Grants Committee

London Councils Grants Committee – Pre-Audited Financial Results 2018/2019

Item no: 15

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Summary : This report details the provisional pre-audited final accounts for London Councils Grants Committee for 2018/19. The summary figures are detailed in the box below:

Revenue Account	Budget £000	Actual £000	Variance £000
Expenditure	8,668	8,217	(451)
Income	(7,668)	(7,827)	(159)
Sub-Total	1,000	390	(610)
Net Transfer from Reserves[1]	(1000)	(590)	410
Reduction in bad debt provision	-	-	-
Deficit/(Surplus) for the year[2]	-	(200)	(200)
Position on reserves	**General/Specific Reserves £000**	**Unusable Reserves £000**	**Total £000**
Audited as at 1 April 2018	2,443	(1,439)	1,004
Transfer (to)/from revenue	(590)	(75)	(665)
Surplus/(Deficit) for the Year	200	421	621
Provisional as at 31 March 2019	2,053	(1,093)	960

[1] Excludes transfers of £76,000 from the Pensions Reserve and £3,000 to the Accumulated Absences Reserve for the year in 'Actuals'.
[2] Excludes £29,000 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 £200,000 for 2018/19, the second year of the 2017-21 programme; 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.

Pre-audited Accounts 2018/19

1. This report 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. KPMG LLP will audit the Committee's accounts for 2018/19 during July 2019 and present the accounts to the Audit Committee, along with the annual audit report, for approval on 18 September 2019. At its November 2019 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 its November meeting.

Provisional Outturn 2018/19

2. Members approved the original budget for 2018/19 in November 2018, which was ratified by the Leaders' Committee shortly afterwards in December 2018. Table 1 below compares the provisional outturn figures for income and expenditure for 2018/19, the second year of the 2017-21 programme, against the approved budget for the year. The audited outturn figures for 2017/18 are also shown for comparative purposes.

Table 1 – Provisional Outturn 2018/19 – Grants Committee

2017/18 Actual		2018/19 Revised Budget	2018/19 Actual	2018/19 Variance	
£000	**Expenditure**	**£000**	**£000**	**£000**	**%**
419	Employee Costs	355	286	(69)	(19.4)
24	Running Costs	18	27	9	(50.0)
199	Central Recharges	182	152	(30)	(16.5)
642	**Total Operating Expenditure**	**555**	**465**	**(90)**	**(16.2)**
6,173	Borough commissioned services	6,173	6,093	(80)	(1.3)
(119)	Borough commissioned services - PY	-	-	-	-
60	Membership fees to London Funders	60	60	-	-
659	ESF commissions	1,880	1,599	(281)	(14.9)
156	One-off payment to boroughs	-	-	-	-
7,571	**Total Expenditure**	**8,668**	**8,217**	**(451)**	**(5.2)**
	Income				
(7,084)	Borough contributions towards commissioned services	(6,173)	(6,476)	(303)	(4.9)
(495)	Borough contributions towards the administration of commissions	(495)	(495)	-	-
(404)	ESF Grant	(1,000)	(840)	160	16.0
(13)	Interest on Investments	-	(16)	(16)	-

2017/18 Actual		2018/19 Revised Budget	2018/19 Actual	2018/19 Variance	
(231)	Transfer from Reserves	(1,000)	(590)	410	41.0
(8,227)	**Total Income**	**(8,668)**	**(8,417)**	**251**	**2.9**
-	Increase/(Reduction) in bad debt provision	**-**	-	-	-
(656)	**Deficit/(Surplus)**	**-**	**(200)**	**(200)**	**-**

3. The provisional surplus of £200,000 compares to a forecast surplus of £154,000 at the month 9 stage of the year, as reported to this Committee in February 2019. As highlighted in the forecast monitoring reports to Committee during the year, a distinction is made between the transactions relating to the borough funded S.48 commissioned services (priorities 1 and 2) and those in respect of the ESF/borough matched funded commissions (priority 3). Table 2 below breaks down income and expenditure between these two distinct commissioning types and shows the provisional surplus of £200,000 is fully attributable to S.48 borough commissioned services.

