underspend has arisen despite the total number of trips taken during the year having increased by 4.32% on the comparative figure for 2015/16. Both TfL's budget and many of the borough budgets are still higher than the required projected spend so underspending boroughs and TfL will be refunded. TfL also funded the management charge for LB of Barnet of £11,936. Total expenditure, therefore, was £11.567 million. The boroughs and TfL have provided total combined trips funding for the year of £12.295 million, so net refunds totalling £728,000 have been made; a sum of £524,000 to boroughs (£793,000 underspends less £269,000 overspends) and £204,000 refunded to TfL (£204,000).

Income from the issue of replacement Taxicards (+£13,000)

23. A sum of £23,010 was collected against a full year budgetary provision of £36,000, leading to a £12,990 shortfall.

Traded Services (+£95,000)

24. This net deficit position of £95,000 is made up of a number of elements, which have been reported regularly to TEC during the year. These are listed below:

- Firstly, there are two elements where the effect on income and expenditure levels produces a neutral effect and does not change the overall net surplus position:

  - A provisional overspend of £817,000 for increased payments to Northampton County Court, which is a borough demand led service for the registration of persistent non-payers of parking PCN's in the County Court at £7 per time. The costs are fully recovered from boroughs, leading to a compensating increased level of income collected for the year.
  - Expenditure on congestion charging appeals is estimated to be £338,000, £84,000 more than the budgetary provision of £254,000. The number of appeals heard during the year was 6,602, 435 more than the budgeted figure of 6,167. The throughput of appeals was calculated at 1.68 appeals per hour, compared to 1.65 per hour for 2015/16. However, as the cost of these appeals is recharged to the GLA/TfL at full cost, there was a corresponding increase in income due for the year of £84,000, which therefore has a zero effect on TEC's provisional financial position for the year.

- Secondly, there is a net deficit of £88,000 in respect of parking and traffic appeals. The number of appeals and statutory declarations heard during the year was 41,855 against a budget of 52,885, generating income of £1.307 million, £322,000 less than the budget estimate of £1.632 million. However, this is offset by a significant reduction in adjudicator, contractor and administration costs of £233,000. The throughput of appeals was 2.5 appeals per hour, compared to a budget figure of 2.76 and an actual figure of 2.43 appeals per hour for 2015/16.

- Thirdly, the transaction volumes for other parking systems[1] used by boroughs and TfL over this period continue to reduce overall, resulting in a projected net deficit of £86,000. On the expenditure side, this takes into account the pricing structure offered by Northgate and expenditure was £9,000 more than the £193,000 budget. On the income side, unit cost recharges to boroughs for 2016/17 were set by the full Committee in December 2015 and amounted to £485,000, £77,000 less than the £562,000 income target. However, this deficit is offset by the recharging of non-appeal fixed costs to boroughs of £88,000.

[1] These consist of TRACE, which allows a vehicle owner to find out the exact location of their towed-away vehicle and how much the release fee will be; and TEC, the system that allows boroughs to register any unpaid parking tickets with the Traffic Enforcement Centre and apply for bailiff's warrants.

- Finally, the was a deficit of £9,000 on the fixed costs recovered on the RUCA contract, reflecting the reduced contract price arising from the new contract with TfL/GLA that commenced in December 2016.

London Tribunals Administration (-£193,000)

25. The appeals Hearing Centre underspent the budget of £2.824 million by £193,000, primarily attributable to ETA operations. Salaries overspent by £6,000, offset by savings on overall premises costs of £23,000 and legal costs of £23,000. There were savings of £124,000 on postage and administrative handling costs in respect of appeals that are now covered in the unit cost pricings under the current contract arrangements, plus net savings of £28,000 in respect of general office running costs and central recharges.

Lorry Control Administration/PCN income (-£489,000)

26. The administration of the London Lorry Control Scheme overspent the budget of £674,000 by £54,000. This is attributable to additional salary costs of £20,000, registering debt at the County Court of £10,000, additional contract payments of £9,000, plus additional central recharges of £53,000, offset by an underspend on general office costs of £2,000. These overspends were offset by an underspend of £36,000 in respect of the review of LLC Scheme, which commenced towards the end of the financial year. At its meeting in July, the TEC Executive Sub-Committee will be asked to approve the carry forward of the underspend on the review of the LLC Scheme of £36,000 into 2017/18 when the review will be completed.

