

# Grants Committee

## London Councils Grants Committee – Item no: 15 Pre-Audited Financial Results 2016/2017

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**Summary :** This report details the provisional pre-audited final accounts for London Councils Grants Committee for 2016/17. The summary figures are detailed in the box below:

<b>Revenue Account</b>	<b>Budget £000</b>	<b>Actual £000</b>	<b>Variance £000</b>
Expenditure	10,486	8,632	(1,854)
Income	(10,000)	(8,657)	1,343
Sub-Total	486	(25)	(511)
Net Transfer from Reserves <sup>1</sup>	(486)	(492)	(6)
Reduction in bad debt provision	-	-	-
Deficit/(Surplus) for the year <sup>2</sup>	-	(517)	(517)
<b>Position on reserves</b>	<b>General/Specific Reserves £000</b>	<b>Unusable Reserves £000</b>	<b>Total £000</b>
Audited as at 1 April 2016	1,992	(1,252)	740
Transfer (to)/from revenue	(492)	(71)	(563)
Surplus/(Deficit) for the Year	517	(283)	234
Provisional as at 31 March 2017	2,017	(1,606)	411

<sup>1</sup> Excludes transfers of £72,000 from the Pensions Reserve and £866 to the Accumulated Absences Reserve for the year in 'Actuals'.

<sup>2</sup> Excludes £283,000 Actuarial loss 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 £517,000 for 2016/17, the final year of the 2013-17 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.
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### **Pre-audited Accounts 2016/17**

1. Following the abolition of the Audit Commission Act 1998, with effect from the 2015/16 financial year, London Councils is no longer obliged to produce an annual statutory account to a statutory deadline for each of its three funding streams, as the successor legislation, the Local Audit and Accountability Act 2014, does not apply to joint committees. However, under the London Councils Agreement (as amended), London Councils has on-going obligations to prepare and arrange for the independent audit of the three annual accounts, outside of any statute, and there is still a requirement to submit audited accounts under the Companies Act 2006 for London Councils Limited. As a result of these continuing obligations, the London Councils Audit Committee agreed in March 2015 that London Councils should continue to prepare three separate accounts under the existing Local Authority Accounting Code of Practice and that the accounts should be independently audited and presented to members broadly in accordance with the previous statutory timescale. 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 Committee's accounts for 2016/17 during July 2017 and present the accounts to the Audit Committee, along with the annual audit report, for approval on 21 September 2017. At its November 2017 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. This report, therefore, details the provisional financial results prior to audit and provides commentary on the variances against the revised approved budgets for the year – in effect, the format is the same as the revenue forecast monitoring report presented to this Committee three times each financial year at the end of each quarter.

### **Provisional Outturn 2016/17**

3. Members approved the original budget for 2016/17 in November 2015, which was ratified by the Leaders' Committee shortly afterwards in December 2015. Table 1 below compares the provisional outturn figures for income and expenditure for 2016/17, the final year of the 2013-17 programme, against the approved budget for the year. The audited outturn figures for 2015/16 are also shown for comparative purposes.

**Table 1 – 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
<b>536</b>	<b>Total Operating Expenditure</b>	<b>555</b>	<b>628</b>	<b>73</b>	<b>13.2</b>
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	-	-	-	-
<b>8,912</b>	<b>Total Expenditure</b>	<b>10,486</b>	<b>8,632</b>	<b>(1,854)</b>	<b>(17.7)</b>
	<b>Income</b>				
(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)	-
<b>(10,022)</b>	<b>Total Income</b>	<b>(10,486)</b>	<b>(9,149)</b>	<b>1,337</b>	<b>12.8</b>
(57)	Increase/(Reduction) in bad debt provision	-	-	-	-
<b>(1,167)</b>	<b>Deficit/(Surplus)</b>	<b>-</b>	<b>(517)</b>	<b>(517)</b>	<b>-</b>

4. 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 this Committee in February 2017, a reduction of £242,000. As highlighted in the forecast monitoring reports to Committee during the course of the year, a distinction is made between the transactions relating to the borough funded S.48 commissioned services (priorities 1,2 and 4) and those in respect of the ESF/borough matched funded commissions (priority 3). The provisional surplus of £517,000 is split between the S.48 borough commissioned services and the ESF/borough funded commissions, as detailed in Table 2 below:

**Table 2 – Payments for Commissioned Services 2016/17**

	<b>S.48 borough</b>	<b>ESF/borough</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Payments for commissioned services	7,458	-	7,458
Plus contribution to London Funders Group	46	14	60
<b>Sub-Total</b>	<b>7,504</b>	<b>14</b>	<b>7,518</b>
Plus LC grants administration	519	109	628
Plus repayments to boroughs	185	301	486
<b>Sub-Total</b>	<b>8,208</b>	<b>424</b>	<b>8,632</b>
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)
<b>Deficit/(Surplus) for the year</b>	<b>-</b>	<b>(517)</b>	<b>(517)</b>

5. 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 £421,699 in respect of these liabilities has been paid by 19 June 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 unspent funding in respect of the following commissions:

	<b>£</b>
St Mungo Community Housing Association	32,517
Thames Reach	25,802
Homeless Link	5,302
Tender Education and Arts	986
Galop	1,827
Women's Resource Centre	2,906
<b>Total projected underspend</b>	<b>69,340</b>

and

- a provisional overspend of £85,000 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, an underspend of £14,000 in respect of the London Funders Group subscription attributable to the ESF programme, plus an additional transfer from reserves of £6,000 to cover the cost of the post providing support to the Third Sector from the start of March 2017. The net overspend position is primarily attributable to work surrounding the reletting of the commissions in accordance with the priority themes agreed by the Leaders' Committee, with effect from 1 April 2017.
6. 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.

7. 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.

#### **Balance Sheet as at 31 March 2017**

8. The summarised provisional balance sheet position as at 31 March 2017 is shown in Table 4 below, compared to the position for 2015/16:

**Table 4 – Balance Sheet Comparison 2016/17 and 2015/16 (inclusive of IAS19).**

	<b>As at 31 March 2017 (£000)</b>	<b>As at 31 March 2016 (£000)</b>
Fixed Assets	-	-
Current Assets	3,197	2,303
Current Liabilities	(1,187)	(319)
Pension Fund Liability	(1,598)	(1,243)
Total Assets less Liabilities	<u>412</u>	<u>741</u>
Represented by:		
General Fund	2,017	1,993
Pension Fund	(1,598)	(1,243)
Accumulated Absences Fund	(7)	(9)
	<u>412</u>	<u>741</u>

9. The main features of the balance sheet as at 31 March 2017 are as follows:
  - Current assets have increased by £894,000 from £2.303 million to £3.197 million, which is attributable to a decrease of £15,000 in cash balances and an increase of £909,000 in debtors. The rise in debtors is due to increases of £846,000 in respect of advance payments to commissions under the ESF match funded programme and £63,000 in respect of unpaid ESF claims;
  - Current liabilities have increased by £868,000 from £319,000 to £1.187 million, which is attributable to increases of £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 offset by residual variances of £3,000;

- The pension fund liability has increased by £355,000 from £1.243 million to £1.598 million; the accumulated absence reserve has increased marginally to £7,000; and
- The above movements have resulted in an overall decrease in the level of reserves to a £412,000 credit balance as at 31 March 2017, inclusive of the IAS19 deficit which is explored from paragraph 10 onwards and the accumulated absence reserve.

### **Effect of IAS19 (formerly FRS17)**

10. International Accounting Standard 19 (IAS19), Employee Benefits (formerly Financial Reporting Standard 17, Retirement Benefits or FRS17), is an international accounting standard that all authorities administering pensions funds must follow. This includes London Councils through its Admitted Body status as part of the Local Government Pension Scheme (LGPS) administered by the London Pensions Fund Authority (LPFA).
11. IAS19 requires an organisation to account for retirement benefits when it is committed to give them, even if the actual giving will be many years to come and is, therefore, a better reflection of the obligations of the employer to fund pensions promises to employees. It requires employers to disclose the total value of all pension payments that have accumulated (including deferred pensions) at 31 March each year.
12. This value is made up of:
  - The total cost of the pensions that are being paid out to former employees who have retired; and
  - The total sum of the pension entitlements earned to date for current employees – even though it may be many years before the people concerned actually retire and begin drawing their pension.
13. IAS19 also requires London Councils to show all investments (assets) of the Pension Fund at their market value, as they happen to be at the 31 March each year. In reality, the value of such investments fluctuates in value on a day-to-day basis but this is ignored for the purpose of the accounting standard. Setting side by side the value of all future pension payments and the snapshot value of investments as at the 31 March, results in either an overall deficit or surplus for the Pension Fund. This is called the IAS19 deficit or surplus.
14. London Councils has to obtain an IAS19 valuation report as at 31 March each year in order to make this required disclosure. This is done through the actuaries of the LPFA fund, Barnett Waddingham. 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 2016 was £1.243 million. The deficit on the Pension Fund as at 31 March 2017, as determined from the latest valuation undertaken by the actuary, is £1.598 million, an increase of £355,000.

