

Grants Committee

London Councils Grants Committee – Item no: 13 Pre-Audited Financial Results 2017/2018

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Summary : This report details the provisional pre-audited final accounts for London Councils Grants Committee for 2017/18. The summary figures are detailed in the box below:

Revenue Account	Budget £000	Actual £000	Variance £000
Expenditure	8,899	7,571	(1,328)
Income	(8,668)	(7,996)	672
Sub-Total	231	(425)	(656)
Net Transfer from Reserves ¹	(231)	(231)	-
Reduction in bad debt provision	-	-	-
Deficit/(Surplus) for the year ²	-	(656)	(656)
Position on reserves	General/Specific Reserves £000	Unusable Reserves £000	Total £000
Audited as at 1 April 2017	2,018	(1,606)	412
Transfer (to)/from revenue	(231)	(107)	(338)
Surplus/(Deficit) for the Year	656	274	930
Provisional as at 31 March 2018	2,443	(1,439)	1,004

¹ Excludes transfers of £103,000 from the Pensions Reserve and £4,000 to the Accumulated Absences Reserve for the year in 'Actuals'.

² Excludes £274,000 Actuarial gain on Pension Fund for the year in 'Actuals'

Recommendations: London Councils Grants Committee is asked:

- To note the provisional pre-audited outturn position and the indicative surplus of £656,000 for 2017/18, the first year of the 2017-21 programme; and
 - To note the provisional level of reserves at paragraphs 18-20 and the financial outlook, as detailed in paragraphs 21-24 of this report.
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Pre-audited Accounts 2017/18

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. At its meeting in March 2018, the Audit Committee agreed to extend this appointment for a further year in accordance with the contract conditions to cover the 2018/19 financial year.
2. KPMG LLP will, therefore, audit the Committee's accounts for 2017/18 during July 2018 and present the accounts to the Audit Committee, along with the annual audit report, for approval on 27 September 2018. At its November 2018 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 2017/18

3. Members approved the original budget for 2017/18 in November 2016, which was ratified by the Leaders' Committee shortly afterwards in December 2016. Table 1 below compares the provisional outturn figures for income and expenditure for 2017/18, the first year of the 2017-217 programme, against the approved budget for the year. The audited outturn figures for 2016/17 are also shown for comparative purposes.

Table 1 – Provisional Outturn 2017/18 – Grants Committee

2016/17 Actual		2017/18 Revised Budget	2017/18 Actual	2017/18 Variance	
£000	Expenditure	£000	£000	£000	%
417	Employee Costs	423	419	(4)	(0.9)
26	Running Costs	18	24	6	33.3
185	Central Recharges	189	199	10	5.3
628	Total Operating Expenditure	630	642	12	1.9
7,458	Borough commissioned services	6,173	6,173	-	-
-	Borough commissioned services - PY	-	(119)	(119)	-
60	Membership fees to London Funders	60	60	-	-
-	ESF commissions	1,880	659	(1,221)	(64.9)
486	One-off payment to boroughs	156	156	-	-
8,632	Total Expenditure	8,899	7,571	(1,328)	(14.9)
	Income				
(8,022)	Borough contributions towards commissioned services	(7,173)	(7,084)	89	1.2
(555)	Borough contributions towards the administration of commissions	(495)	(495)	-	-
(63)	ESF Grant	(1,000)	(404)	596	59.6
(17)	Interest on Investments	-	(13)	(13)	-
(492)	Transfer from Reserves	(231)	(231)	-	-
(9,149)	Total Income	(8,899)	(8,227)	672	7.6
-	Increase/(Reduction) in bad debt provision	-	-	-	-
(517)	Deficit/(Surplus)	-	(656)	(656)	-

4. The provisional surplus of £656,000 compares to a forecast surplus of £755,000 at the month 9 stage of the year, as reported to this Committee in February 2018, a reduction of £99,000. 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 and 2) and those in respect of the ESF/borough matched funded commissions (priority 3). The provisional surplus of £656,000 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 2017/18

	S.48 borough	ESF/borough	Total
	£000	£000	£000
Payments for commissioned services	6,173	659	6,832
Plus contribution to London Funders Group	60	-	60
Less return of 2016/17 liabilities	(119)	-	(119)
Sub-Total	6,114	659	6,773
Plus LC grants administration	487	155	642
Plus repayments to boroughs	-	156	156
Sub-Total	6,601	970	7,571
Less Borough subscriptions	(6,668)	(911)	(7,579)
Less ESF grants income	-	(404)	(404)
Less investment income	(13)	-	(13)
Less transfer from reserves	(75)	(156)	(231)
Deficit/(Surplus) for the year	(155)	(501)	(656)

