

London Councils Executive

London Councils – Consolidated Pre-Audited Financial Results 2018/19

Item no: 8

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

Date: 18 June 2019

Contact Officer: Frank Smith

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

Summary: This report highlights the pre-audited consolidated financial position for London Councils for the 2018/19 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 2019 are also shown, together with overall conclusions and prospects for 2019/20 and beyond, after considering known commitments. The provisional revenue outturn and reserves position is summarised as follows:

Revenue Account (£000)	Revised Budget	Actual	Variance
Total Expenditure	385,886	382,918	(2,968)
Total Income	(383,460)	(384,190)	(730)
Use of reserves	(2,426)	(2,016)	410
Bad Debts provision	-	183	183
Net Deficit/(Surplus)	-	(3,105)	(3,105)
General and Specific Reserves (£000)	General Reserve	Specific Reserve	Total
As at 1 April 2018	10,810	3,111	13,921
Transfer (to)/from revenue	(2,318)	302	(2,016)
Provisional Surplus for the Year	3,105	-	3,105
As at 31 March 2019	11,565	3,445	15,010¹

¹ As detailed in table 12 at paragraph 60, reserves are reduced to £10.229 million once approved commitments of £4,781 million arising from 2018/19 onwards are taken into account.

Recommendations: The Executive is asked:

- To note the provisional consolidated outturn surplus of £3.105 million for 2018/19 and the provisional outturn position for each of the three funding streams;
- To agree the carry forward of £50,000 into 2019/20 in respect of London Office for Technology and Innovation (LOTI) set up costs;
- To note the carry forward of £133,000 into 2019/20 in respect of TEC system developments (£17,000) and the London Lorry Control scheme review (£116,000), subject to final approval by the TEC Executive on 18 July;
- To note the provisional level of reserves of £15.010 million as at 31 March 2019 (paragraphs 58-59), which reduces to £10.229 million once known commitments of £4.781 million are considered (paragraphs 60-61);
- To note the updated financial position of the London Councils as detailed in paragraph 62 of this report; and
- To agree to receive a further report in November 2019 after the completion of the external audit by KPMG LLP to adopt the final accounts for 2018/19. The final accounts will be signed off at the meeting of the Audit Committee on 18 September 2019, at which KPMG will formally present the Annual Audit Report for approval.

London Councils – Consolidated Pre-Audited Final Results 2018/19

Executive Summary

1. The provisional revenue outturn for 2018/19, split across London Councils three funding streams is as follows:

	Grants	TEC	Joint	Consolidated
	£000	£000	£000	£000
Total Expenditure	8,217	366,566	8,135	382,918
Total Income	(7,827)	(368,069)	(8,294)	(384,190)
Use of Reserves	(590)	(419)	(1,007)	(2,016)
Bad Debts provision	-	183	-	183
Surplus	(200)	(1,739)	(1,166)	(3,105)

2. Once figures relating to potential carried forward amounts are considered, the headline surplus of £3.105 million reduces to £2,922 million, as follows:

	Grants	TEC	Joint	Consolidated
	£000	£000	£000	£000
Surplus for the Year	200	1,739	1,166	3,105
TEC balances c/f	-	(133)	-	(133)
Joint Committee c/f	-	-	(50)	(50)
Adjusted underlying Surplus	200	1,606	1,116	2,922

3. The provisional level of reserves for each funding stream as at 31 March 2019 is as follows:

	Grants	TEC	Joint	Consolidated
	£000	£000	£000	£000
Audited Reserves at 1 April 2018	2,443	6,171	5,307	13,921
Transfer (to)/from Revenue	(590)	(419)	(1,007)	(2,016)
Provisional surplus/ (deficit) for the Year	200	1,739	1,166	3,105
Provisional Reserves at 31 March 2019	2,053	7,491	5,466	15,010

4. However, once all potential and known commitments of £4.781 million are considered, the estimated level of uncommitted reserves reduces to £10.229 million, as follows:

	Grants	TEC	Joint	Consolidated
	£000	£000	£000	£000
Provisional Reserves at 31 March 2019	2,053	7,491	5,466	15,010
Underspends c/f into 2019/20	-	(133)	(50)	(183)
Committed in setting 2019/20 budget	-	(187)	(1,354)	(1,541)
Potential S.48 ESF				

grant commitments in 2019/20	(1,330)	-	-	(1,330)
Other provisional commitments	-	(1,242)	(485)	(1,727)
Uncommitted Reserves	723	5,929	3,577	10,229