15. 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.
16. Table 4 clearly demonstrates, therefore, that the Committee's balances are notionally reduced by £1.598 million as a result of the requirement to fully disclose the pension fund deficit on the balance sheet. However, recent and future reviews of the employers pension contribution rate is intended, over time, to assist in reducing the overall deficit and the Committee should, therefore, not view general balances as being a first call on funding the IAS19 pensions deficit. London Councils External Auditors (PwC) will also test the assumptions made by the actuary in arriving at this valuation in the course of their external audit during July/August.

### Committee Reserves

17. The pre-audited position on the Committee's overall reserves, as at 31 March 2017, is detailed in Table 5 below:

**Table 5 – Grants Committee reserves as at 31 March 2017**

	<b>General Reserve (£000)</b>	<b>Pension Fund (£000)</b>	<b>Accumulated Absences Reserve (£000)</b>	<b>Total (£000)</b>
<b>Balance at 1 April 2016</b>	<b>1,992</b>	<b>(1,243)</b>	<b>(9)</b>	<b>740</b>
Transfer (to)/from Revenue Account	(492)	(72)	1	(563)
Actuarial Loss on Pension Fund	-	(283)	-	(283)
(Deficit)/Surplus for Year	517	-	-	517
<b>Balance at 31 March 2017</b>	<b>2,017</b>	<b>(1,598)</b>	<b>(8)</b>	<b>411</b>
One-off payment to boroughs 2017/18	(156)	-	-	(156)
Funding of support to the Third Sector via the City Bridge Trust in 2017/18	(75)	-	-	(75)
Slippage of ESF commitments into 2017/18 and 2018/19	(1,574)	-	-	(1,574)
<b>Residual Balance</b>	<b>212</b>	<b>(1,598)</b>	<b>(8)</b>	<b>(1,394)</b>

18. The above table indicates that the Committee is projected to have provisional unaudited general reserves of £2.017 million at the end of March 2017, although following the return of a sum of £156,000 from reserves to boroughs in April 2017 and the funding of the Third Sector resources of £75,000 in 2017/18, an indicative uncommitted sum of £1.786 million remains.

19. Moving forward, a sum of £212,000 relates to the reduced £6.668 million S.48 borough funded commissions and equates to 3.18% of budgeted expenditure. This figure is marginally below the desirable benchmark of £250,000, or 3.75%, established by the Grants Executive Committee in September 2013. Officers will look for opportunities to identify efficiencies to replenish the uncommitted S.48 reserves figure to the desired benchmark level during the course of 2017/18. A sum of £1.574 million relates to the ESF/borough funded commissions and includes the levies collected from boroughs during both 2015/16 and 2016/17 in respect of the new ESF programme. As the Committee is aware, this new programme started in late 2016, so there is an expectation that this resource will be gradually applied during the course of the current year as the programme gains momentum.

## **Conclusions**

20. This report outlines the provisional outturn position for 2016/17, the final year of the 2013-17 programme. The provisional surplus of £517,000 has been analysed between those transactions relating to the boroughs S.48 commissioned services and those relating the ESF/boroughs funded programme. Provisional S.48 reserves of £212,000 remain after allowing for the approved one-off payment to boroughs of £156,000 in 2017/18, an approved sum of £75,000 to provide bespoke third sector support through the City Bridge Trust and likely ESF commitments of £1.574 million relating to the 2016-18 ESF programme that are expected to slip into the 2017/18 and 2018/19 financial years.

21. The £242,000 reduction in the provisional surplus of £517,000, compared to the £759,000 surplus forecast at Month 9 is broadly attributable 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.

22. On the basis of an on-going £6.668 million S.48 commissioning budget, estimated reserves of £212,000, equating to 3.18% of the total budget, is marginally below the established Committee benchmark of £250,000 or 3.75% and officers will look for opportunities to identify efficiencies to replenish the uncommitted S.48 reserves figure to the desired benchmark level during the course of 2017/18.

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 2017. The audited accounts will be presented to this Committee in November for formal adoption.

## **Recommendations**

24. The Committee is asked:

- to note the provisional pre-audited outturn position and the indicative surplus of £517,000 for 2016/17, the final year of the 2013-17 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.



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**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 2016/17;

GC Final Accounts File 2016/17.

GC Revenue Forecast File 2016/17