27. However, there was a significant overachievement in the collection of PCN income of £571,000 above the budgetary provision of £750,000, due to continued effective performance of the outsourced enforcement function meaning that transaction volumes continue to increase, leading to higher levels of debt actually being raised and collected. In addition, the continued functionality of the Adaptis computer management system allows outstanding debt to be registered at the Court more quickly. Of the £1.293 million income due for the year, £171,000 has yet to be collected and has been registered with the County Court. A bad debt provision of £137,000 has been established in respect of this outstanding amount, in accordance with usual accounting practice. This is an increase of £28,000 on the bad debt provision of £109,000 as at 31 March 2016, so the net surplus income reduces to £543,000 for the year.

Freedom Pass Administration (-£8,000)

28. The administration of the freedom pass under spent the budget by £8,000, attributable to an underspend on salary costs of £14,000 and £30,000 on general office costs, offset by additional central costs of £36,000.

Taxicard Administration (+£94,000)

29. The administration of the taxicard scheme overspent the budget by £94,000. Additional salary costs of £33,000 were incurred, along with additional central costs of £79,000. These were offset by an underspend of £18,000 on general office costs.

Non Operational Staffing Costs (-£70,000)

30. The non-operational employee cost budget of £603,000, plus £30,000 maternity cover, underspent by £70,000 at £563,000. This is primarily attributable to vacancies being held in respect of policy staff in the Policy and Public Affairs Directorate, leading to a reduced recharge to TEC for these salary costs. Non-operational salaries have been fully recharged, where appropriate, to reflect actual support to direct service and externally funded operations.

Running Costs/Central Recharges (+£72,000)

31. This overspend is primarily attributable to overspends of £21,000 for bank charges, additional central recharges of £28,000, general office expenses of £43,000, depreciation of £4,000 and £21,000 for rechargeable IT works for boroughs on parking systems (refer other income accrued in paragraph 33).

IT Systems Developments (-£150,000)

32. The budgetary provision of £150,000 was allocated in 2016/17 for IT developments within transport and mobility, with expressed intention of undertaking further developments to London Tribunals systems. These developments, which are still planned, did not take place in 2016/17. In large part, this was due to trialling a new approach to adjudicating statutory declarations and witness statements (the intended focus of the development work). This trial ended in April 2017 and London Councils intends to continue with the planned development work in 2017/18, which must be undertaken before full electronic data exchange, which will reduce processing work and costs, can be implemented for the benefit of Enforcing Authorities. In addition, a sum of £41,000 from Northgate was also received in respect of service credits accrued during the year, making a gross underspend of £191,000. At its meeting in July, the TEC Executive Sub-Committee will be asked to approve the carry forward of the underspend into 2017/18 to complete the required work.

Other income (-£42,000)

33. Other income exceeded the £84,000 budget by £42,000 as follows:
    - Rechargeable works to boroughs for parking system development work amounted to £21,000, the expenditure for which is included as part of running costs detailed in paragraph 31;
    - £5,000 in respect of sponsorship income;
    - Secondment income of £9,000;
    - Miscellaneous income of £17,000; offset by
    - A reduction in income of £10,000 from TfL in respect of administrative duties performed in respect of the concessionary fares settlement.

Bad Debts provision (+£30,000)

34. The Committee's bad debt provision as at 1 April 2016 was £108,000, which related to Lorry Control PCNs that had been registered at the County Court but which were unpaid at 31 March 2016. A review of the aged debts at the year-end has resulted in a revised year-end provision of £139,000, £137,000 of which relates to Lorry Control PCN income, an increase of £28,000, as highlighted in paragraph 20. The remaining £2,000 relates to other parking debt, in accordance with London Councils accounting policies, an increase of £2,000 on the zero provision for 2015/16.

