

# London Councils Executive

## London Councils – Consolidated Pre- Audited Financial Results 2014/15 Item 8

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**Date:** 23 June 2015

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**Summary:** This report highlights the pre-audited consolidated financial position for London Councils for the 2014/15 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 2015 are also shown, together with overall conclusions and prospects for 2015/16 and beyond, after taking into account known commitments. The provisional revenue outturn and reserves position is summarised as follows:

<b>Revenue Account (£000)</b>	<b>Revised Budget</b>	<b>Actual</b>	<b>Variance</b>
Total Expenditure	391,351	388,985	(2,366)
Total Income	(388,988)	(387,765)	1,223
Use of reserves	(2,363)	(4,182)	(1,819)
Bad Debts provision	-	103	103
<b>Net Deficit/(Surplus)</b>	<b>-</b>	<b>(2,859)</b>	<b>(2,859)</b>
<b>General and Specific Reserves (£000)</b>	<b>General Reserve</b>	<b>Specific Reserve</b>	<b>Total</b>
As at 1 April 2014	9,114	2,573	11,687
Transfer (to)/from revenue	(2,509)	(1,800)	(4,309)
Provisional Surplus for the Year	2,763	96	2,859
<b>As at 31 March 2015</b>	<b>9,368</b>	<b>869</b>	<b>10,237</b>

**Recommendations:** The Executive is asked:

- To note the provisional consolidated outturn surplus of £2.859 million for 2014/15 and the provisional outturn position for each of the three funding streams;
- To note the provisional level of reserves of £10.237 million (paragraphs 60-61), which reduces to £6.493 million once known commitments of £3.744 million are taken into account (paragraphs 62-63);
- To note the updated financial position of the London Councils as detailed in paragraphs 64-66 of this report; and
- To agree to receive a further report in November 2015 after the completion of the external audit by PricewaterhouseCoopers (PwC) to adopt the statutory final accounts for 2014/15. The final accounts will be signed off at the meeting of the Audit Committee on 24 September 2015, at which PwC will formally present the Annual Audit Letter to for approval.

# London Councils – Consolidated Pre-Audited Final Results 2014/15

## Executive Summary

1. The provisional revenue outturn for 2014/15, split across London Councils three funding streams is as follows:

	<b>Grants</b>	<b>TEC</b>	<b>Joint</b>	<b>Consolidated</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Total Expenditure	11,002	369,606	8,377	388,985
Total Income	(10,405)	(368,285)	(9,075)	(387,765)
Use of Reserves	(800)	(2,502)	(880)	(4,182)
Bad Debts provision	29	74	-	103
<b>Surplus</b>	<b>(174)</b>	<b>(1,107)</b>	<b>(1,578)</b>	<b>(2,859)</b>

2. Once figures relating to potential earmarked amounts are taken into account, the headline surplus of £2.859 million reduces to £2.568 million, as follows:

	<b>Grants</b>	<b>TEC</b>	<b>Joint</b>	<b>Consolidated</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Surplus for the Year</b>	<b>174</b>	<b>1,107</b>	<b>1,578</b>	<b>2,859</b>
YPES balances c/f	-	-	(227)	(227)
TEC IT system developments c/f	-	(64)	-	(64)
<b>Adjusted underlying Surplus</b>	<b>174</b>	<b>1,043</b>	<b>1,351</b>	<b>2,568</b>

3. The provisional level of reserves for each funding stream as at 31 March 2015 is as follows:

	<b>Grants</b>	<b>TEC</b>	<b>Joint</b>	<b>Consolidated</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Audited Reserves at 1 April 2014</b>	<b>1,950</b>	<b>3,686</b>	<b>6,051</b>	<b>11,687</b>
Transfer (to)/from Revenue	(800)	(2,502)	(1,007)	(4,309)
Provisional surplus/ (deficit) for the Year	174	1,107	1,578	2,859
<b>Provisional Reserves at 31 March 2015</b>	<b>1,324</b>	<b>2,291</b>	<b>6,622</b>	<b>10,237</b>

4. However, once all potential and known commitments of £3.744 million are taken into account, including residual costs associated with both the relocation of the appeals hearing centre and the 2015 Freedom Pass reissue exercise, the estimated level of uncommitted reserves reduces to £6.493 million, as follows:

	<b>Grants</b>	<b>TEC</b>	<b>Joint</b>	<b>Consolidated</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Provisional Reserves at 31 March 2015</b>	<b>1,324</b>	<b>2,291</b>	<b>6,622</b>	<b>10,237</b>
Committed in setting 2015/16 budget	(250)	-	-	(250)

One-off payment to boroughs in 2015/16	-	-	(825)	(825)
Residual 2015 freedom pass issue costs	-	(204)	-	(204)
Potential ESF grant commitments in 2015/16	(619)	-	-	(619)
Underspends c/f into 2015/16	-	(64)	-	(64)
Provisional commitments for 2016/17 and 2017/18	-	-	(1,582)	(1,582)
Revenue costs for new appeals hearing centre	-	(200)	-	(200)
<b>Uncommitted Reserves</b>	<b>455</b>	<b>1,823</b>	<b>4,215</b>	<b>6,493</b>

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 borough overspend position on taxicard, is as follows :

	<b>Grants</b>	<b>TEC</b>	<b>Joint</b>	<b>Consolidated</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Forecast at Month 3</b>	212	268	86	566
<b>Forecast at Month 6</b>	197	188	384	769
<b>Forecast at Month 9</b>	91	418	617	1,126
<b>Provisional Outturn</b>	174	1,107	1,578	2,859
<b>Variation between M9 and provisional outturn</b>	83	689	961	1,733

6. The £83,000 variation between the M9 forecast and the provisional outturn for the Grants Committee is due to an increased net underspend of £30,000 relating to the ESF/borough programme, an increase of £40,000 in the underspend relating to the S.48 borough commissions, a reduction in actual spend on administration costs of £36,000 and additional investment income earned on reserves of £6,000. The benefits of £112,000 detailed above are offset by an increase in the overall bad debt provision of the Grants Committee of £29,000.
7. The £689,000 variation for TEC is mainly due to an increase in Lorry Control PCN income (£599,000), an increase in the underspend on non-TfL bus operators (£211,000), an increase in the underspend on non-operational salaries (£45,000), an underspend on research (£40,000) and an underspend on system developments (£64,000). There was also additional income earned from investment of reserves of £24,000. These credits are offset by a net overspend of £93,000 in respect of the direct service administration charges, mainly due to increased central recharges, and an increase in the bad debt provision of £74,000, all attributable to outstanding Lorry Control PCN debt. Net revenue costs of the new hearing centre at Chancery Exchange amounted to £96,000.