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's during the year, is as follows:

	Grants	TEC	Joint	Consolidated
	£000	£000	£000	£000
Forecast at Month 3	35	781	250	1,066
Forecast at Month 6	110	1,184	318	1,612
Forecast at Month 9	154	1,411	998	2,563
Provisional Outturn	200	1,739	1,166	3,105
Movement between M9 and provisional outturn	46	328	168	542

6. The £46,000 movement for the Grants Committee is largely due to an increased underspend on employee and central recharge costs.
7. The £328,000 movement for TEC is highlighted in Table 7 and explored in detail in the analysis of actual income and expenditure against the approved budgets in paragraphs 15-34 below and is mainly due to an increase in Lorry Control PCN income which outperformed the income budget by £721,000 due to continued effective performance of the outsourced enforcement function.
8. The £168,000 movement for the Joint Committee is due to an increase in the salaries underspend of £39,000, and an increased underspend on adjusted running costs of £139,000.
9. The actual financial results and the actual level of reserves will be confirmed during the external audit of the 2018/19 accounts, which will be undertaken by KPMG LLP in July and August. The Audit Report and the audited accounts relating to this year will be reported to the meeting of the Audit Committee on 18 September 2019 and on to the November meeting of the Executive for adoption.

Introduction

1. This report details the provisional financial results for the three London Councils funding streams and the overall consolidated position. It provides commentary on the variances against the revised approved budgets for the year – in effect, the format is similar as the revenue forecast reports presented to the Executive three times each financial year. KPMG LLP will audit the accounts for 2018/19 during July/August 2019 and present the accounts to the Audit Committee, along with the annual audit report, on 18 September. The audited accounts and the audit report will then be presented for adoption by the London Councils Executive at its November meeting.
2. London Councils approved revenue expenditure budget for 2018/19 was £386.609 million, as agreed by the Leaders' Committee in December 2017. The corresponding revised revenue income budget was £384.313 million, with the budget balanced by the approved transfer of £2.296 million from reserves.
3. After a number of adjustments, gross budgeted expenditure was revised to £385.886 million, with a further £130,000 transferred from reserves for the year. The revised budget is shown in Table 1 below:

Table 1 – Revised budget 2018/19

	£000
Original Expenditure budget	386,609
Reduction to Concessionary Fares Settlement	(393)
Plus carried forward funding: TEC IT system developments and London lorry control review costs	130
Plus adjustment to Taxicard provider budget	(463)
Plus increased HR Metrics service levels	3
Total Expenditure	385,886
Funded by:	
Original Income budget	(386,609)
Reduction in Concessionary Fares funding from Boroughs	393
Plus approved additional transfer from reserves	(130)
Plus increased subscriber funding	(3)
Less reduction in Taxicard funding from boroughs/TfL	463
Total Funding	(385,886)
Net position	Nil

4. 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 2018/19, including the effect of IAS19 Retirement Benefits (Table 9); and
 - The provisional position on London Councils reserves as at 31 March 2019, adjusted for all current and future commitments to provide an updated position on residual uncommitted reserves position (Tables 10-13).
5. Some of the figures included within the results 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 KPMG LLP. London Councils budgets and reports on a gross accounting basis in accordance with UK Generally Accepted Accounting Practice (GAAP). This means that in some instances, additional expenditure will be shown in the revenue account, which is offset by accrued additional income, leaving a neutral or near-neutral effect on the bottom line. Examples of this are illustrated in respect of certain activities undertaken by the Joint Committee (paragraphs 38 and 44).
6. Table 2 below summarises the provisional consolidated revenue outturn position for the year.