35. Further commentary on the year-end position for TEC included in paragraphs 66-68 of this report.

Comparison of Income and Expenditure against Revised Budget – Joint Committee

36. Table 8 below summarises the position for the Joint Committee:

Table 8 – Provisional Outturn 2016/17– Joint Committee

Actual 2015/16		Revised Budget 2016/17	Actual 2016/17	Variance 2016/17	
	Expenditure	**£000**	**£000**	**£000**	**%**
4,141	Employee Costs	4,306	4,172	(134)	(3.1)
2,611	Running Costs	2,537	2,961	424	16.7
251	Central Recharges	258	296	38	14.7
6,703	**Total Operating Expenditure**	**7,101**	**7,429**	**328**	**4.6**
146	Direct Services	148	160	12	8.1
196	Improvement and Efficiency	265	178	(87)	(32.8)
379	Research and Commissioning	600	322	(278)	(46.3)
72	YPES Regional Activities	50	56	6	12.0

825	One-off payment to boroughs	825	825	-	-
8,621	**Total Expenditure**	**8,989**	**8,970**	**(19)**	**(0.2)**
	Income				
(80)	Income for direct services	(82)	(94)	(12)	(14.6)
(5,296)	Core Member Subscriptions	(5,114)	(5,144)	(30)	0.6
(180)	Borough contribution towards YPES payments	(180)	(180)	-	-
(309)	Borough contribution towards LCP payments	(326)	(357)	(31)	(9.5)
(157)	Government Grants	(131)	(36)	95	72.5
(79)	Interest on Investments	(75)	(77)	(2)	(2.66)
(500)	Other Income	(205)	(490)	(285)	(139.0)
(1,776)	Central Recharges	(1,513)	(1,981)	(468)	(30.9)
(1,340)	Transfer from Reserves	(1,363)	(1,494)	(131)	(9.61)
(9,717)	**Total Income**	**(8,989)**	**(9,853)**	**(864)**	**(9.61)**
-	Increase/(Reduction) in bad debt provision	**-**	-	-	-
(1,096)	**Deficit/(Surplus)**	-	**(883)**	**(883)**	**-**

37. A provisional surplus on revenue activities of £883,000 has been posted for 2016/17, the main constituents of which are explored in the paragraphs below:

Expenditure

Employee Costs (-£134,000)

38. The headline position is an underspend of £84,000 on officer salary costs, which increases to £126,000 once a reimbursement of £42,000 for an outgoing secondment is taken into account. The secondment income is included within other income at paragraph 48. The maternity cover budget of £50,000 was not used during the year.

Running Costs (+£424,000)

39. The running cost overspend is attributable to a number of under and overspends across a range of functions. Certain spend has been offset by income that has accrued during the year, as noted in paragraph 48, and some expenditure has been recharged to other funding streams and funded projects, which feature in the additional central recharge income detailed in paragraph 50. These particular areas are highlighted below:
    - Expenditure on the annual London Summit and the annual Andy Ludlow Award amounted to £50,000, which is offset by additional income of £42,000 reflected in other income at paragraph 48;
    - Expenditure on relaunching the London Councils intranet of £49,000 is offset by additional communications income of £67,000 generated during the year, as detailed in paragraph 48;

- Consultants fees of £19,000 in respect of providing GLEF/ Regional Employers related training courses, which has raised additional income of £34,000, as detailed in paragraph 48;
- The full cost of the City of London SLAs for support services, which shows as indicative additional expenditure of £176,000 in the Joint Committee account, but for additional income of £69,000 from central recharges detailed in paragraph 50 will accrue.
- Finally, the proposed rent increase for the Southwark Street site will generated additional central recharge income of £127,000 (refer paragraph 50 also).