8. The £961,000 variation on the Joint Committee position is primarily due to additional borough and subscriber contributions towards London Care Placements (£114,000), government grants (£18,000) and movement on other income (£539,000), which is explained in full at paragraphs 44, 45 and 47 respectively. Movement of £592,000 has arisen from the legitimate charging of central costs to TEC, Grants and externally financed projects and tenants, as detailed at paragraph 48. In addition, there has been a movement of £15,000 in respect of YPES provider costs and £23,000 through interest earned on committee reserves. These underspends and surpluses are offset by movement on employee costs of £37,000, detailed at paragraph 37, a movement on running costs of £98,000 highlighted at paragraphs 38 to 40 and a reduction in the planned transfer from committee reserves of £201,000 in respect of the London Health Board (paragraph 49).
9. The IAS19 (formerly FRS17) Pensions Deficit has increased from £16.197 million as at 1 April 2014 to £25.449 million as at 31 March 2015, an increase of £9.252 million. The reason for this significant increase in the deficit is attributable to a greater increase in scheme liabilities over the increase in scheme assets over the year, due to changes in the financial assumptions used by the actuary between 2014 and 2015. The increase in the scheme liabilities is primarily due to a change in the financial assumptions which reduced the discount rate from 4.5% p.a. as at 31 March 2014 to 3.4% p.a. as at 31 March 2015. As prescribed by IAS19, the discount rate is based on the yield from high quality corporate bonds as at the accounting date and this yield has fallen steadily since the previous accounting date. The inflation assumption has also decreased, counteracting some of the increase noted above.
10. This deficit will continue be recovered through future employers' pension contribution rates and anticipated improved returns on existing pension fund assets and will not, therefore, be a first call on existing London Councils reserves.
11. The actual financial results and the actual level of reserves will be confirmed during the course of the external audit of the 2014/15 accounts, which was undertaken by PricewaterhouseCoopers (PwC) in July and August. The Audit Letter and the audited statutory accounts relating to this year will be reported to the meeting of the Audit Committee on 24 September 2015 and onto the November meeting of the Executive for adoption.
12. The financial year 2014/15 is the final year of the three-year financial strategy period agreed by the Leaders' Committee in December 2011 covering the period 2012/13 to 2014/15. A new three-year financial strategy covering the period 2015/16 to 2017/18 was agreed by the

Leaders' Committee in December 2014. The projected level of uncommitted reserves across all three funding streams continues to leave the organisation in a favourable position to deliver the priorities contained in the business plan and support other initiatives, within the constraints of the new three-year financial strategy. In addition, the projected level of uncommitted reserves continues to give the organisation some financial cover in meeting some big challenges and potential contingencies that may be called upon in the short to medium term.

13. Furthermore, the projected financial position indicates that the organisation will be able to present further options to members later in the autumn around potentially repatriating a further proportion of these uncommitted reserves back to boroughs as part of the 2016/17 budget package.

# London Councils – Consolidated Pre-Audited Final Results 2014/15

## Introduction

1. The Accounts and Audit Regulations 2011, which govern the publication of the annual statutory accounts by local authorities, requires member approval and sign off of the annual accounts to coincide with the presentation of the annual Audit Letter by the external auditors by the statutory deadline of 30 September each year. PricewaterhouseCoopers (PwC) will audit the provisional accounts for 2014/15 during July/August. The audited statutory accounts will be presented to the Audit Committee, along with the annual audit letter on 24 September, in order to meet the statutory deadline of 30 September. The Chair of the Audit Committee will, therefore, sign the statutory account in order to meet the statutory deadline.
2. The audited accounts and the audit letter will 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 report presented to the Executive three times each financial year.
3. London Councils approved revenue expenditure budget for 2014/15 was £390.763 million, as agreed by the Leaders' Committee in December 2013. The corresponding revised revenue income budget was £388.861 million, with the budget balanced by the approved transfer of £1.902 million from reserves.
4. After a number of adjustments, budgeted expenditure was revised to £391.351 million, with a further £461,000 transferred from reserves for the year. The revised budget is shown in Table 1 below:

**Table 1 – Revised budget 2014/15**

	<b>£000</b>	<b>£000</b>
Original Expenditure budget		390,763
Plus London Health Board (LHB) expenditure budget		489
Less POPLA expenditure budget		(856)
Plus carried forward funding:		
TEC system developments	57	
Building depreciation/refurbishment costs	50	107
Plus adjustment to Taxicard provider budget		848
<b>Total Expenditure</b>		<b>391,351</b>
Funded by:		
Original Income budget		390,763
Plus external contributions to LHB		135

Plus approved additional transfer from reserves		461
Plus additional Taxicard funding from boroughs/TfL		848
Less income from providing POPLA service		(856)
<b>Total Funding</b>		<b>391,351</b>
<b>Net position</b>		<b>Nil</b>

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 2014/15, including the effect of IAS19 Retirement Benefits (Table 9);
- The provisional position on London Councils reserves as at 31 March 2015, 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 64-66).

6. Some of the figures included within the accounts 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 PwC.

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 2014/15**

<b>2013/14 Actual</b>		<b>2014/15 Revised Budget</b>	<b>2014/15 Actual</b>	<b>2014/15 Variance</b>	
	<b>Expenditure</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>%</b>
5,081	Employee Costs	5,577	5,223	(354)	(6.3)
3,085	Running Costs	2,888	2,976	88	3.0
468	Central Recharges	349	526	177	50.7
<b>8,634</b>	<b>Total Operating Expenditure</b>	<b>8,814</b>	<b>8,725</b>	<b>(89)</b>	<b>(0.8)</b>
9,522	Direct Services	10,980	9,045	(1,935)	(17.6)
344,519	Payments in respect of Freedom Pass and Taxicard	359,779	359,675	(104)	(0.02)
7,424	Borough commissioned services	7,540	7,404	(136)	(1.8)
1,012	ESF commissioned services	1,880	2,204	324	17.2

60	Contribution to London Funders	60	60	-	-
825	One-off borough payment	1,309	1,309	-	-
199	Improvement and Efficiency	305	199	(106)	(34.8)
211	Research and Commissioning	552	203	(349)	(63.2)
107	YPES Regional Activities	132	147	15	11.4
13	Payment of parking PCNs	-	14	14	-
<b>372,526</b>	<b>Total Expenditure</b>	<b>391,351</b>	<b>388,985</b>	<b>(2,366)</b>	<b>(0.6)</b>
	<b>Income</b>				
(345,505)	Contributions in respect of Freedom Pass and Taxicard	(360,017)	(358,427)	1,590	0.4
(8,600)	Borough contributions towards commissioned grant service	(8,540)	(8,801)	(261)	(3.1)
(9,429)	Charges for direct services	(11,064)	(9,594)	1,470	13.3
(6,071)	Core Member Subscriptions	(6,131)	(6,131)	-	-
(228)	Borough contributions towards YPES	(66)	(66)	-	-
(231)	Borough contribution towards LCP payments	(210)	(324)	(114)	(54.3)
(990)	Government grants	(1,461)	(1,606)	(145)	(9.9)
(168)	Interest of Investments	(75)	(134)	(59)	(78.7)
(12)	Income from parking PCNs	-	(14)	(14)	-
(623)	Other Income	(556)	(1,160)	(604)	(108.6)
(1,828)	Central Recharges	(868)	(1,508)	(640)	(73.7)
(1,269)	Transfer from Reserves	(2,363)	(4,182)	(1,819)	(77.0)
<b>(374,954)</b>	<b>Total Income</b>	<b>(391,351)</b>	<b>(391,947)</b>	<b>(596)</b>	<b>(0.2)</b>
177	Increase/(Reduction) in bad debt provision	-	103	103	-
<b>(2,251)</b>	<b>Deficit/(Surplus)</b>	<b>-</b>	<b>(2,859)</b>	<b>(2,859)</b>	<b>-</b>
	<b>Applied to Funding Streams</b>				
(223)	Grants Committee	-	(174)	(174)	-
(171)	Transport and Environment Committee	-	(1,107)	(1,107)	-
(1,857)	Joint Committee Services	-	(1,578)	(1,578)	-
<b>(2,251)</b>	<b>Deficit/(Surplus)</b>	<b>-</b>	<b>(2,859)</b>	<b>(2,859)</b>	<b>-</b>

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 2014/15.