Table 2 – Comparison of Income and Expenditure against Consolidated Revised Budget 2018/19

2017/18 Actual		2018/19 Revised Budget	2018/19 Actual	2018/19 Variance	
£000	Expenditure	£000	£000	£000	%
4,994	Employee Costs	5,419	5,093	(326)	(6.0)
3,439	Running Costs	3,555	3,377	(178)	(5.0)
620	Central Recharges	453	426	(27)	(6.0)
9,053	Total Operating Expenditure	9,427	8,896	(531)	(5.6)
9,218	Direct Services	8,168	9,390	1,222	15.0
17	European Services contract	-	-	-	-
357,973	Payments in respect of Freedom Pass and Taxicard	358,748	356,110	(2,638)	(0.7)
6,054	Borough commissioned services	6,173	6,093	(80)	(1.3)
659	ESF commissioned services	1,880	1,599	(281)	(14.9)
60	Contribution to London Funders	60	60	-	-
826	One-off borough payment	-	-	-	-
154	Improvement and Efficiency	240	22	(218)	(90.8)

369	Research and Commissioning	615	478	(137)	(22.3)
24	Challenge Implementation Fund	525	208	(317)	(60.4)
42	YPES Regional Activities	50	51	1	2.0
-	Debt write-off	-	-	-	-
384,449	Total Expenditure	385,886	382,918	(2,968)	(0.8)
	Income				
(358,988)	Contributions in respect of Freedom Pass and Taxicard	(358,885)	(356,993)	1,892	0.5
(7,084)	Borough contributions towards commissioned services	(6,173)	(6,476)	(303)	4.9
(10,619)	Charges for direct services	(8,674)	(10,932)	(2,258)	(26.0)
(5,741)	Core Member Subscriptions	(5,744)	(5,726)	18	(0.3)
(180)	Borough contributions towards YPES	(180)	(180)	-	-
(326)	Borough contribution towards LCP payments	(496)	(331)	165	33.3
(419)	Government grants	(1,000)	(840)	160	16.0
(91)	Interest of Investments	(75)	(171)	(96)	128
(280)	Other Income	(264)	(639)	(375)	(142)
(2,079)	Central Recharges	(1,969)	(1,902)	67	(3.4)
(2,251)	Transfer from Reserves	(2,426)	(2,016)	410	16.9
(388,058)	Total Income	(385,886)	(386,206)	(320)	(0.1)
(53)	Increase/(Reduction) in bad debt provision	-	183	183	-
(3,662)	Deficit/(Surplus)	-	(3,105)	(3,105)	-
	Applied to Funding Streams				
(656)	Grants Committee	-	(200)	(200)	-
(1,574)	Transport and Environment Committee	-	(1,739)	(1,739)	-
(1,432)	Joint Committee Services	-	(1,166)	(1,166)	-
(3,662)	Deficit/(Surplus)	-	(3,105)	(3,105)	-

7. 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

8. Table 3 below summarises the provisional outturn position for the Grants Committee for 2018/19.

Table 3 – Provisional Outturn 2018/19 – Grants Committee

2017/18 Actual		2018/19 Revised Budget	2018/19 Actual	2018/19 Variance	
£000	Expenditure	£000	£000	£000	%
419	Employee Costs	352	293	(69)	(19.4)

2017/18 Actual		2018/19 Revised Budget	2018/19 Actual	2018/19 Variance	
24	Running Costs	18	27	9	50.0
199	Central Recharges	185	152	(30)	(16.5)
642	Total Operating Expenditure	555	465	(90)	(16.2)
6,173	Borough commissioned services	6,173	6,093	(80)	(1.3)
(119)	Borough commissioned services - PY	-	-	-	-
60	Membership fees to London Funders	60	60	-	-
659	ESF commissions	1,880	1,599	(281)	(14.9)
156	One-off payment to boroughs	-	-	-	-
7,571	Total Expenditure	8,668	8,217	(451)	(5.2)
	Income				
(7,084)	Borough contributions towards commissioned services	(6,173)	(6,476)	(303)	(4.9)
(495)	Borough contributions towards the administration of commissions	(495)	(495)	-	-
(404)	ESF Grant	(1,000)	(840)	160	16.0
(13)	Interest on Investments	-	(16)	(16)	-
(231)	Transfer from Reserves	(1,000)	(590)	410	41.0
(8,227)	Total Income	(8,668)	(8,417)	251	2.9
-	Increase/(Reduction) in bad debt provision	-	-	-	-
(656)	Deficit/(Surplus)	-	(200)	(200)	-

9. The provisional surplus of £200,000 compares to a forecast surplus of £154,000 at the month 9 stage of the year, as reported to the Grants Committee in February 2019. As highlighted in the forecast monitoring reports to the Grants Committee and Executive 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 S.48 ESF/borough matched funded commissions (priority 3). The provisional surplus of £200,000 is split between the S.48 borough commissioned services and the ESF/borough funded commissions, as detailed in Table 4 below:

Table 4 – Payments for Commissioned Services 2018/19

	S.48 borough	ESF/borough	Total
	£000	£000	£000
Payments for commissioned services	6,093	1,599	7,692
Plus contribution to London Funders Group	60	-	60
Sub-Total	6,153	1,599	7,752
Plus LC grants administration	331	134	465
Plus repayments to boroughs	-	-	-
Sub-Total	6,483	1,733	8,217
Less Borough subscriptions	(6,668)	(303)	(6,971)
Less ESF grants income	-	(840)	(840)
Less investment income	(16)	-	(16)

Less transfer from reserves	-	(590)	(590)
Deficit/(Surplus) for the year	(200)	-	(200)

10. For the S.48 borough funded services, a provisional underspend of £80,449 has been recorded in respect of the payments to providers of commissioned services. As reported during the month 9 forecast report, the underspend relates to a reduction in payments made to St Mungo Community Housing Association and Shelter. The reduction in the amounts paid out will be recycled through the revenue account and transferred back to S.48 reserves.
11. There is a provisional underspend of £71,000 in relation to the administration of the S.48 commissions, attributable to:
- an underspend of £37,000 in respect of employee costs due to vacancies within the team, an underspend on the maternity provision and other indirect employee underspends such as training;
 - an underspend of £18,000 for general running costs including central recharges; and
 - an additional sum of £16,000 from investment income has been received on Committee reserves, not previously budgeted for.
12. For the S.48 ESF/borough matched funded commissions, performance has increased and improved over the last twelve months, as the programme moves to closure. Payments to providers of £1.599 million have been recognised in the 2018/19 outturn figures. Due to the payment structure for ESF projects, higher levels of spend are recognised in the accounts towards the latter stages of projects, when outcomes (job entries and sustained jobs) can be verified. From 2018/19 onwards, no further borough contributions were levied; however, £303,000 of the £512,000 advance payments being held from previous borough contributions can be recognised as income in the provisional results for the year, along with £590,000 borough contributions treated as deferred income received during 2016/17, which is being held in reserves. Administrative costs, estimated to be in the region of £134,000, have been incurred in respect of the new programme, for which ESF grant of £40,000 is expected to accrue in respect of eligible expenditure. This is included within the overall ESF grant income due for the year of £840,000. Residual expenditure in 2019/20 will be funded by provisional accumulated reserves of £1.33 million, as highlighted in Table 12 at paragraph 60 and through ESF grant accruing from eligible expenditure incurred.

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

13. Table 5 below summarises the provisional outturn position for TEC for 2018/19.

Table 5 – Provisional Outturn 2018/19 – Transport and Environment Committee

Actual 2017/18		Revised Budget 2018/19	Actual 2018/19	Variance 2018/19	
£000	Expenditure	£000	£000	£000	%
627	Non-operational Staffing	688	661	(27)	(3.9)
376	Running Costs	294	310	16	5.4
125	Central Recharges	111	84	(27)	24.3
1,128	Total Operating Expenditure	1,093	1,055	(38)	(3.5)
9,218	Direct Services	8,168	9,390	1,222	15.0
357,973	Payments in respect of Freedom Pass and Taxicard	358,748	356,110	(2,638)	(0.7)
36	Research	40	11	(29)	(72.5)
340	One off payment to boroughs	-	-	-	-
-	Debt write-off	-	-	-	-
368,695	Total Expenditure	368,049	366,566	(1,483)	(0.4)
	Income				
(358,988)	Contributions in respect of Freedom Pass and Taxicard	(358,885)	(356,993)	1,892	0.5
(10,523)	Charges for direct services	(8,573)	(10,829)	(2,256)	(26.3)
(97)	Core Member Subscriptions	(97)	(97)	-	-
(19)	Interest on Investments	-	(44)	(44)	-
(111)	Other Income	(75)	(106)	(31)	(41)
(478)	Net transfer to/(from Reserves	(419)	(419)	-	-
(370,216)	Total Income	(368,049)	(368,488)	(439)	(0.1)
(53)	Increase/(Reduction) in bad debt provision	-	183	183	-
(1,574)	Deficit/(Surplus)	-	(1,739)	(1,739)	-

14. In addition to the transactions detailed in Table 5 above, there are costs and income associated with the London European Partnership for Transport (LEPT), which is TfL/EU funded, and shown in table 6 below. The provisional outturn indicates there was a surplus of £21,000 largely as a result of a vacancy during the year. The surplus will be carried forward to be spent on future LEPT related activities.