Table 2 – Payments for Commissioned Services 2018/19

	S.48 borough	ESF/borough	Total
	£000	**£000**	**£000**
Payments for commissioned services	6,093	1,599	7,692
Plus contribution to London Funders Group	60	-	60
Sub-Total	**6,153**	**1,599**	**7,752**
Plus LC grants administration	331	134	465
Plus repayments to boroughs	-	-	-
Sub-Total	**6,484**	**1,733**	**8,217**
Less Borough subscriptions	(6,668)	(303)	(6,971)
Less ESF grants income	-	(840)	(840)
Less investment income	(16)	-	(16)
Less transfer from reserves	-	(590)	(590)
Deficit/(Surplus) for the year	**(200)**	**-**	**(200)**

4. For the S.48 borough funded services, a provisional underspend of £80,449 has been recorded in respect of the payments to providers of commissioned services. As reported during the month 9 forecast report, the underspend relates to a reduction in payments made to St Mungo Community Housing Association and Shelter. The reduction in the amounts paid out will be recycled through the revenue account and transferred back to S.48 reserves.

5. There is a provisional underspend of £120,000 in relation to the administration of the S.48 commissions, attributable to:

- an underspend of £37,000 in respect of employee costs due to vacancies within the team and an underspend on the maternity provision;
- an underspend of £18,000 for general running costs including central recharges;
- an underspend of £49,000 in respect of resources earmarked to support the delivery of the ESF match funded programme which was not required due to a lower level of activity than originally anticipated; and
- an additional sum of £16,000 from investment income has been received on Committee reserves, not previously budgeted for.

6. For the S.48 ESF/borough matched funded commissions, performance has increased and improved over the last twelve months, as the programme moves to closure. Payments to providers of £1.599 million have been recognised in the 2018/19 outturn figures. Due to the payment structure for ESF projects, higher levels of spend are recognised in the accounts towards the latter stages of projects, when outcomes (job entries and sustained jobs) can be verified. From 2018/19 onwards, no further borough contributions were levied; however, £303,000 of the £512,000 of deferred income in respect of advance payments to commissioned services being held from previous borough contributions can be recognised as income in the provisional results for the year, along with £590,000 of borough contributions received before 2018/19 and held in reserves. Administrative costs, estimated to be in the region of £134,000, have been incurred in respect of the new programme, for which ESF grant of £40,000 is expected to accrue in respect of eligible expenditure. This is included within the overall ESF grant income due for the year of £840,000. Residual expenditure in 2019/20 will be funded by provisional accumulated reserves of £1.33 million, as highlighted in Table 5 at paragraph 17 and through ESF grant accruing from eligible expenditure incurred.

7. Administration costs on the combined commissions totalled £313,000, which represents 3.88% (2017/18: 6.4%) of total expenditure of £8,064 million. Administration costs for the S.48 borough funded commissions totalled £235,000 or 3.86% (2017/18: 5.57%) of total provider spend of £6.093 million. Finally, administration costs for S.48 ESF commissions totalled £78,000 equating to 4.88% (2017/18: 15%) of total provider spend of £1.599 million, reflecting higher levels of provider spend being recognised in the latter stages of projects as stated in paragraph 6 above. All figures exclude central recharge costs.

Balance Sheet as at 31 March 2019

8. The summarised provisional balance sheet position as at 31 March 2019 is shown in Table 4 below, compared to the position for 2017/18:

Table 4 – Balance Sheet Comparison 2018/19 and 2017/18 (inclusive of IAS19).

	As at 31 March 2019 (£000)	As at 31 March 2018 (£000)
Current Assets	2,262	2,996
Current Liabilities	(218)	(565)
Pension Fund Liability	(1,084)	(1,427)
Total Assets less Liabilities	960	1,004
Represented by:		
General Fund	2,053	2,443
Pension Fund	(1,084)	(1,427)
Accumulated Absences Fund	(9)	(12)
	960	1,004

9. The main features of the balance sheet as at 31 March 2019 are as follows:

- Current assets have decreased by £734,000 from £2.996 million to £2.262 million, which is attributable to a decrease of £571,000 in cash balances and a decrease of £163,000 in debtors. The decrease in debtors is due to:
  - a decrease of £607,000 in respect of advance payments to ESF commissions;
  - a decrease of £96,000 in respect of unpaid borough subscriptions to the Grants Committee;
  - an increase of £543,000 in respect of ESF match funded grant; and
  - a decrease in residual variances of £3,000;