40. If the expenditure highlighted in paragraph 39 is excluded, the underlying overspend on running costs reduces to £110,000, is broadly broken down as follows:
    - An initial estimated liability of £347,000 arising from the proposed rent review in respect of the Southwark Street site, in accordance with the 10 year lease agreed with the City of London in 2011, which is subject to on-going negotiations. This potential additional cost will be offset by estimated income of £127,000 in respect of the element of the potential increase that feeds into the central recharge model, where additional income accrues to the Joint Committee via charges to the TEC and Grants funding streams and projects funded from other sources. An analysis of the overall increased central recharge income is detailed in paragraph 50 below;
    - additional business rates for the Southwark Street site of £48,000;
    - additional security costs at Southwark Street of £11,000;
    - provisional underspends on the staff training/recruitment budgets of £43,000 and £10,000 in respect of staff travel;
    - provisional underspends of £47,000 for telephones and £25,000 on postal costs;
    - a provisional underspend of £29,000 on NOTIFY IT system development costs; and
    - a provisional underspend of £5,000 on insurance costs and £8,000 on subscriber services.

Central Recharges (+£38,000)

41. These additional costs relate to recharges to the Joint Committee managed functions - London Care Placements (£31,000), the London Health Board (LHB) (-£1,000) and the YPES (+£8,000). A sum of £26,000 relating to these additional costs is attributable to the initial estimated rent increase at the Southwark Street site. The remainder has been generated by the apportionment of actual central costs at the year end, some of which are volume led.

Improvement and Efficiency work (-£87,000)

42. This relates to the funding of former Capital Ambition performance and procurement legacy projects that the Leaders' Committee agreed to continue in December 2011. These are managed via a variety of borough networks, the budget for which in 2016/17 was £265,000. Work has continued on three projects during 2016/17, amounting to £178,000, leading to the underspend of £87,000.

Commissioning (-£278,000)

43. Expenditure on commissioning and other priority work amounted to £222,000 for the year, leading to an underspend of £278,000 against the approved budget of £500,000.

YPES Regional Activities (+£6,000)

44. Spend on the regional YPES programme for 2016/17 of £56,000 has exceeded the budget by £6,000, although this has been part funded by additional consultancy income of £5,000 (refer paragraph 48).

Income

Contributions towards London Care Placements (-£31,000)

45. Contributions from boroughs and other subscribers exceeded the budgeted target of £326,000 by £31,000.

Government Grants (+£95,000)

46. The shortfall in income is attributable to the YPES area of activity. Anticipated funding of £131,000 from the former LEP did not materialise, meaning that the YPES is now fully funded from a combination of borough contributions and transfers from accumulated reserves. This scenario is likely to continue into the current financial year, depleting the overall levels of reserves quicker than originally envisaged. An uncommitted sum of £197,000 remains in Joint Committee reserves for overall YPES activities, after transferring a further £293,000 to the revenue account for 2017/18 to fund the continuation of the service. Additional grant of £22,000 was received during 2016/17 to continue funding expenditure relating to the Accelerated Learning Project (ALP), managed by the YPES, with ESF grant of £14,000 also accruing for the YPES managed Youth Project.

Interest on Investments (-£2,000)

47. Investment income on joint committee reserves raised an additional £2,000, accruing £77,000 for the year, again reflecting a reasonable return from the investment of London Councils cash balances by the City of London in the money markets.

Other Income (-£285,000)

48. This additional income is made up of a number of elements:
    - Income in respect of the London Summit (£20,000) and the Andy Ludlow Award (£22,000), offset by expenditure of £50,000 as detailed in paragraph 39 above;
    - Additional income of £106,000 for the letting of meeting room facilities at Southwark Street, including £36,000 relating to charges for use by tenants;
    - Additional income of £34,000 for GLEF/Regional Employers related courses and other associated work, offset by the cost of consultants engaged to deliver some of the courses of £19,000, leading to net additional income of £15,000 (refer paragraph 39 above);
    - Consultancy income generated by the YPES of £5,000 to cover the marginal overspend on the YPES regional programme (see paragraph 44 above);
    - Secondment income of £42,000, which reduces total salary costs as highlighted in paragraph 38 above;
    - Additional income generated by the Communication division for services provided to third parties of £37,000 plus income received in respect of royalties of £30,000. These income streams were used to partially fund the review and relaunch of the London Councils intranet, as detailed in paragraph 39 above;
    - Additional income of £19,000 generated by the Communications and the YPES is respect of officer time spent on the Regional Adoption Project; and
    - Miscellaneous income of £4,000.