Table 6 – Income and Expenditure relating to LEPT 2018/19

	£000
Employee Related Costs	65
Premises Costs	16
Running/Central Costs	20
Other Costs	18
Total Expenditure	119
Grant/Other Income	(140)
Deficit/(Surplus)	(21)

15. A provisional surplus on revenue activities of £1.739 million has been posted for 2018/19, the headlines of which are summarised in Table 7 below. This compares the position reported at the end of December 2018 (Month 9) and highlights the movement between the two positions.

Table 7 – TEC – Analysis of revenue account surplus 2018/19

	Outturn	M9	Movement
	£000	£000	£000
Freedom Pass non-TfL bus services	501	390	111
Freedom Pass survey and reissue costs (net of additional replacement Freedom Passes income)	302	268	66
Interest earned on investment of cash-balances	44	20	24
Research	29	3	26
Net position on Taxicard	-	-	-
Shortfall in replacement taxicard passes income	(4)	(5)	1
Net position on parking appeals	88	135	(47)
Net position on other traded parking services	88	61	27
London Tribunals Administration	14	32	(18)
Lorry Control Administration	120	136	(16)
Lorry Control PCNs	721	200	521
Freedom Pass Administration	(43)	(27)	(16)
Taxicard Administration	(45)	19	(64)
Non-operational staffing costs	27	10	11
Underspend on running costs/central recharges	24	167	(143)
Underspend on IT system developments	17	-	17
Net additional in Health Emergency Badge income	26	2	24
Miscellaneous Income	13	-	13
Reduction in Bad Debt provision	(183)	-	(183)
Provisional surplus for the year	1,739	1,411	328

16. The TEC Executive will be asked to carry forward balances amounting to £133,000 into 2019/20 (paragraphs 26 and 32 below refer). If this request is approved at its meeting on 18 July, the provisional surplus reduces to £1.606 million. An explanation for each of the variances is provided in subsequent paragraphs.

Freedom Pass non-TfL bus services (-£501,000)

17. In December 2017, TEC approved a budgetary provision of £1.5 million for 2018/19 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. This was made up of projected claims of £1.3m based on mid-year 2017/18 data plus a £200,000 contingency to cover potential new bus operators joining the scheme. Claims from operators amounting to £999,000 have been received and accepted for 2018/19, which has led to an underspend of £501,000, or 33%. This is broadly attributable to the following:

- A 13% fall in journey volumes largely as a result of the eligible age increase which has reduced the number of younger pass holders traveling longer distances;
- A 4% reduction in the projected average trip fare from £3.61 to an actual unit fare of £3.47; and
- A £200,000 or 13% underspend in relation to the contingency budget for potential additional operators not being utilised.

Net Freedom Pass survey and issue costs (-£302,000)

18. The budget for the freedom 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. For 2018/19, it also covered the cost of the mid-term review of pass eligibility. Total expenditure for 2018/19 was £1.529 million, of which £191,000 was spent on the mid-term review, leading to an overspend of £11,000. This slight overspend was in part due to a number of changes to the way the review was communicated compared to the previous mid-term reviews such as a higher calls to letters sent ratio, which should lead to savings in future periods. In addition, a sum of £1.029 million was collected during 2018/19 in respect of replacement Freedom Passes, £345,000 in excess of the £684,000 budgetary provision, which reduces by £32,000 to £313,000 once bank charges are taken into account. In net terms, therefore, there was a surplus of £302,000, which, in accordance with approved TEC 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 (-£44,000)

19. Cash-flow management undertaken at the City of London, who invest London Councils cash balances on behalf of boroughs, has yielded interest receipts of £44,000 against a zero budgetary provision.

Research Budget (-£29,000)

20. Expenditure on research of £10,825 was incurred during the year, against an approved budget of £40,000, resulting in an underspend of £29,000.

