

# Transport and Environment Executive Sub-Committee

## Transport and Environment Committee – Item no: 04 Pre-Audited Financial Results 2016/17

**Report by:** Frank Smith      **Job title:** Director of Corporate Resources

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**Contact Officer:** Frank Smith

**Telephone:** 020-7934-9700      **Email:** frank.smith@LondonCouncils.gov.uk

**Summary:** This report details the provisional pre-audited final accounts for the Transport and Environment 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	378,506	377,657	(849)
Income	<u>(377,863)</u>	<u>(378,688)</u>	<u>(825)</u>
Sub-Total	643	(1,031)	(1,674)
Net Transfer to/ (from) reserves	(643)	(643)	-
Increase in bad debt provision	-	30	30
(Surplus)/Deficit for the year	-	<u>(1,644)</u>	<u>(1,644)</u>
<b>Reserves and Provisions</b>	<b>General Reserve £000</b>	<b>Specific Reserve £000</b>	<b>Total Reserves £000</b>
Audited as at 1 April 2016	3,269	1,000	4,269
Transfer between reserves	(1,000)	1,000	-
Transfer (to)/from revenue	(643)	-	(643)
Surplus/(Deficit) for the Year	910	734	1,644
Provisional as at 31 March 2017	<u>2,536</u>	<u>2,734</u>	<u>5,270</u>

**Recommendations:** The TEC Executive Sub-Committee is asked:

- To note the provisional pre-audited final results for 2016/17, which show an indicative surplus of £1.644 million for the year;
- To agree the transfer of £734,000 out of the provisional surplus to the specific reserve, in accordance with usual Committee practice;
- To agree the carry forward of the underspend on the IT system development budget of £191,000 into 2017/18;
- To agree the carry forward of the underspend on the LLC Scheme review budget of £36,000 into 2017/18; and
- To note the provisional level of reserves, as detailed in paragraph 39 and the financial outlook, as detailed in paragraphs 40-41 of this report.

## Introduction

1. The appendices to this report show the following information:
  - Appendix A – The provisional outturn expenditure position for 2016/17; and
  - Appendix B – The provisional outturn income position for 2016/17.
2. 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.
3. KPMG LLP will, therefore, audit the accounts for 2016/17 during July 2017 and present the accounts to the Audit Committee, along with the annual audit report, on 21 September. At its November 2017 meeting, the London Councils Executive will be asked to adopt the three audited accounts and the annual audit report, with this Committee being asked to separately adopt the audited accounts for the TEC 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.

## TEC Functions

4. Members will recall that TEC's activities are accounted for in two separate ways. The first can be classified as traditional local authority-type expenditure, where specific committee approved borough subscriptions and charges are levied by the Committee to cover the costs of the policy, permit-issuing and concessionary fares functions of the committee. Income and expenditure in these areas are relatively consistent year-on-year, with few significant variations from the budgeted figures at the year-end.
5. The second method is classified as traded services and covers the boroughs and TfL/GLAs use of the various services provided by the Committee, the main services being the hearing of environmental and traffic appeals and road user charging appeals at the London Tribunal hearing centre based at Chancery Exchange. Levels of income and expenditure cannot be precisely forecast, as overall levels of activity are based on usage volumes determined by the public (in the case of appeals), boroughs and TfL/GLA. The contractor, Northgate public services (NPS), currently provides these services to the Committee for a combination of a fixed contract sum of just under £1.2 million per annum and by a unit charge for each time the various services are used by the boroughs, the GLA and TfL. Users are recharged for their actual usage of the variable cost services, plus a fixed charge to cover the fixed costs of operating these functions. The fixed charge is apportioned to each borough in accordance

with the proportion of Penalty Charge Notices (PCN's) issued in London during the course of the last full financial year for which figures are available. For 2016/17, this period was the 2014/15 financial year.

6. The Committee also leads on projects that are funded from non-London Councils/borough sources. The single significant project that continued to be managed by the Committee in 2016/17 was the London European Partnership for Transport (LEPT). Funding for these projects is ring-fenced, meaning that any surplus or deficit of income over expenditure at the year-end will be carried forward in the Committee's general balances for application to or recovery from this project in the next financial year.

### Revised Budget 2016/17

7. The Full Committee approved the original budget for TEC for 2016/17 in December 2015. The revised revenue expenditure budget for 2016/17, as adjusted for the confirmation of borough funding and TfL funding for the Taxicard scheme for the year, was £378.506 million.
8. The corresponding revised revenue income budget was £377.863 million, with the approved transfer of £643,000 from reserves producing a balanced budget for the year.