49. The additional income in paragraph 48 above is offset by a deficit of £15,000 in respect of anticipated London Care Placements income and a shortfall of £19,000 in publications and other communications income.

Central Recharge Income (-£468,000)

50. Additional income in respect of central recharges of £468,000 has arisen, of which £162,000 related to the recharging of Southwark Street premises costs to the TEC and Grants funding streams and to externally funded projects and licenced tenants. As indicated in paragraph 40, included within the £162,000 is a sum of £127,000 which relates to the estimated liability associated with the proposed rent increase for Southwark Street. A breakdown of the additional recharges broadly comprise of the following:

- Recharges for communications staffing and running costs of £66,000;
- Recharges for Corporate Governance functions, including that of the Chief Executive’s Office of £55,000;

- Recharges for Corporate Resources staffing, SLAs with the City of London, External Audit and general office costs of £106,000 to TEC and the Grants Committee; and
- Recharges for Corporate Resources staffing, SLAs with the City of London, External Audit and general office costs of £79,000 to externally funded functions and licenced tenants.

External Projects

51. Not included in the figures detailed in Table 8 are transactions of £2.179 million relating to work or projects financed by external bodies, which have no effect of the bottom-line position. These include:
    - The ESF Borough funded commissions, amounting to £391,000;
    - A range of health, child protection and worklessness projects funded by the MPS/ SFA / DfES of £670,000;
    - Various smaller projects, amounting to £196,000;
    - Capital Ambition Programme Office and residual project costs, including London Ventures, of £922,000;

52. As reported to the Executive in March 2016, a provision against uncommitted reserves of £300,000 was established in respect of the borough ESF programme of commissioned services that was jointly funded by 26 participating boroughs over the period 2008 to 2015. Work is continuing with funders to resolve the potential shortfall in income in respect of administrative costs, which has been revised down to £256,000, with the situation expecting to be concluded during the current financial year. There is the risk of a similar position emerging in respect of the 2016-18 borough ESF programme, although as the programme, which started in November 2016, is on-going, there is greater scope to reduce administrative costs to minimise any potential loss. However, at this stage, it is prudent to establish a further provision of £77,000 to cover potential shortfalls in income in respect of the new programme, making a provision of £333,000 in total. This indicative provision has, therefore, been reflected in the Joint Committees short term reserves position and is included in Tables 12 and 13 at paragraphs 64-65.

Balance Sheet as at 31 March 2017

53. The provisional consolidated balance sheet position as at 31 March 2017 is shown in Table 9 below, compared to the audited position for 2015/16:

Table 9 – Balance Sheet Comparison 2016/17 and 2015/16.

	As at 31 March 2017 (£000)	As at 31 March 2016 (£000)
Fixed Assets	1,538	1,723
Current Assets	22,819	21,720
Current Liabilities	(10,963)	(10,574)

Long-term Liabilities	(30,435)	(23,380)
Total Assets less Liabilities	(17,041)	(10,512)
Represented by:		
General Fund	9,748	11,640
Specific Funds	3,308	1,000
Pension Fund	(29,989)	(23,026)
Accumulated Absence Fund	(108)	(126)
	(17,041)	(10,512)