**Table 3 – Provisional Outturn 2014/15 – Grants Committee**

2013/14 Actual		2014/15 Revised Budget	2014/15 Actual	2014/15 Variance	
£000	Expenditure	£000	£000	£000	%
381	Employee Costs	350	389	39	11.1
73	Running Costs	72	16	(56)	(77.8)
98	Central Recharges	86	129	43	(50.0)
<b>552</b>	<b>Total Operating Expenditure</b>	<b>508</b>	<b>534</b>	<b>26</b>	<b>5.1</b>
7,424	Borough commissioned services	7,540	7,404	(136)	(1.8)
1,012	ESF commissioned services	1,880	2,204	324	17.2
-	Research	12	-	(12)	-
60	Membership fees to London Funders	60	60	-	-
-	One-off borough payment	800	800	-	-
<b>9,048</b>	<b>Total Expenditure</b>	<b>10,800</b>	<b>11,002</b>	<b>202</b>	<b>1.9</b>
	<b>Income</b>				
(8,324)	Borough contributions towards commissioned grant service	(8,540)	(8,801)	(261)	(3.1)
(400)	Core Member Subscriptions	(460)	(460)	-	-
(535)	Government grants	(1,000)	(1,127)	(127)	(12.7)
(33)	Interest of Investments	-	(17)	(17)	-
-	Other Income	-	-	-	-
-	Transfer from Reserves	(800)	(800)	-	-
<b>(9,292)</b>	<b>Total Income</b>	<b>(10,800)</b>	<b>(11,205)</b>	<b>(405)</b>	<b>(3.8)</b>
21	Increase/(Reduction) in bad debt provision	-	29	29	-
<b>(223)</b>	<b>Deficit/(Surplus)</b>	<b>-</b>	<b>(174)</b>	<b>(174)</b>	<b>-</b>

10. The provisional surplus of £174,000, compared to a forecast surplus of £91,000 at the month 9 stage, includes an increase in the Committee's bad debt provision of £29,000. As reported to in the forecast monitoring reports to the Grants Committee during the course of 2014/15, a distinction is made between the transactions relating to the borough funded S.48 commissioned services and those in respect of the ESF/borough matched funded commissions. The provisional surplus of £174,000 is split between the S.48 borough commissioned services and the ESF/borough joint funded commissions, as detailed in Table 4 below:

**Table 4 – Payments for Commissioned Services 2014/15**

	S.48 borough	ESF/borough	Total
	£000	£000	£000
Payments for commissioned services	7,409	2,208	9,617
Plus Contribution to London Funders Group	60	-	60
Less Returned Payments	(5)	(4)	(9)
<b>Sub-Total</b>	<b>7,464</b>	<b>2,204</b>	<b>9,668</b>
Plus LC grants administration	475	59	534
Plus one-off payment to boroughs	800	-	800
<b>Sub-Total</b>	<b>8,739</b>	<b>2,263</b>	<b>11,002</b>

Less Borough subscriptions	(8,000)	(1,261)	
Less ESF grants income	-	(1,127)	
Less Investment income	(17)	-	(17)
Less transfer from reserves	(800)	-	
Adjustment for Bad Debt provision	-	29	29
<b>Deficit/(Surplus) for the year</b>	<b>(78)</b>	<b>(96)</b>	<b>(174)</b>

11. For the S.48 borough funded services, the provisional surplus of £78,000 is split between:

- a provisional net underspend of £136,000 in relation to payments for commissioned services, split between an underspend of £123,500 relating anticipated payments for 2014/15, plus a return to revenue of estimated liabilities of £12,500 set up in respect of 2011/12, which will not be paid out.
- a provisional net overspend of £58,000 in relation to grants administration expenditure attributable to an overspend of £87,000 in respect of salary costs, general running costs and central recharges, offset by underspends of £12,000 in respect of the research budget and £17,000 in respect of investment income received on Committee reserves.

12. For the ESF/borough funded commissions, payments in 2014/15 were £324,000 in excess of the budgeted provision. However, over the life of the current two-year programme, payments total £3.214m, which is £544,000 less than the total two-year budget provision of £3.76 million. There will be residual final payments in respect of this programme during the first two quarters in 2015/16. To cover the additional payments in 2014/15, borough contributions collected in 2013/14 of £261,000 have been applied, together with additional ESF grant of £127,000. For 2014/15, there has been no call of accumulated ESF/borough funded reserves of £773,000. The administration of the ESF/borough funded commissions, including the establishment of a bad debt provision, was £32,000 under the budgeted provision of £120,000.

13. In terms of grants administration on the combined programme, total administration costs of £434,000, excluding central recharges, on total spend of £10.102 million, excluding central recharges and the £800,000 one-off payment, equates to 4.3%, which compares to a figure of 4.69% for 2013/14. For the London Councils borough funded commissions, administration costs of £369,000, excluding central recharges, on total spend of £7.833 million, excluding central recharges and the £800,000 one-off payment, equates to 4.71%, compared to 4.81% for 2013/14, with ESF administration costs of £65,000, excluding central recharges, on spend of £2.269 million, excluding central recharges, equating to 2.86%. The comparative figure for 2013/14 was 3.95%.

14. The £83,000 increase in the provisional surplus of £174,000, compared to the £91,000 surplus forecast at Month 9, is attributable to:

- an increase in the overall bad debt provision of the Committee of £29,000, offset by
- an increase in the underspend on borough funded S.48 commissions of £40,000;
- a net increase of £30,000 in the position in respect of ESF funded transactions;
- a reduction in actual spend on administration costs of £36,000; and
- additional investment income earned on reserves of £6,000.