### Provisional Results 2016/17

9. The provisional outturn figures for income and expenditure for 2016/17, compared against the above revised budgets, are detailed in full at appendices A and B, and summarised in Table 1 below:

**Table 1 – Comparison of Provisional Income and Expenditure against Revised Budget 2016/17**

Actual 2015/16		Revised Budget 2016/17	Actual 2016/17	Variance 2016/17	
£000	Expenditure	£000	£000	£000	%
582	Non-operational Staffing	652	582	(70)	(10.7)
312	Running Costs	297	188	(109)	(36.7)
61	Central Recharges	74	102	28	36.5
<b>955</b>	<b>Total Operating Expenditure</b>	<b>1,023</b>	<b>872</b>	<b>(151)</b>	<b>(14.8)</b>
8,131	Direct Services	8,426	9,007	581	6.9
364,274	Payments in respect of Freedom Pass and Taxicard	368,677	367,426	(1,251)	(0.3)
37	Research	40	-	(40)	-
3	Reimbursement of parking PCNs	-	-	-	-
-	One off payment to boroughs	340	340	-	-
-	Debt write-off	-	12	12	-
<b>373,400</b>	<b>Total Expenditure</b>	<b>378,506</b>	<b>377,657</b>	<b>(849)</b>	<b>(0.2)</b>
	<b>Income</b>				
(365,238)	Contributions in respect of Freedom Pass and Taxicard	(368,790)	(368,446)	344	0.1
(8,601)	Charges for direct services	(8,892)	(10,004)	(1,112)	(12.5)
(97)	Core Member Subscriptions	(97)	(97)	-	-
(11)	Interest on Investments	-	(1)	(1)	-

Actual 2015/16		Revised Budget 2016/17	Actual 2016/17	Variance 2016/17	
(3)	Parking PCN income collected	-	-	-	-
(106)	Other Income	(84)	(140)	(56)	(66.6)
(296)	Net transfer from Reserves	(643)	(643)	-	-
<b>(374,352)</b>	<b>Total Income</b>	<b>(378,506)</b>	<b>(379,331)</b>	<b>(825)</b>	<b>(0.2)</b>
(78)	Increase/(Reduction) in bad debt provision	-	30	30	-
<b>(1,030)</b>	<b>Deficit/(Surplus)</b>	-	<b>(1,644)</b>	<b>(1,644)</b>	-

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

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

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

11. A provisional surplus on revenue activities of £1.644 million has been posted for 2016/17, the headlines of which are summarised in Table 3 below, compared to the position reported at the end of December 2016 (Month 9), highlighting the movement between the two position. From this provisional surplus figure, the Committee is being asked to carry forward balances amounting to £227,000 in 2017/18 (paragraphs 20 and 26 below refer). If this request is approved, the provisional surplus reduces to £1.417 million. An explanation for each of the variances is provide in subsequent paragraphs:

**Table 3 – TEC – Analysis of revenue account surplus 2016/17**

	Outturn	M9	Movement
	£000	£000	£000
Freedom Pass non-TfL bus services	270	200	70
Freedom Pass survey and reissue costs (net of additional replacement Freedom Passes income)	734	594	140
Interest earned on investment of cash-balances	1	-	1
Research	40	20	20
Net position on Taxicard	-	-	-
Shortfall in replacement taxicard passes income	(13)	(17)	4
Net position on parking appeals	(88)	(97)	9
Net position on other traded parking services	2	(73)	75
Northgate PS Fixed Costs	(9)	2	(11)
London Tribunals Administration	193	(9)	202
Lorry Control Administration	(54)	(19)	(35)

Lorry Control PCNs	543	133	410
Freedom Pass Administration	8	17	(9)
Taxicard Administration	(94)	(32)	(62)
Non-operational staffing costs	70	88	(18)
Overspend on running costs/central recharges	(119)	-	(119)
Underspend on IT system developments	150	50	100
Rechargeable parking systems related work	21	-	21
Net additional in Health Emergency Badge income	9	11	(2)
Miscellaneous Income	21	-	21
Debt write-off	(12)	-	(12)
Increase in Bad Debt provision	(30)	-	(30)
<b>Provisional surplus for the year</b>	<b>1,644</b>	<b>868</b>	<b>776</b>