54. The main features of the provisional balance sheet as at 31 March 2017 are as follows:

- Fixed assets have decreased by £185,000 to £1.538 million from £1.723 million. The decrease is attributable to expenditure on the acquisition of assets amounting to £125,000 offset by the annual depreciation charge of £310,000;
- Current assets have increased by £1.099 million to £22.819 million from £21.72 million, which is attributable to an increase of £1.134 million in debtors offset by a £35,000 decrease in cash balances. The rise in debtors is due to increases of £1.129 million in respect of advance payments to ESF commissions, £522,000 in respect of amounts owed by boroughs for the Non-TfL concessionary fare schemes and £224,000 in respect of borough Taxicard budget overspends. The total value of these increases which amounts to £1.875 million is offset by a decrease of £730,000 in respect of payments for TEC parking services and residual variances of £11,000;
- Current liabilities have increased by £390,000 to £10.964 million from £10.574 million, which is attributable to initial estimated increases of £559,000 in respect of premises costs, £551,000 in respect of borough contributions to the ESF match funded grant programmes, £448,000 in respect of amounts owed to S.48 borough commissioned services, £423,000 in respect of deferred funding for the ESF grant match funded programme, £281,000 in respect of an overpayment to be paid back to a member borough, £201,000 in respect of deferred income for externally funded projects and residual variances of £78,000. The total value of these increases which amounts to £2.542 million is offset by decreases of £919,000 in respect of Capital Ambition balances, £540,000 in respect of amounts owed to Capital Ambition partners, £347,000 in respect of Freedom Pass reissue costs and £346,000 in respect of borough Taxicard budget refunds;
- Long term liabilities have increased by £7.055 million to £30.435 million from £2.38 million which is attributable to an increase in the value of the IAS19 pension deficit of

£6.963 million and an increase of £92,000 to the long term provisions in respect of property leases; and

- The above movements have resulted in an overall decrease in reserves to a negative balance of £17.041 million as at 31 March 2017, inclusive of the IAS19 deficit (which is explored from paragraph 55 onwards) and the balance on the accumulated absences reserve.

Effect of IAS19 Employee Benefits

55. 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. London Councils, as an Admitted Body of the Local Government Pension Scheme (LGPS) administered by the London Pensions Fund Authority (LPFA), has been subject to this accounting standard since 2003/04, the first year that such disclosures were required (previously under FRS17).

56. 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 pension promises to employees. It requires employers to disclose the total value of all pension payments that have accumulated (including deferred pensions) at the 31 March each year.

57. 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.

58. 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.

59. 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. The IAS19 surplus or deficit is allocated across London Councils three funding

streams– the Joint Committee (JC), the Transport and Environment Committee (TEC) and the London Councils Grants Committee (GC) functions in proportion to the actual employer's pensions contributions paid in respect of staff undertaking each function. IAS19 has no effect on the net position of income and expenditure for the year. However, the IAS19 deficit or surplus needs to be reflected in the balance sheet. For London Councils Joint Committee, the Pension Fund deficit as at 31 March 2016 was £23.026 million. The deficit on the Pension Fund as at 31 March 2017, as determined from the latest valuation undertaken by the actuary, is £29.989 million, an increase of £6.963 million.

60. The reason for this increase in the pensions deficit is due to changes in the key financial assumptions in relation to discount rate yields and the CPI inflation rate that have led to an increase in the defined benefit obligation. Whilst returns on assets such as equities has been strong during the year, it has been overshadowed by an increase in the defined benefit obligation due to a reduction in the discount rate (which is based on corporate bond yields) and an increase in future inflation rates which are both used in the calculation of the obligation.

61. Table 9 clearly demonstrates, therefore, that the Committee's provisional reserves of £13.056 million as at 31 March 2017 are notionally reduced by £29.989 million as a result of the requirement to fully disclose the pension fund deficit on the balance sheet. Future reviews of the employers pension contribution rate is intended, over time, to reduce the overall deficit and the Committee, should not view the provisional balance on reserves as being a potential call on funding the pensions fund deficit. The London Councils External Auditors, KPMG LLP will test the assumptions made by the actuary in arriving at this valuation in the course of their external audit during July/August.