15. Further commentary on the year-end position for the Grants Committee is included in paragraphs 64-66 of this report.

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

16. Table 5 below summarises the provisional outturn position for TEC for 2014/15.

**Table 5 – Provisional Outturn 2014/15 – Transport and Environment Committee**

Actual 2013/14		Revised Budget 2014/15	Actual 2014/15	Variance 2014/15	
£000	Expenditure	£000	£000	£000	%
414	Non-operational Staffing	644	495	(149)	(23.1)
93	Running Costs	134	223	89	66.4
71	Central Recharges	42	50	8	19.0
<b>578</b>	<b>Total Operating Expenditure</b>	<b>820</b>	<b>768</b>	<b>(52)</b>	<b>(6.3)</b>
9,447	Direct Services	10,914	8,979	(1,935)	(17.7)
344,519	Payments in respect of Freedom Pass and Taxicard	359,779	359,675	(104)	(0.02)
-	Research	40	-	(40)	-
13	Reimbursement of parking PCNs	-	14	14	-
-	One-off borough payment	170	170	-	-
<b>354,557</b>	<b>Total Expenditure</b>	<b>371,723</b>	<b>369,606</b>	<b>(2,117)</b>	<b>(0.6)</b>
	<b>Income</b>				
(345,505)	Contributions in respect of Freedom Pass and Taxicard	(360,017)	(358,427)	1,590	0.4
(9,429)	Charges for direct services	(11,064)	(9,594)	1,470	13.3
(97)	Core Member Subscriptions	(97)	(97)	-	-
-	Government grants	-	-	-	-
(48)	Interest on Investments	-	(40)	(40)	-
(12)	Parking PCN income collected	-	(14)	(14)	-
(80)	Other Income	(63)	(113)	(50)	(79.4)
287	Net transfer from Reserves	(482)	(2,502)	(2,020)	(419.1)
<b>(354,884)</b>	<b>Total Income</b>	<b>(371,723)</b>	<b>(370,787)</b>	<b>936</b>	<b>0.3</b>
156	Increase/(Reduction) in bad debt provision	-	74	74	-
<b>(171)</b>	<b>Deficit/(Surplus)</b>	<b>-</b>	<b>(1,107)</b>	<b>(1,107)</b>	<b>-</b>

17. Excluded from the transactions detailed in Table 5 above are the costs and income associated with the London European Partnership for Transport (LEPT) externally funded project and Parking Appeals on Private Land (POPLA) service contract that TEC has managed during the year, and these are shown in Table 6 below:

**Table 6 – Income and Expenditure relating to Funded Projects 2014/15**

	<b>LEPT related (£000)</b>	<b>POPLA (£000)</b>	<b>Total (£000)</b>
Employee Related Costs	106	529	635
Premises Costs	24	85	109
Running/Central Costs	108	222	330
Other Costs	-	21	21
<b>Total Expenditure</b>	<b>238</b>	<b>857</b>	<b>(1,095)</b>
Grant/Other Income	(238)	(857)	(1,095)
<b>Deficit/(Surplus)</b>	<b>-</b>	<b>-</b>	<b>-</b>

18. A provisional surplus on revenue activities of £1.107 million has been posted for 2014/15, the headlines of which are summarised in Table 7 below, followed by an explanation for each of the variances:

**Table 7 – TEC – Analysis of revenue account surplus 2014/15**

	<b>£000</b>
Freedom Pass non-TfL bus services	366
Freedom Pass survey and reissue costs (net of additional replacement Freedom Passes income)	194
Freedom Pass 2015 re-issue	-
Interest earned on investment of cash-balances	40
Research	40
Net position on Taxicard	-
Net position on parking appeals	(132)
Net position on other traded parking services	(34)
Capita Fixed Costs	(1)
PATAS Administration	(89)
Lorry Control Administration	10
Lorry Control PCNs	701
Freedom Pass Administration	(13)
Taxicard Administration	(1)
Non-operational staffing costs	143
Members Allowances	5
Underspend on running costs/central recharges	21
Rechargeable parking systems related work	13
Shortfall in publications income	(2)
Net additional in Health Emergency Badge income	20
Net cost of preparatory works for new hearing centre	(96)
Miscellaneous Income	7
Increase in Bad Debts	(74)
<b>Provisional surplus for the year</b>	<b>1,107</b>

### **Freedom Pass non-TfL bus services (-£366,000)**

19. In December 2013, TEC approved a budgetary provision of £2 million for 2014/15 to cover the cost of payments to non-TfL bus operators resulting from the introduction of the national concessionary fares scheme in April 2008, the overall cost of which is demand led by eligible bus users. Claims from operators amounting to £1.671 million have been received and accepted for 2014/15, which together with a surplus of liabilities set up in relation to claims for 2013/14 of £37,000 has led to an underspend of £366,000.

### **Net Freedom Pass survey and issue costs (-£184,000)**

20. The budget for the pass survey and issue processes for the year was £950,000. This budget covers the issuing of Freedom Passes to new applicants and for the replacement of passes which are lost, stolen or faulty. To undertake these functions, which were previously undertaken by the Post Office and funded directly by boroughs, a contract was procured with effect from 1 July 2011, which runs up until the completion of the current Freedom Pass reissue exercise. Provisional total expenditure for 2014/15 is £954,331, which includes costs associated with the issuing of replacement Freedom Passes. However, a sum of £688,337 was collected during 2014/15 in respect of replacement Freedom Passes, £188,337 in excess of the £500,000 budgetary provision. In net terms, therefore, there was a surplus of £184,006.

### **Freedom Pass 2015 re-issue (Net Nil)**

21. The exercise to renew approximately 970,000 Freedom Passes due to expire on 31 March 2015 was largely complete by the year end. During 2014/15, £2.42 million has been spent on the renewal process out of revised budget of £3.141 million. A further £204,000 is anticipated to be spent on 2015/16 to conclude the process, leaving a projected underspend of £517,000 against the revised budget. This expenditure is fully funded by boroughs through the use of Committee reserves, so the indicative underspend of £517,000 will be returned to reserves on the completion of the exercise.

### **Interest earned on investment of cash-balances (-£40,000)**

22. Cash-flow management undertaken with colleagues at the City of London, who invest London Councils cash balances on behalf of boroughs, has yielded interest receipts of £39,806 against a zero budgetary provision. The gross amount earned was offset by bank and interest charges of £30,331, which is spread across the outturn figures for each of the

direct services administration charges.

### **Research Budget (-£40,000)**

23. Nil expenditure was incurred during the year, against an approved budget of £40,000. The unspent budget of £40,000 will, therefore, be returned to TEC general reserves on confirmation of the outturn position by the external auditors.

### **Taxicard (Net Nil)**

24. Total payments to the contractor, City Fleet (formally Computer Cab) were £11.366 million, £1.789 million below the revised total budgetary provision of £13.155 million. The surplus is due to the total number of trips taken during the year reducing by 6.13% on the comparative figure for 2013/14. TfL also funded the management charge for LB of Barnet of £17,000. Total expenditure, therefore, was £11.383 million. The boroughs and TfL have provided total combined funding for the year of £13.155 million, so refunds totalling £1.547 million have been made to boroughs (£1.559 million net of £12,000 borough overspends) and to TfL (£225,000).

### **Traded Services (£167,000)**

25. This net deficit position of £167,000 is made up of a number of elements, which have been reported regularly to both the Executive and 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 underspend of £1.549 million for reduced 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 reduced level of income collected for the year.
  - Expenditure on congestion charging appeals is estimated to be £248,000, £72,000 less than the budgetary provision of £320,000. This is attributable to the

number of appeals heard during the year of 6,497 being less than the budgeted figure of 8,000. The throughput of appeals is calculated at 3.28 appeals per hour, compared to 3.55 per hour for 2013/14. The cost of these appeals is recharged to the GLA/TfL at full cost, so there was a corresponding reduction in income due for the year of £72,000, which therefore has a zero effect on the Committee's provisional financial position for the year.