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

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

#### **Net Freedom Pass survey and issue costs (-£734,000)**

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

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

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

#### **Research Budget (-£40,000)**

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

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

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

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

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

### **Traded Services (+£95,000)**

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

- Firstly, there are two elements where the effect on income and expenditure levels produces a neutral effect and does not change the overall net surplus position:
  - A provisional overspend of £817,000 for increased payments to Northampton County Court, which is a borough demand led service for the registration of persistent non-payers of parking PCN's in the County Court at £7 per time. The costs are fully recovered from boroughs, leading to a compensating increased level of income collected for the year.
  - Expenditure on congestion charging appeals is estimated to be £338,000, £84,000 more than the budgetary provision of £254,000. The number of appeals heard during the year was 6,602, 435 more than the budgeted figure of 6,167. The throughput of appeals was calculated at 1.68 appeals per hour, compared to 1.65 per hour for 2015/16. However, as the cost of these appeals is recharged to the GLA/TfL at full cost, there was a corresponding increase in income due for the year of £84,000, which therefore has a zero effect on the Committee's provisional financial position for the year.
- Secondly, there is a net deficit of £88,000 in respect of parking and traffic appeals. The number of appeals and statutory declarations heard during the year was 41,855 against a budget of 52,885, generating income of £1.307 million, £321,000 less than the budget estimate of £1.632 million. However, this is offset by a significant reduction in adjudicator, contractor and administration costs of £233,000. The throughput of appeals was 2.5 appeals per hour, compared to a budget figure of 2.76 and an actual figure of 2.43 appeals per hour for 2015/16.

- Thirdly, the transaction volumes for other parking systems<sup>1</sup> used by boroughs and TfL over this period continue to reduce overall, resulting in a projected net deficit of £86,000. On the expenditure side, this takes into account the pricing structure offered by Northgate and expenditure was £9,000 more than the £193,000 budget. On the income side, unit cost recharges to boroughs for 2016/17 were set by the full Committee in December 2015 and amounted to £485,000, £77,000 less than the £562,000 income target. However, this deficit is offset by the recharging of non-appeal fixed costs to boroughs of £88,000.
- Finally, there was a deficit of £9,000 on the fixed costs recovered on the RUCA contract, reflecting the reduced contract price arising from the new contract with TfL/GLA that commenced in December 2016.

### **London Tribunals Administration (-£193,000)**

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

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

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

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

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



### **Freedom Pass Administration (-£8,000)**

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

### **Taxicard Administration (+£94,000)**

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

### **Non Operational Staffing Costs (-£70,000)**

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

### **Running Costs/Central Recharges (+£119,000)**

25. This overspend is primarily attributable to overspends of £21,000 for bank charges, additional central recharges of £28,000, general office expenses of £43,000, depreciation of £4,000 and £21,000 for rechargeable IT works for boroughs on parking systems (refer other income accrued in paragraph 27).

### **IT Systems Developments (-£150,000)**

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

### **Other income (-£42,000)**

27. Other income exceeded the £84,000 budget by £42,000 as follows:

- Rechargeable works to boroughs for parking system development work amounted to £21,000, the expenditure for which is included as part of running costs detailed in paragraph 25;
- £5,000 in respect of sponsorship income;
- Secondment income of £9,000;

- Miscellaneous income of £17,000; offset by
- A reduction in income of £10,000 from TfL in respect of administrative duties performed in respect of the concessionary fares settlement.

### **Bad Debts provision (+£30,000)**

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

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

29. The summary provisional balance sheet position as at 31 March 2017 is shown in Table 6 below, compared to the position 12 months ago:

**Table 6 – Balance Sheet Comparison - Provisional Figures 2016/17 and 2015/16**

	<b>As at 31 March 2017 (£000)</b>	<b>As at 31 March 2016 (£000)</b>
Fixed Assets	827	927
Current Assets	7,936	7,316
Current Liabilities	(3,527)	(4,006)
Long-term liabilities	(8,715)	(6,823)
Total Assets less Liabilities	<u>(3,479)</u>	<u>(2,586)</u>
General Fund	2,536	3,269
Specific Fund	2,734	1,000
Pension Fund	(8,715)	(6,823)
Accumulated Absences Fund	<u>(34)</u>	<u>(32)</u>
Total Reserves	<u>(3,479)</u>	<u>(2,586)</u>

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

- Fixed Assets have decreased by £100,000 to £827,000 from £927,000. The reduction is attributable to an annual depreciation charge of £106,000 offset by expenditure on leasehold improvements and equipment of £6,000;
- Current assets have increased by £620,000 from £7.316 million to £7.936 million which is attributable to an increase in cash balances of £679,000 offset by a decrease in debtors of £59,000. The reduction in debtors is due to decreases of £730,000 in respect of payments for TEC parking services, £198,000 in respect of VAT refunds owed by HMRC and residual variances of £69,000. The total value of these decreases which amounts to £997,000 is offset by increases of £522,000 owed by boroughs in respect of Non-TfL concessionary fare schemes, £224,000 in respect of borough Taxicard budget overspends, and £192,000 in respect of the advance payment for the registration of PCN debts at Northampton County Court;

- Current liabilities have decreased by £479,000 from £4.006 million to £3.527 million, which is attributable to reductions of £347,000 in respect of invoices relating to the 2015 Freedom Pass issue exercise, £346,000 in respect of borough Taxicard subscription refunds and residual variances of £67,000. The total value of these reductions which amounts to £760,000 is offset by a refund of an overpayment due to a member borough.; and
- Long-term liabilities, which consists solely of the IAS19 pension deficit, has increased by £1.892 million from £6.823 million to £8.715 million.