Taxicard (Net Nil)

21. Total payments to the contractor, City Fleet were £9.984 million, £2.254 million below the revised total budgetary provision of £12.238 million. There are two significant factors contributing to this underspend:

- The total number of trips taken during the year having decreased by 10.3% on the comparative figure for 2017/18; and

- A new contract being awarded to City Fleet during the financial year which resulted in the cost per trip decreasing by 10% for the final quarter of 2018/19.

22. Many of the borough budgets were higher than the required projected spend so underspending boroughs will be refunded. The net refund to the Boroughs is £1.979 million. TFL now pay in arrears, based on actual trip data from the preceding quarter. Payments received from TFL have therefore reduced in line with actual claims by £261,000 during the year. This is after taking in to account the management charge for LB of Barnet of £13,975 which TFL fund.

Income from the issue of replacement Taxicards (+£4,000)

23. A sum of £17,380 was collected against a full year budgetary provision of £21,000, leading to a £3,620 shortfall.

Traded Services (-£176,000)

24. The net surplus position of £176,000 is made up of a number of elements, which are regularly reviewed by 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 £1.372 million 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 £402,000, £49,000 more than the budgetary provision of £353,000. The number of appeals represented by corresponding financial transactions posted in the accounts during the year was 9,644, which is 1,844 more than the budgeted figure of 7,800. The throughput of appeals was calculated at 1.93 appeals per hour, compared to 2.37 per hour for 2017/18. 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 £49,000, which therefore has a zero effect on the Committee's provisional financial position for the year.

- Secondly, there is a net surplus of £99,000 in respect of environmental and traffic appeals. The number of appeals and statutory declarations represented by corresponding financial transactions posted in the accounts during the year was 42,721 against a budget of 41,278, generating income of £1.189 million, £24,000 more than the budget estimate of £1.165 million. In addition, there is an underspend of £66,000 in adjudicators costs and contractor costs of £10,000. The throughput of appeals was 3.54 appeals per hour, compared 3.66 appeals per hour for 2017/18.
- Thirdly, the transaction volumes for other parking systems used by boroughs and TfL continue to fluctuate overall, resulting in a projected net surplus of £68,000. On the expenditure side, this takes into account the pricing structure offered by Northgate and expenditure was £11,000 more than the £189,000 budget. On the income side, unit cost recharges to boroughs for 2018/19 were set by the full Committee in December 2017 and amounted to £578,000, £79,000 more than the £499,000 income target.

London Tribunals Administration (-£14,000)

25. The appeals Hearing Centre underspent the budget of £2.664 million by £14,000. There was a provisional underspend on ETA operations of £14,000, spread over various budgets primarily legal costs.

Lorry Control Administration/PCN income (-£841,000)

26. The administration of the London Lorry Control Scheme underspent the budget of £793,000 by £120,000. This is attributable to an underspend on general office costs of £29,000, an overspend of central recharge and staffing related costs of £25,000 and an underspend of £116,000 in respect of the review of LLC Scheme, £86,000 of which was a carried forward budget from 2017/18. The TEC Executive Sub-Committee will be asked to approve the carry forward of the underspend on the review of the LLC Scheme of £116,000 into 2019/20. Approximately £20,000 was spent in 2018/19 on the ANPR camera enforcement pilot with further developments planned for later this year.
27. There was, however, a significant overachievement in the collection of PCN income of £721,000 above the budgetary provision of £800,000. This was due to continued effective performance of the outsourced enforcement function leading to increased transaction volumes and higher levels of debt being raised and collected. Of the £1.521 million income due for the year, £333,000 has yet to be collected and has been registered with the County Court. The bad debt provision has been increased by £183,000 in respect of this outstanding

amount, in accordance with usual accounting practice. This increase on the bad debt provision therefore reduces the net surplus income to £538,000 for the year.

Freedom Pass Administration (+£43,000)

28. The administration of the freedom pass over spent the budget by £43,000, attributable to overspends on salary costs of £5,000, £31,000 on general office costs and £7,000 on central recharges.

Taxicard Administration (+£45,000)

29. The administration of the taxicard scheme overspent the budget by £45,000. Additional salary costs of £14,000 were incurred, along with additional central costs and general office costs of £15,000 respectively.

Non-Operational Staffing Costs (-£27,000)

30. The non-operational employee cost budget of £688,000, including £19,000 for member's allowances plus £30,000 maternity cover, underspent by £27,000 at £661,000. This is primarily attributable to the maternity cover budget not being fully used, together with 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.