5. For the S.48 borough funded services, a provisional breakeven position has been recorded in respect of the payments to providers of commissioned services. In addition, during the course of closing the 2016/17 accounts, liabilities of £754,577 relating to 25 outstanding payments due to commissions were set up. Payments of £635,565 have been released during 2017/18, with the residual £119,012 that has not been paid out being recycled through the revenue account and transferred back to S.48 reserves.
6. There is a provisional underspend of £23,000 in relation to the administration of the S.48 commissions, attributable to an underspend of £18,000 in respect of salary costs and an underspend of £5,000 for general running costs and central recharges. In addition, a sum of £13,000 from investment income has been received on Committee reserves.
7. For the S.48 ESF/borough matched funded commissions, the provisional surplus of £501,000 is attributable to the current ESF programme. The continued slippage for these commissions was reported to the Grants Committee in both November 2017 and March 2018. Performance has increased and improved over the last six months, so that payments to providers of £659,000 can now be recognised in the 2017/18 outturn figures. Due to the payment structure for ESF projects, higher levels of spend are recognised in the accounts towards the latter stages of projects, when outcomes (job entries and sustained jobs) can be verified. Similarly, a sum of £487,000 out of the £1 million boroughs contributions levied during 2017/18 can also be recognised as income in the provisional results for the year, along with £424,000 borough contributions treated as deferred income received during 2016/17. Administrative costs, estimated to be in the region of £155,000, have been incurred in respect of the new programme, for which ESF grant of £74,000 is expected to accrue in respect of

eligible expenditure. This is included within the overall ESF grant income due for the year of £404,000. From 2018/19 onwards, no further borough contributions will be levied toward the cost of the S.48 ESF/borough matched funded commissions. Residual expenditure in both 2018/19 and 2019/20 will be funded by provisional accumulated reserves of £1.92 million, as highlighted in Table 5 at paragraph 18 and through ESF grant accruing from eligible expenditure incurred.

8. In terms of grants administration on the combined commissions, total administration costs of £443,000, excluding central recharges and repayments to boroughs, on total spend of £6.892 million, excluding central recharges and repayments to boroughs, equates to 6.4%, which compares to a figure of 5.57% for 2016/17. For the S.48 borough funded commissions, administration costs of £344,000, excluding central recharges and the repayment to boroughs, on total provider spend of £6.173 million, excluding central recharges and repayments to boroughs, equates to 5.57%, compared to 4.74% for 2016/17. For the S.48 ESF commissions, administration costs of £99,000, excluding central recharges and the repayment to boroughs, have been incurred on total provider spend of £659,000, excluding central recharges and repayments to boroughs, equates to 15%. There is no comparator for 2016/17 as no provider expenditure was incurred in this particular year. The high proportion of administrative costs is attributed to further slippage in the overall programme and the corresponding accounting treatment, as highlighted in paragraph 7. Measures to reduce projected levels of administration costs in 2018/19 and 2019/20 include the recruitment of an ESF technical advisor and a reorganisation of the existing team to best support delivery of the programme and deliver efficiencies in terms of costs.

Balance Sheet as at 31 March 2018

9. The summarised provisional balance sheet position as at 31 March 2018 is shown in Table 4 below, compared to the position for 2016/17:

Table 4 – Balance Sheet Comparison 2017/18 and 2016/17 (inclusive of IAS19).

	As at 31 March 2018 (£000)	As at 31 March 2017 (£000)
Fixed Assets	-	-
Current Assets	2,996	3,197
Current Liabilities	(565)	(1,187)
Pension Fund Liability	(1,427)	(1,598)
Total Assets less Liabilities	<u>1,004</u>	<u>412</u>
Represented by:		
General Fund	2,443	2,017
Pension Fund	(1,427)	(1,598)
Accumulated Absences Fund	(12)	(7)
	<u>1,004</u>	<u>412</u>

10. The main features of the balance sheet as at 31 March 2018 are as follows:

- Current assets have decreased by £201,000 from £3.197 million to £2.996 million, which is attributable to a decrease of £732,000 in cash balances and an increase of £531,000 in debtors. The rise in debtors is due to increases of £252,000 in respect of ESF match funded grant, £179,000 in respect of advance payments to ESF commissions, £96,000 in respect of unpaid borough subscriptions to the Grants Committee and residual variances of £4,000;
- Current liabilities have decreased by £622,000 from £1.187 million to £565,000, which is attributable to a decrease of £755,000 in respect of amounts owed to S.48 borough commissioned services offset by increases of £89,000 in respect of deferred funding for the ESF grant match funded programme, £34,000 in respect of payments to ESF commissions and residual variances of £10,000;
- The pension fund liability has reduced by £171,000 from £1.598 million to £1.427 million; the accumulated absence reserve has increased from £8,000 to £12,000; and
- The above movements have resulted in an overall increase in the level of reserves to a £1.004 million credit balance as at 31 March 2018, inclusive of the IAS19 deficit which is explored from paragraph 11 onwards and the accumulated absence reserve.