Committee Reserves

62. Inclusive of the IAS19 Pension and the Accumulated Absence Reserves, the pre-audited overall position on the Committee's Reserves as at 31 March 2017 is detailed in Table 10:

Table 10 – Overall London Councils Reserves as at 31 March 2016

	General Reserve (£000)	**Specific Reserve (£000)**	**Pension Fund (£000)**	**Accumu-lated Absences (£000)**	**Total (£000)**
Audited balance at 1 April 2016	**10,283**	**2,358**	**(23,026)**	**(126)**	**(10,511)**
Transfer (to)/from Revenue Account	(2,328)	(301)	(1,317)	18	(3,928)

Movement on Pension Fund Reserve	-	-	(5,646)	-	(5,646)
(Deficit)/Surplus for Year	1,793	1,251	-	-	3,044
Provisional Balance at 31 March 2017	**9,748**	**3,308**	**(29,989)**	**(108)**	**(17,041)**

63. The pre-audited position on the Committee's Reserves as at 31 March 2017, split across the three-funding streams and exclusive of the IAS19 Pension and the Accumulated Absence Reserves, is detailed in Table 11:

Table 11– Analysis of Provisional Reserves as at 31 March 2017

	Transport and Environment Committee (£000)		**Joint Committee (£000)**	**Grants Committee (£000)**		**Total (£000)**
	General	**Specific**	**General**	**S.48**	**ESF**	
Total audited reserves at 1 April 2016	**3,269**	**1,000**	**6,380**	**634**	**1,358**	**12,641**
Resources committed in 2016/17	(303)	-	(669)	(6)	-	(978)
One-off payment to boroughs 2016/17	(340)	-	(825)	(185)	(301)	(1,651)
Provisional (deficit)/surplus for 2016/17	910	734	883	-	517	3,044
Provisional reserves as at 31 March 2017	**3,536**	**1,734**	**5,769**	**443**	**1,574**	**13,056**

64. Table 12 below details the current level of commitments arising from the current and future financial year of £7.466 million and highlights the residual forecast level of uncommitted reserves available:

Table 12– Residual balances after Current Commitments

	Transport and Environment Committee (£000)	**Joint Committee (£000)**	**Grants Committee (£000)**	**Total (£000)**
General Reserve at 31 March 2017	3,536	5,769	443	9,748
Specific/ESF reserve at 31 March 2017	1,734	-	1,574	3,308
Provisional reserves at 31 March 2017	**5,270**	**5,769**	**2,017**	**13,056**
Committed in setting 2017/18 budget	(488)	(1,183)	(75)	(1,746)
One-off payment to boroughs 2017/18	(340)	(330)	(156)	(826)
Balances c/f into 2017/18	(227)	(44)	-	(271)
Potential ESF grants commitments in				

2017/18- 2018/19	-	-	(1,574)	(1,574)
Provisional commitments for 2018/19 -2019/20	(2,534)	(515)	-	(3,049)
Uncommitted reserves	**1,681**	**3,697**	**212**	**5,590**

65. The current level of commitments from reserves, as detailed in Table 12, of £7.466 million over the short-to-medium term are detailed in Table 13 below:

Table 13– Commitments from Reserves

	2017/18	**2018/19**	**2019/20**	**Total**
	£000	**£000**	**£000**	**£000**
Balances b/f from 2016/17	271	-	-	271
Approved transfer from JC general reserves	164	-	-	164
Approved transfer from TEC general reserves	288	-	-	288
Accumulated YPES funds	293	182	-	475
Slippage of ESG grants funding	-	787	787	1,574
One-off repayment to boroughs	826	-	-	826
Challenge Implementation Fund	525	-	-	525
Support to the health transition process	201	-	-	201
2020 Freedom Pass reissue	-	534	2,000	2,534
TEC priority projects	200	-	-	200
Support to 3rd sector via City Bridge Trust	75	-	-	75
Potential ESF liability on borough funded programme	256	77	-	333
Totals	**3,099**	**1,580**	**2,787**	**7,466**

Conclusions

66. Tables 12 and 13 show that the approved use of reserves over the three-year period 2017/18 to 2019/20 is forecast to reduce the overall projected level of reserves by £7.466 million from £13.056 million to £5.59 million. A brief commentary on the financial position of each of the three funding streams is provided below:

- Grants Committee – the £242,000 reduction in the projected surplus as at Month 9 is due a reduction in ESF borough contributions of £423,000 and ESF grant income of £153,000 attributable to the year, a net increase in administration costs of £21,000, offset by a reduction in ESF payments to providers attributable to the year of £349,000 plus an additional transfer from reserves of £6,000. Provisional reserves of £212,000 remain after allowing for potential ESF commitments of £1.574 million during 2017/18 and 2018/19 in respect of the current ESF programme, the repayment of £156,000 to boroughs and £75,000 to fund Third Sector Support, as agreed by the Leaders' Committee in December 2016. This equates to 3.18% of on-going borough funded commissions of £6.668 million, marginally below the 3.5% benchmark established by the Grants Committee in 2013.