The above movements have resulted in an overall decrease in the balance of reserves to a £3.479 million debit balance as at 31 March 2017, inclusive of the IAS19 deficit which is explored from paragraph 31 onwards.

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

31. 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. The London Councils through its Admitted Body status as part of the Local Government Pension Scheme (LGPS) administered by the London Pensions Fund Authority (LPFA) through the Local Pensions Partnership (LPP), is subject to this accounting standard.
32. 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 the 31 March each year.
33. 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.
34. IAS19 also requires the 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.
35. The 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 Waddington. The effect of IAS19 is apportioned across the London Councils three functions – this Committee, the London Councils Grants Committee (GC) and the London Councils Joint Committee (JC) core functions in proportion to the actual employer's 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, the IAS19 deficit or surplus needs to be reflected in the balance sheet. For the TEC, the Pension Fund deficit as at 31 March 2017 is £8.715 million, which compares against the deficit on the Pension Fund as at 31 March 2016 of £6.823 million, an increase of £1.892 million.

36. 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.
37. The London Councils External Auditors, KPMG, will test the assumptions made by the actuary in arriving at this valuation in the course of their external audit during July/August.
38. Table 6 clearly demonstrates that the Committee's balances are notionally reduced by £8.715 million as a result of the requirement to fully disclose the pension fund deficit on the balance sheet. However, future reviews of the employer's pension contribution rate is intended, over time, to assist in reducing the overall deficit and the Committee should not view general balances as being a call on funding the pension fund deficit.

## Committee Reserves

39. The Committee's unaudited balances as at 31 March 2017 are broken down in Table 7 below, together with known commitments for the 2017/18 and 2018/19 financial years:

**Table 7 – Analysis of Committee Reserves as at 31 March 2017**

	<b>General Reserve</b>	<b>Specific Reserve</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Audited reserves at 31 March 2015</b>	<b>3,269</b>	<b>1,000</b>	<b>4,269</b>
One-off payments to boroughs 2016/17	(340)	-	(340)
Approved in setting 2016/17 budget	(303)	-	(303)
Transfer between reserves	(1,000)	1,000	-
Projected revenue surplus 2016/17	910	734	1,644
<b>Estimated Residual Balances at 31 March 2017</b>	<b>2,536</b>	<b>2,734</b>	<b>5,270</b>
IT systems development budget b/f from 2016/17*	(191)	-	(191)
LLC review budget b/f from 2016/17*	(36)	-	(36)
One-off payment to boroughs 2017/18	(340)	-	(340)
Utilised in 2017/18 budget setting process	(288)	-	(288)
<b>Estimated uncommitted reserves</b>	<b>1,681</b>	<b>2,734</b>	<b>4,415</b>

\*Subject to approval by this Committee

## Conclusions

40. The provisional financial results for the Transport and Environment Committee for 2016/17 show a surplus over budget of £1.644 million. This compares of a forecast underspend as at 31 December 2016, the three quarter stage of the year of £868,000. The £776,000 movement is highlighted in Table 3 and explored in detail in the analysis of actual income and expenditure against the approved budgets from paragraphs 12-28 above and is mainly due to:

- an increase in Lorry Control PCN income, net of an increase in the bad debt provision, of £410,000;
- an improvement on the net position for spend on Freedom Pass issue costs and replacement Freedom Pass income of £140,000;
- an increase of £202,000 in respect of the cost of the administration of the London Tribunal;
- an increase in the underspend of £100,000 in respect of IT system development costs; offset by
- an increase in the overspend of general running costs and central recharges of £119,000.

41. Provisional uncommitted general reserves of £1.681 million remain after deducting all known future commitments. This equates to 14.4% of estimated operating and direct trading expenditure of £11.705 million for 2017/18, which is within the upper limit of the 10%-15% yardstick established by the Committee in November 2015.

### **Recommendations**

42. The TEC Executive Sub-Committee is asked to:

- To note the provisional pre-audited final results for 2016/17, which show an indicative surplus of £1.644 million for the year;
- To agree the transfer of £734,000 out of the provisional surplus to the specific reserve, in accordance with usual Committee practice;
- To agree the carry forward of the underspend on the IT system development budget of £191,000 into 2017/18;
- To agree the carry forward of the underspend on the LLC Scheme review budget of £36,000 into 2017/18; and
- To note the provisional level of reserves at paragraph 39 and the financial summary, as detailed in paragraphs 40-41 of this report.

### **Background Papers**

London Councils TEC Budget File 2016/17;  
 London Councils TEC Forecast File 2016/17;  
 London Councils TEC Final Accounts Files 2015/16 and 2016/17; and  
 London Councils Consolidated Final Accounts File 2016/17.