Effect of IAS19 (formerly FRS17)

11. 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).
12. 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.
13. 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.
14. 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.
15. 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 2017 was £1.598 million. The deficit on the Pension Fund as at 31 March 2018, as determined from the latest valuation undertaken by the actuary, is £1.427 million, a reduction of £171,000.

16. The reason for this decrease in the pensions deficit is due to a marginal return across all asset classes, including equities, offset by an increase in the defined benefit obligation as a result of a reduction in the discount rate (which is based on corporate bond yields) used in the calculation of the obligation.
17. Table 4 clearly demonstrates, therefore, that the Committee's balances are notionally reduced by £1.427 million as a result of the requirement to fully disclose the pension fund deficit on the balance sheet. However, recent and future reviews of the employers pension contribution rate is intended, over time, to assist in reducing the overall deficit and the Committee should, therefore, not view general balances as being a first call on funding the IAS19 pensions deficit. London Councils External Auditors (KPMG) will also test the assumptions made by the actuary in arriving at this valuation in the course of their external audit during July/August.

Committee Reserves

18. The pre-audited position on the Committee's overall reserves, as at 31 March 2018, is detailed in Table 5 below:

Table 5 – Grants Committee reserves as at 31 March 2018

	General Reserve (£000)	Pension Fund (£000)	Accumulated Absences Reserve (£000)	Total (£000)
Balance at 1 April 2017	2,018	(1,598)	(8)	412
Transfer (to)/from Revenue Account	(231)	(103)	(4)	(338)
Movement on Pension Fund	-	274	-	274
(Deficit)/Surplus for Year	656	-	-	656
Balance at 31 March 2018	2,443	(1,427)	(12)	1,004
Slippage of ESF commitments into 2018/19 and 2019/20	(1,920)	-	-	(1,920)
Residual Balance	523	(1,427)	(12)	(916)

19. The above table indicates that the Committee is projected to have provisional unaudited general reserves of £2.443 million at the end of March 2018.

20. A sum of £523,000 relates to the £6.668 million S.48 borough funded commissions and equates to 7.84% of budgeted expenditure. This figure exceeds the desirable benchmark of £250,000, or 3.75%, established by the Grants Executive Committee in September 2013. A sum of £1.920 million relates to the ESF/borough funded commissions and includes levies collected from boroughs over the original three-year life of the programme between 2015/16 and 2017/18. No further contributions will be levied from boroughs, so a combination of accumulated reserves and ESF grant income will fund the residual programme through to the projected end date of June 2019.

Conclusions

21. This report outlines the provisional outturn position for 2017/18, the first year of the 2017-21 programme of commissions. The provisional surplus of £656,000 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 £523,000 remain and accumulated ESF reserves of £1.92 million relating to the current ESF programme are expected to be applied during the course of the current financial year and 2019/20.

22. The £99,000 reduction in the provisional surplus of £656,000, compared to the £755,000 surplus forecast at Month 9 is broadly attributable to:

- a reduction in ESF borough contributions of £512,000 and ESF grant income of £261,000 attributable to the year, offset by:
- a reduction in ESF payments to providers attributable to the year of £551,000;
- a sum of £119,000 relates to the return of 2016/17 liabilities to revenue; plus
- there is additional interest on reserves of £3,000.

23. On the basis of an on-going £6.668 million S.48 commissioning budget, estimated reserves of £523,000, equating to 7.84% of the total budget, is above the established Committee benchmark of £250,000 or 3.75%. The Committee is be given options as to how to manage reserves in excess of the benchmark during the budget setting process for 2019/20 onwards in the autumn.

24. 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 2018. The audited accounts will be presented to this Committee in November for formal adoption as part of the 2018/19 half-year budget monitoring report.

Recommendations

25. The Committee is asked:

- to note the provisional pre-audited outturn position and the indicative surplus of £656,000 for 2017/18, the first year of the 2017-21 programme; and
- to note the provisional level of reserves at paragraphs 18-20 and the financial outlook, as detailed in paragraphs 21-24 of this report.

Financial Implications for London Councils

Financial implications are included in the main part of the report.

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Background Papers

GC Budget File 2017/18;
GC Final Accounts File 2017/18.
GC Revenue Forecast File 2017/18