- Secondly, there is a net deficit of £132,000 in respect of parking and traffic appeals. The number of appeals and statutory declarations heard during the year was 55,318 against a budget of 70,000, generating income of £2.197 million, £500,000 less than the budget estimate. However, this is offset by a significant reduction in adjudicator, contractor and administration costs of £356,000. The throughput of appeals was 2.9 appeals per hour, compared to a budget figure of 3.29, and an actual figure of 3.38 appeals per hour for 2013/14. The number of live parking appeals to be heard as at 31 March 2015 was 4,164, compared to 6,204 for 2013/14, which broadly equates to the notice of appeals received during the last month of the financial year.
- Thirdly, there has been a reduction in the use of other parking systems by boroughs and TfL, particularly the TRACE system. This has led to a reduction in income of £68,000 for the year offset by an increase in variable unit charges of £34,000 payable to the contractor, Capita. The projected net deficit for other parking systems is, therefore, £34,000. In addition, the fixed cost element of the Capita contract has marginally overspent by £1,000, due to minor variations in service levels and system access developments.

#### **PATAS Administration (+£89,000)**

26. The administration of the appeals Hearing Centre overspent the budget of £3.074 million by £89,000. This is attributable to additional direct staffing costs of £54,000. The remainder of overspend has arisen due to the full year effect of the recharging of central costs following the revision to London Councils charging mechanism. This has had a particular impact for the services carried out at Angel Square as the adjudicator hours worked have to be annualised as full-time equivalent staff numbers to ensure parity with the way the other services are recharged for central costs. This effective increase in notional staffing numbers increases the share of overheads apportioned to the activities of the hearing centre. The budgets for 2015/16 fully reflect the implications of the revised charging mechanism.

### **Lorry Control Administration/PCN income (-£711,000)**

27. The administration of the London Lorry Control Scheme underspent the budget of £549,000 by £10,000. However, there was a significant increase in the collection of PCN income of £701,000 above the budgetary provision of £450,000, 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 development of the Adaptis computer management system allows outstanding debt to be registered at the Court more quickly. Of the £1.151million income due for the year, £360,000 has yet to be collected and has been registered with the County Court. A bad debt provision of £288,000 has been established in respect of this outstanding amount, in accordance with usual accounting practice. This is an increase of £113,000 on the bad debt provision of £175,000 as at 31 March 2014, so the net surplus income reduces to £588,000 for the year.

### **Freedom Pass Administration (+£13,000)**

28. The administration of the freedom pass overspent the budget by £13,000, again attributable to additional staffing costs of £5,000 and additional central costs of £8,000 chargeable following the revision to London Councils recharging mechanism.

### **Non Operational Staffing Costs (-£148,000)**

29. The non-operational employee cost budget of £595,000, plus £30,000 maternity cover, underspent by £143,000 at £481,000. 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. In addition, allowances paid to leading TEC members also underspent by £5,000.

### **Running Costs/Central Recharges (-£21,000)**

30. This underspend is primarily attributable to an under spend of £64,000 relating to the budget for IT system developments (mainly the PATAS system), offset by a £33,000 contribution towards London Councils relaunched website and additional central recharges of £8,000.

### **Other income (-£37,000)**

31. Other income exceeded the £63,000 budget by £37,000 as follows:

- Rechargeable works to boroughs, TfL and the GLA for parking related systems work raised £12,000;
- A surplus in income of £23,000 from the issue of Health Emergency parking permits to clinicians, offset by additional administration costs of £3,000;
- Miscellaneous income of £7,000, including £5,000 in respect of sponsorship; offset by
- A deficit in the sales of parking publications and literature of £2,000.

### **Net cost of preparatory works for new hearing centre (+£96,000)**

32. The majority of costs of the new hearing centre can be capitalised over the 10 year life of the new leasehold agreement. However, as the tenancy at Chancery Exchange commenced on 3 February 2015, some rental and service charge costs amounting to £54,000 have been charged to revenue, along with £26,000 relating to stamp duty payable on sealing the new lease. In addition, costs of £37,000 relating to engaging a property finder to source new premises cannot be capitalised, leading to gross expenditure of £117,000. This sum is offset by a contribution of £21,000 from the landlord at Chancery Exchange to provide floor covering and IT access at the new premises, leaving a net cost of £96,000.

### **Bad Debts provision (+£74,000)**

33. The Committee's bad debt provision as at 1 April 2014 was £214,000. A review of the aged debts at the year-end has resulted in an increase in the provision of £74,000 (excluding the externally funded projects), giving a year-end provision of £288,000. As noted in paragraph 27, this provision relates entirely to Lorry Control PCNs that had been registered at the County Court but which were unpaid at 31 March 2015, an increase of £113,000 on the figure of £175,000 for 2013/14. This means that the bad debt provision of £39,000 as at 31 March 2014 relating to invoices for other services provided by the Committee to boroughs and TfL/GLA is no longer required and has been returned to revenue, leading to a net increase of £74,000.

34. Further commentary on the year-end position for TEC included in paragraphs 64-66 of this report.

### Comparison of Income and Expenditure against Revised Budget – Joint Committee

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

**Table 8 – Provisional Outturn 2014/15– Joint Committee**

2013/14 Actual		2014/15 Revised Budget	2014/15 Actual	2014/15 Variance	
	<b>Expenditure</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>%</b>
4,286	Employee Costs	4,583	4,339	(244)	(5.3)
2,919	Running Costs	2,682	2,737	55	2.1
299	Central Recharges	221	347	126	57.5
<b>7,504</b>	<b>Total Operating Expenditure</b>	<b>7,486</b>	<b>7,423</b>	<b>(63)</b>	<b>(0.8)</b>
75	Direct Services	66	66	-	-
199	Improvement and Efficiency	305	199	(106)	(35.8)
211	Research and Commissioning	500	203	(297)	(59.4)
107	YPES Regional Activities	132	147	15	11.4
825	One-off payment to boroughs	339	339	-	-
<b>8,921</b>	<b>Total Expenditure</b>	<b>8,828</b>	<b>8,377</b>	<b>(451)</b>	<b>(5.1)</b>
	<b>Income</b>				
(5,574)	Core Member Subscriptions	(5,574)	(5,574)	-	-
(228)	Borough contributions towards YPES	(66)	(66)	-	-
(231)	Borough contributions towards LCP	(210)	(324)	(114)	
(731)	Government Grants	(461)	(479)	(18)	(54.3)
(87)	Interest on investments	(75)	(77)	(2)	(2.7)
(543)	Other Income	(493)	(1,047)	(554)	(112.4)
(1,828)	Central Recharges	(868)	(1,508)	(640)	(73.7)
(1,556)	Transfer from Reserves	(1,081)	(880)	201	18.6
<b>(10,778)</b>	<b>Total Income</b>	<b>(8,828)</b>	<b>(9,955)</b>	<b>(1,127)</b>	<b>(12.8)</b>
-	Increase/(Reduction) in bad debt provision	-	-	-	-
<b>(1,857)</b>	<b>Deficit/(Surplus)</b>	<b>-</b>	<b>(1,578)</b>	<b>(1,578)</b>	<b>-</b>

36. A provisional surplus on revenue activities of £1.578 million has been posted for 2014/15, the main constituents of which are explored in the paragraphs below:

### Expenditure

#### Employee Costs (-£244,000)

37. The headline position on salaries is an underspend of £270,000 on officer salary costs, offset by an overspend of £26,000 relating to members allowances. For officer salary costs, the maternity budget of £60,000 was not used during the year and there were underspends of

£26,000 in the Chief Executive's Office, £73,000 in PAPA and £96,000 in respect of the YPES due to vacancies not being filled during the year.