- TEC – The £776,000 movement for TEC is highlighted in Table 7 and explored in detail in the analysis of actual income and expenditure against the approved budgets in paragraphs 18-34 above. It is mainly due to an increase in Lorry Control PCN income, net of an increase in the bad debt provision, of £410,000, an improvement on the net position for spend on Freedom Pass issue costs and replacement Freedom Pass income of £140,000, an increase of £202,000 in respect of the reduced cost of the administration of the London Tribunal, an increase in the underspend of £100,000 in respect of IT system development costs; offset by additional general running costs and central recharges of £119,000. Provisional residual general reserves of £1.681 million equates to 14.4% of operating and trading expenditure of £11.705 million for 2017/18, which is within the upper limit of the 10%-15% benchmark established by TEC in 2015; and

- Joint Committee - The £515,000 increase in the surplus projected at Month 9 is primarily due to a reduction in the net salaries underspend of £38,000, an overspend on adjusted running costs and central recharge expenditure of £327,000 offset by increases in the underspends related to the commissioning budget (£153,000) and improvement and efficiency projects (£21,000). Additional income arose from movements in member contributions (£30,000), investment income (£25,000) and adjusted movement on other income (£160,000), which is explained in full at paragraphs 45-49. Net movement of £468,000 has arisen from the legitimate charging of central costs to TEC, Grants and externally financed projects and tenants, as detailed at paragraph 50. Provisional residual reserves of £3.697 million remain after considering all current known commitments up to 2019/20.

67. The financial year 2016/17 is the second year of the three-year financial strategy period agreed by the Leaders' Committee in December 2014 covering the period 2015/16 to 2017/18. The projected level of uncommitted reserves across all three funding streams of £5.589 million continues to leave the organisation in a strong position to continue to deliver the priorities contained in the business plan, to meet expectations arising from the recent Challenge process and support other member-led initiatives that could potentially arise in the short to medium term.

Summary

68. This report summarises the provisional pre- audited consolidated financial position for London Councils for the 2016/17 financial year. A table showing the provisional consolidated revenue position is shown followed by a separate provisional revenue summary for each of London Councils three funding streams, together with explanations for the main variances.

The provisional consolidated balance sheet position and the provisional position on the level of London Councils reserves is then detailed and then concludes with commentary on the financial outlook for 2017/18 and beyond.

Recommendations

69. The Executive is asked:

- To note the provisional consolidated outturn position of a surplus of £3.044 million for 2016/17 and the provisional outturn position for each of the three funding streams;
- To approve the carry forward of £29,000 into 2017/18 in respect of planned NOTIFY system developments;
- To approve the carry forward of the underspend of £15,000 in respect of the YPES be held in reserves for the specific future funding of this service, in accordance with usual practice;
- To note the carry forward of £227,000 into 2017/18 in respect of TEC system developments, subject to final approval by the TEC Executive on 20 July;
- To note the provisional level of reserves of £13.056 million as at 31 March 2017 (paragraphs 62-63), which reduces to £5.59 million once known commitments of £7.466 million are taken into account (paragraphs 64-65);
- To note the updated financial position of the London Councils as detailed in paragraphs 66-67 of this report; and
- To agree to receive a further report in November 2017 after the completion of the external audit by KPMG LLP to adopt the final accounts for 2016/17. The final accounts will be signed off at the meeting of the Audit Committee on 21 September 2017, during which KPMG LLP will formally present the Annual Audit Report for approval.

Background Papers

Final Accounts Working Papers File 2016/17;
Budget Monitoring Working Papers File 2016/17;
Budget Working Papers Files 2016/17 and 2017/18.