- Current liabilities have decreased by £347,000 from £565,000 to £218,000, which is attributable to:
  - a decrease of £303,000 in respect of deferred funding for the ESF grant match funded programme;
  - a decrease of £34,000 in respect of amounts owed to S.48 borough commissioned services; and
  - a decrease in residual variances of £10,000;

- The pension fund liability has reduced by £343,000 from £1.427 million to £1.084 million; the accumulated absence reserve has decreased from £12,000 to £9,000; and

- The above movements have resulted in an overall decrease in the level of reserves to a £960,000 credit balance as at 31 March 2019, inclusive of the IAS19 deficit which is explored from paragraph 10 onwards and the accumulated absence reserve.

Effect of IAS19

10. International Accounting Standard 19 (IAS19), Employee Benefits, 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. The effect of the standard 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 2018 was £1.497 million. The deficit on the Pension Fund as at 31 March 2019, as determined from the latest valuation undertaken by the actuary, is £1.084 million, a reduction of £343,000.

15. The reduction is due to a marginal increase in all asset classes, including equities, offset by an increase in the defined benefit obligation as a result of the net effect of changes in the financial and demographic assumptions used in the calculation of the obligation.

16. Table 4 clearly demonstrates, therefore, that the Committee's balances are notionally reduced by £1.084 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 (KPMG) 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 2019, is detailed in Table 5 below:

Table 5 – Grants Committee reserves as at 31 March 2019

	General Reserve (£000)	Pension Fund (£000)	Accumu-lated Absences Reserve (£000)	Total (£000)
Balance at 1 April 2018	**2,443**	**(1,427)**	**(12)**	**1,004**
Transfer (to)/from Revenue Account	(590)	(78)	3	(665)
Movement on Pension Fund	-	421	-	421
(Deficit)/Surplus for Year	200	-	-	200
Balance at 31 March 2019	**2,053**	**(1,084)**	**(9)**	**960**
Slippage of ESF commitments into 2019/20	(1,330)	-	-	(1,330)
Residual Balance	**723**	**(1,084)**	**(9)**	**(370)**

18. The above table indicates that the Committee is projected to have provisional unaudited general reserves of £2.053 million at the end of March 2019.

19. A sum of £723,000 relates to the £6.668 million S.48 borough funded commissions and equates to 10.84% of budgeted expenditure. This figure exceeds the desirable benchmark of £250,000, or 3.75%, established by the Grants Executive Committee in September 2013. A sum of £1.330 million relates to the ESF/borough funded commissions and includes levies collected from boroughs over the original three-year life of the programme between 2015/16 and 2017/18. No further contributions have been levied from boroughs, so a combination of accumulated reserves and ESF grant income will fund the residual programme through to the projected end date of June 2019.

Conclusions

20. This report outlines the provisional outturn position for 2018/19, the second year of the 2017-21 programme of commissions. The provisional outturn position has been analysed between those transactions relating to the boroughs S.48 commissioned services and those relating the ESF/boroughs funded programme and it has been established that the £200,000 surplus relates in full to S.48 commissioned services. Provisional S.48 reserves of £723,000 remain and accumulated ESF reserves of £1.33 million relating to the current ESF programme are expected to be applied during the current financial year.

21. The £46,000 increase in the provisional surplus of £200,000, compared to the £154,000 surplus forecast at Month 9 is broadly attributable to:

- An underspend on employee related costs including the maternity provision; plus
- A reduced level of central recharged costs.

22. Based on an on-going £6.668 million S.48 commissioning budget, estimated reserves of £723,000, equating to 10.84% of the total budget, is above the established Committee benchmark of £250,000 or 3.75%. The Committee is currently considering options as to how to apply reserves in excess of the benchmark figure.

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 2019. The outcome of the audit will be presented to this Committee in November for formal adoption as part of the 2019/20 half-year budget monitoring report.

Recommendations

24. The Committee is asked:

- to note the provisional pre-audited outturn position and the indicative surplus of £200,000 for 2018/19, the second year of the 2017-21 programme; 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 2018/19;
GC Final Accounts File 2018/19.
GC Revenue Forecast File 2018/19