### **Running Costs (+£55,000)**

38. The running cost overspend is attributable to a number of under and overspends across arrangements of functions which leaves a net overspend of £55,000. The main areas of overspending are highlighted below:

- Expenditure on the annual London Summit and the annual Andy Ludlow Award amounted to £96,000, which is offset by additional income of £90,000 reflected in other income at paragraph 47 below;
- Expenditure on the redesign and relaunch of the London Councils website of £157,000, although £52,000 was recharged to the TEC funding stream, leaving a net cost to the Joint Committee of £105,000;
- Consultants fees of £11,000 in respect of providing GLEF related training courses, which has raised additional income of £24,000, as detailed in paragraph 47 below; and
- Additional depreciation charges of £10,000 arising from the residual works, including IT upgrades, to Southwark Street following the 2012 major refurbishment.

39. The provisional overspend on running costs highlighted above come to £222,000. This is offset by ;

- a provisional underspend on the staff training/recruitment budgets of £56,000;
- a provisional underspend of £27,000 on premises running costs,
- a provisional underspend of £10,000 on staff travel costs;
- provisional underspends of £31,000 on photocopiers leases, £39,000 for telephones and £32,000 on postal costs;
- A provisional underspend of £12,000 on NOTIFY IT system development costs; and
- Various underspends of general office costs of £15,000.

### **Central Recharges (+£126,000)**

40. These costs relate to recharges to London Care Placements (+£108,000) and the HR Metrics services (+£5,000), which are unbudgeted. The London Health Board (LHB) attracted a charge of £109,000, which was £17,000 above the budgeted figure. Recharges to the YPES were £3,000 below the budgeted estimate. A proportion of these additional costs are

attributable to the full year effect of the review of London Councils central recharging mechanism undertaken in 2013/14.

#### **Improvement and Efficiency work (-£106,000)**

41. The Leaders' Committee agreed to continue funding five former performance and procurement legacy projects in December 2011. These are managed via a variety of borough networks. The budget for 2014/15 was £305,000 and work has continued to develop thinking within both procurement and performance, undertaken in close cooperation with senior borough officers and against a backdrop of wider conversations on performance and procurement systems in London and the development of pan-London category management strategies (funded by the Capital Ambition Board). Work has continued on three projects during 2014/15, amounting to £199,000, leading to the underspend of £106,000, which includes £40,000 in respect of member development work.

#### **Research and Commissioning (-£297,000)**

42. Expenditure on commissioning research and other priority work amounted to £203,000 for the year, leading to an underspend of £297,000 against the approved budget of £500,000. This saving reflects the fact that the profile of work requiring externally commissioned support has again been lower during the course of the year than in previous years. During the last year previous enhancements to in-house capability have been reinforced with expanded finance input into published research across all policy areas. The problem with this heading may be expected to change through 2015/16 in the context of joint work to secure further devolution and reform.

#### **YPES Regional Activities (+£15,000)**

43. The regional YPES programme for 2013/14 of £132,000, funded by borough contributions of £66,000, matched by a transfer from accumulated reserves of £66,000 has overspent by £15,000. An uncommitted sum of £754,000 remains in Joint Committee reserves for overall YPES activities, after transferring £150,000 to the revenue account for 2015/16, which will be used to continue to fund the service from 2016/17 onwards, now that special purposes grant has ceased.

## **Income**

### **Borough Contributions towards London Care Placements (-£114,000)**

44. Contributions from boroughs and other subscribers exceeded the budgeted target of £210,000 by £12,000. In addition, contributions carried forward as a receipt in advance from 2013/14 of £102,000 led to overall additional income of £114,000.

### **Government Grants (-£18,000)**

45. The surplus is again attributable to the YPES area of activity. Additional grant of £55,000 was received during 2014/15 to fund the Accelerated Learning Project. Expenditure of £18,000 was incurred during 2014/15, leaving £37,000 to be carried forward as a receipt in advance for application in 2015/16.

### **Interest on Investments (-£2,000)**

46. 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 (-£554,000)**

47. This additional income is made up of a number of elements:

- Charges for office space at Southwark Street of £114,000, which includes £23,000 for letting of accommodation space under licence to the London Social Care Partnership and the London Directors of Public Health;
- Contributions of £145,000 towards the work of the LHB from funding partners;
- Income in respect of the London Summit (£23,000) and the Andy Ludlow Award (£67,000) (refer paragraph 38 above);
- Additional income of £49,000 for the letting of meeting room facilities at Southwark Street, including £25,000 raised from the London Social Care Partnership and the London Directors of Public Health ;
- Additional income of £24,000 for GLEF related courses and other associated work, offset by the cost of consultants engaged to deliver some of the courses of £11,000, leading to net additional income of £13,000 (refer paragraph 38 above);

- Funding sources raised by the YPES of £3,000 relating to South East Strategic leaders and £43,000 in respect of matched skills funding;
- £14,000 in respect of the HR Metric services, which London Councils took over the management of from LB Haringey in January 2015;
- A VAT refund of £38,000 and £14,000 absorbed into JC reserves from the obsolete balances on completed projects; and
- Arts Councils funding of £6,000 to part fund work charged to the commissioning budget.

### **Central Recharge Income (-£640,000)**

48. Additional income in respect of central recharges of £640,000 has arisen, which is partly attributable to the full year effect of the additional central costs chargeable to the TEC and Grants funding streams, to externally funded projects and to service contracts following the revision to London Councils central recharging mechanism. Budgets for 2015/16 have been adjusted to reflect the anticipated outcome of the recharge model moving forward and there may be scope for further adjustment from 2016/17 onwards. The additional recharges result in increased income for the Joint Committee and broadly comprise of the following:

- Recharges for communications staffing and running costs of £201,000;
- Recharges for Corporate Governance functions, including that of the Chief Executive's Office of £146,000;
- Recharges for Corporate Resources staffing, SLAs with the City of London, External Audit and general office costs of £215,000 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 £76,000 to externally funded functions and service contracts.

### **Transfer from reserves (+£201,000)**

49. The reduction in the forecast transfer relates to the work of LHB. Only £153,000 out of a planned £354,000 was required to be transferred to the revenue account to fully fund the activities of the LHB in 2014/15.

### **External Projects**

50. Not included in the figures detailed in Table 8 are transactions of £6.744 million relating to work or projects financed by external bodies, which have no effect of the bottom-line position. These include:

- ESF Borough funded projects, amounting to £5.450 million;
- A range of health, child protection and worklessness projects funded by the MPS/ SFA of £335,000;
- Various smaller projects, amounting to £192,000;
- RIEP Programme Office and residual project costs, including London Ventures, of £415,000;
- Pensions CIV £352,000 funded by borough contributions.

### Balance Sheet as at 31 March 2015

51. The provisional consolidated balance sheet position as at 31 March 2015 is shown in Table 9 below, compared to the audited position for 2013/14:

**Table 9 – Balance Sheet Comparison 2014/15 and 2013/14.**

	<b>As at 31 March 2015 (£000)</b>	<b>As at 31 March 2014 (£000)</b>
Fixed Assets	1,123	1,134
Current Assets	24,472	22,582
Current Liabilities	(15,270)	(11,924)
Long-term Liabilities	(25,645)	(16,439)
Total Assets less Liabilities	(15,320)	(4,647)
Represented by:		
General Fund	10,237	11,085
Specific Funds	-	1,800
Pension Fund	(25,449)	(16,197)
Accumulated Absence Fund	(108)	(137)
	(15,320)	(3,449)

52. The main features of the provisional balance sheet as at 31 March 2015 are as follows:

- Fixed assets have decreased by £11,000 to £1.123 million from £1.134 million. The decrease is attributable to the annual depreciation charge of £297,000 offset by the acquisition of assets of £286,000;
- Current assets have increased by £1.89 million to £24.472 million from £22.582 million, which is attributable to an increase in cash balances of £4.731 million offset by a decrease in debtors of £2.841 million. The reduction in debtors is due to decreases of £1.755 million in respect of unpaid claims for the ESF match funded grant programmes, £885,000 in respect of advance payments to voluntary

organisations under the ESF match funded programmes, £267,000 in respect of borough payments for TEC parking services offset by residual variances of £66,000;

- Current liabilities have increased by £3.346 million to £15.270 million from £11.924 million, which is attributable to increases of £3.918 million in respect of Capital Ambition balances, £444,000 in respect of amounts owed for the 2015 Freedom Pass issue exercise, £441,000 in respect of borough contributions to the Pensions Common Investment Vehicle project and residual variances of £240,000. The total value of these increases which amounts to £5.043 million is offset by decreases of £1.063 million in respect of borough contributions to the ESF match funded grant programme and £604,000 in respect of amounts owed to non-TfL bus operators;
- Long term liabilities have increased by £9.206 million to £25.645 million from £16.439 million which is attributable to an increase in the value of the IAS19 pension deficit of £9.252 million and a decrease of £46,000 to the long term provisions in respect of property leases; and
- The above movements have resulted in an overall increase in reserves to a negative balance of £15.32 million as at 31 March 2015, inclusive of the IAS19 deficit (which is explored from paragraph 53 onwards) and the balance on the accumulated absences reserve.

### **Effect of IAS19 Employee Benefits**

53. 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).
54. 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.
55. 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.

56. 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.

57. 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 2014 was £16.197 million. The deficit on the Pension Fund as at 31 March 2015, as determined from the latest valuation undertaken by the actuary, is £25.449 million, an increase of £9.252 million.

58. The reason for this significant increase in the deficit is attributable to a greater increase in scheme liabilities over the increase in scheme assets over the year, due to changes in the financial assumptions used by the actuary between 2014 and 2015. The increase in the scheme liabilities is primarily due to a change in the financial assumptions which reduced the discount rate from 4.5% p.a. as at 31 March 2014 to 3.4% p.a. as at 31 March 2015. As prescribed by IAS19, the discount rate is based on the yield from high quality corporate bonds as at the accounting date and this yield has fallen steadily since the previous accounting date. The inflation assumption has also decreased, counteracting some of the increase noted above.

59. Table 9 clearly demonstrates, therefore, that the Committee's reserves are notionally reduced by £25.449 million as a result of the requirement to fully disclose the pension fund deficit on the balance sheet. Recent and future reviews of the employer's pension contribution rate is intended, over time, to assist in further reducing the overall deficit and the Committee, should, therefore, not view the provisional balance on reserves of £10.237 million

as being a first call on funding the IAS19 pensions deficit. The London Councils External Auditors, PricewaterhouseCoopers (PwC) 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

60. Inclusive of the IAS19 Pension and the Accumulated Absence Reserves, the pre-audited overall position on the Committee's Reserves as at 31 March 2015 is detailed in Table 10:

**Table 10 – Overall London Councils Reserves as at 31 March 2015**

	<b>General Reserve (£000)</b>	<b>Specific Reserve (£000)</b>	<b>Pension Fund (£000)</b>	<b>Accumulated Absences (£000)</b>	<b>Total (£000)</b>
<b>Audited balance at 1 April 2014</b>	<b>9,887</b>	<b>1,800</b>	<b>(16,197)</b>	<b>(137)</b>	<b>(4,647)</b>
Transfer (to)/from Revenue Account	(2,509)	(1,800)	(1,111)	29	(5,391)
Movement on Pension Fund Reserve	-	-	(8,141)	-	(8,141)
(Deficit)/Surplus for Year	2,859	-	-	-	2,859
<b>Provisional Balance at 31 March 2015</b>	<b>10,237</b>	<b>-</b>	<b>(25,449)</b>	<b>(108)</b>	<b>(15,320)</b>

61. The pre-audited position on the Committee's Reserves as at 31 March 2015, 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 2015**

	<b>Transport and Environment Committee (£000)</b>		<b>Joint Committee (£000)</b>	<b>Grants Committee (£000)</b>		<b>Total (£000)</b>
	<b>General</b>	<b>Specific</b>	<b>General</b>	<b>S.48</b>	<b>ESF</b>	
<b>Total audited reserves at 1 April 2014</b>	<b>1,886</b>	<b>1,800</b>	<b>6,051</b>	<b>1,177</b>	<b>773</b>	<b>11,687</b>
Resources committed in 2014/15	(532)	(2,200)	(668)	-	-	(3,400)
One-off payment to boroughs 2014/15	(170)	-	(339)	(800)	-	(1,309)
Budgeted transfer to 2015 freedom pass issue reserve	-	400	-	-	-	400
Provisional (deficit)/surplus for 2014/15	1,107	-	1,578	78	96	2,859

<b>Provisional reserves as at 31 March 2015</b>	<b>2,291</b>	<b>-</b>	<b>6,622</b>	<b>455</b>	<b>869</b>	<b>10,237</b>
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62. Table 12 below details the current level of commitments arising from the current and future financial year and highlights the residual level of uncommitted reserves available:

**Table 12– Residual balances after Current Commitments**

	<b>Transport and Environment Committee (£000)</b>	<b>Joint Committee (£000)</b>	<b>Grants Committee (£000)</b>	<b>Total (£000)</b>
General Reserve at 31 March 2015	2,291	6,622	455	9,368
Specific/ESF reserve at 31 March 2015	-	-	869	869
<b>Provisional reserves at 31 March 2015</b>	<b>2,291</b>	<b>6,622</b>	<b>1,324</b>	<b>10,237</b>
Committed in setting 2015/16 budget	-	(564)	(250)	(814)
One-off payment to boroughs 2015/16	-	(825)	-	(825)
Balances c/f into 2015/16	(64)*	-	-	(64)
Potential ESF grants commitments in 2015/16	-	-	(619)	(619)
Provisional commitments for 2016/17 and 2017/18	-	(1,018)	-	(1,018)
Provision for 2015 Freedom Pass issue	(204)	-	-	(204)
Provision for new appeals hearing centre	(200)	-	-	(200)
<b>Uncommitted reserves</b>	<b>1,823</b>	<b>4,215</b>	<b>455</b>	<b>6,493</b>

\*Subject to approval by the TEC Executive on 16 July 2015

63. The current level of commitments from reserves, as detailed in Table 12, come to £3.744 million over the short-medium term and are detailed in Table 13 below:

**Table 13– Commitments from Reserves**

	<b>2015/16 £000</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>Total £000</b>
Approved transfer from JC general reserves	164	164	-	328
Approved transfer from TEC general reserves	-	-	-	-
TEC system developments	64	-	-	64
Accumulated YPES regional funds	150	150	604	777
Slippage of ESG grants funding	869	-	-	869
2015 Freedom Pass Issue	204	-	-	204
One-off repayment to boroughs in 2015/16	825	-	-	825
New appeals hearing centre	200	-	-	200
Support to the health transition process	250	100	-	250
<b>Totals</b>	<b>2,726</b>	<b>414</b>	<b>604</b>	<b>3,744</b>

## Conclusions

64. Tables 12 and 13 show that the approved use of reserves over the three-year period 2015/16 to 2017/18 is likely to reduce the overall projected level of reserves by £3.744 million from £10.237 million to £6.493 million. A brief commentary on the financial position of each of the three funding streams is provided below:

- Grants Committee – the £83,000 variation between the M9 forecast and the provisional outturn for the Grants Committee is due to an increased net underspend of £30,000 relating to the ESF/borough programme, an increase of £40,000 in the underspend relating to the S.48 borough commissions, a reduction in actual spend on administration costs of £36,000 and additional investment income earned on reserves of £6,000. The benefits of £112,000 detailed above are offset by an increase in the overall bad debt provision of the Grants Committee of £29,000. Provisional reserves of £455,000 remain after allowing for potential ESF commitments of £869,000 during 2015/16 in respect of the concluding 2013-15 two year programme. This equates to 5.69% of on-going borough funded commissions of £8 million. This slightly exceeds the benchmark of £300,000, or 3.75%, established by the Grants Committee in September 2013 and is deemed adequate to cover potential future unforeseen events;
- TEC – the £689,000 variation on the TEC position is mainly due to an increase in Lorry Control PCN income (£599,000), an increase in the underspend on non-TfL bus operators (£211,000), an increase in the underspend on non-operational salaries (£45,000), an underspend on research (£40,000) and an underspend on system developments (£64,000). There was also additional income earned from investment of reserves of £24,000. These credits are offset by a net overspend of £93,000 in respect of the direct service administration charges, mainly due to increased central recharges, and an increase in the bad debt provision of £74,000, all attributable to Lorry Control PCN income. Net revenue costs of the new hearing centre at Chancery Exchange amounted to £96,000. Provisional reserves of £1.823 million remain after deducting known commitments, including the residual cost of the 2015 freedom pass reissue of £204,000, plus a sum of £200,000 earmarked for further revenue costs associated with the relocation of the appeals hearing centre to Chancery Exchange. This equates to 15.5% of estimated operating and direct trading expenditure of £11.735 million for 2015/16, which significantly exceeds the 2% - 3% yardstick established by the Committee in December 2005; and
- Joint Committee – the £961,000 variation on the Joint Committee position is primarily due to additional borough and subscriber contributions towards London Care Placements

(£114,000), government grants (£18,000) and movement on other income (£539,000), which is explained in full at paragraphs 44, 45 and 47 respectively. Movement of £592,000 has arisen from the legitimate charging of central costs to TEC, Grants and externally financed projects, service contracts and tenants, as detailed at paragraph 48. In addition, there has been a movement of £15,000 in respect of YPES provider costs and £23,000 through interest earned on committee reserves. These underspends and surpluses are offset by movement on employee costs of £37,000, detailed at paragraph 37, a movement on running costs of £98,000 highlighted at paragraphs 38 to 39 and a reduction in the planned transfer from committee reserves of £201,000 in respect of the London Health Board (paragraph 49). Provisional reserves of £4.215 million remain after deducting known commitments of £2.407 million over the three-year period 2015/16 to 2017/18. Continued prudent financial management and maximisation of income generating opportunities has enabled a significant level of reserves to be maintained in respect of the Joint Committee activities.

65. The financial year 2014/15 is the final year of the three-year financial strategy period agreed by the Leaders' Committee in December 2011 covering the period 2012/13 to 2014/15. A new three-year financial strategy covering the period 2015/16 to 2017/18 was agreed by the Leaders' Committee in December 2014. The projected level of uncommitted reserves across all three funding streams continues to leave the organisation in a favourable position to deliver the priorities contained in the business plan and support other initiatives, within the constraints of the new three-year financial strategy. In addition, the projected level of uncommitted reserves continues to give the organisation some financial cover in meeting some big challenges and potential contingencies that may be called upon in the short to medium term.

66. Furthermore, the projected financial position indicates that the organisation will be able to present further options to members later in the autumn around potentially repatriating a further proportion of these uncommitted reserves back to boroughs as part of the 2016/17 budget package.

## **Summary**

67. This report summarises the provisional pre- audited consolidated financial position for London Councils for the 2014/15 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 2015/16 and beyond.

## **Recommendations**

68. The Executive is asked:

- To note the provisional consolidated outturn position of a surplus of £2.859 million for 2014/15 and the provisional outturn position for each of the three funding streams;
- To note the provisional level of reserves of £10.237 million (paragraphs 60-61), which reduces to £6.493 million once known commitments of £3.744 million are taken into account (paragraphs 62-63);
- To note the updated financial position of the London Councils as detailed in paragraphs 64-66 of this report; and
- To agree to receive a further report in November 2015 after the completion of the external audit by PricewaterhouseCoopers (PwC) to adopt the statutory final accounts for 2014/15. The final accounts will be signed off at the meeting of the Audit Committee on 24 September 2015, during which PwC will formally present the Annual Audit Letter to for approval.

## **Financial Implications**

The financial implications are contained within the report.

## **Legal Implications**

There are no legal implications to London Councils arising from this report.

## **Equalities Implications**

There are no equalities implications to London Councils arising from this report.

## **Background Papers**

Final Accounts Working Papers File 2014/15;  
Budget Monitoring Working Papers File 2014/15;  
Budget Working Papers Files 2014/15 and 2015/16.