Running Costs/Central Recharges (+£24,000)

31. This overspend is the net effective of an overspend of £64,000 for grossed up bank charges (offset by commensurate additional income), an underspend on central recharges of £27,000 and a number of other small underspends within supplies and services.

IT Systems Developments (-£17,000)

32. The budgetary provision of £50,000 was allocated in 2018/19 for IT developments in respect of London Tribunals systems. This budget was supplemented by the carry forward of unspent budget of £44,000 from 2017/18, as approved by this Committee in July 2018, making a total budgetary provision of £94,000 for the year. Expenditure of £77,000 has been incurred during 2017/18, leading to an underspend of £17,000. The TEC Executive Sub-Committee will be asked to approve that this amount be carried forward into 2019/20 to continue the development work.

Other income (-£39,000)

33. Other income exceeded the budget by £39,000, largely as a result of income from hosting the GULCS project of £10,000 and additional income for Health Emergency Badge sales of £26,000:

Bad Debts provision (+£183,000)

34. The Committee's bad debt provision as at 1 April 2018 was £86,000, of which £84,000 related to Lorry Control PCNs that had been registered at the County Court but which were unpaid at 31 March 2018. A review of the aged debts at the year-end has resulted in a revised year-end provision of £268,000, £267,000 of which relates to Lorry Control PCN income, an increase of £183,000, as highlighted in paragraph 26. The remaining £1,000 relates to other parking debt, in accordance with London Councils accounting policies, no change on the provision for 2017/18.

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 2018/19– Joint Committee

Actual 2017/18		Revised Budget 2018/19	Actual 2018/19	Variance 2018/19	
£000	Expenditure	£000	£000	£000	%
3,948	Employee Costs	4,349	4,139	(210)	(4.8)
3,039	Running Costs	3,243	3,047	(196)	(6.0)
296	Central Recharges	187	190	3	1.6
7,283	Total Operating Expenditure	7,779	7,376	(403)	(5.2)
17	European Service Contract	-	-	-	-
154	Improvement and Efficiency	240	22	(218)	(90.8)
333	Research and Commissioning	575	478	(97)	(16.9)
24	Challenge Implementation Fund	525	208	(317)	(60.4)
42	YPES Regional Activities	50	51	1	2
330	One-off payment to boroughs	-	-	-	-
8,183	Total Expenditure	9,169	8,135	(1,034)	(11.3)
	Income				
(96)	Income for direct services	(101)	(103)	(2)	(2.0)
(5,149)	Core Member Subscriptions	(5,152)	(5,134)	18	(0.3)
(180)	Borough contribution towards YPES payments	(180)	(180)	-	-
(326)	Borough contribution towards LCP payments	(496)	(331)	165	33.3
(15)	Government Grants	-	-	-	-
(59)	Interest on Investments	(75)	(111)	(36)	48.0
(169)	Other Income	(189)	(533)	(344)	(182.0)
(2,079)	Central Recharges	(1,969)	(1,902)	67	3.4

(1,542)	Transfer from Reserves	(1,007)	(1,007)	-	-
(9,615)	Total Income	(9,169)	(9,301)	(132)	(1.4)
-	Increase/(Reduction) in bad debt provision	-	-		
(1,432)	Deficit/(Surplus)	-	(1,166)	(1,166)	-

36. A provisional surplus on revenue activities of £1.166 million has been posted for 2018/19, the main constituents of which are explored in the paragraphs below.

Expenditure

Employee Costs (-£210,000)

37. Employee costs underspent by £210,000, split between the following areas:

- £150,000 on officer salary costs, primarily due to staff turnover and holding off recruiting to certain vacant posts during the period;
- £50,000 in respect of the maternity cover provision not used during the year; and
- £10,000 in respect of unspent provision for member allowances.

Running Costs (-£196,000)

38. The running cost underspend reflects a number of under and overspends across a large range of functions. Certain spend has been offset by additional income that has accrued during the year, as noted in paragraph 44, and some expenditure has been recharged to other funding streams and funded projects. These particular areas are highlighted below:

- Expenditure on the annual Homelessness Award amounted to £22,000, which is matched by additional income of £22,000 reflected in other income at paragraph 44;
- Expenditure in respect of the London Summit totalled £24,000, offset by additional income of £20,000 as detailed in other income at paragraph 44. The £4,000 deficit was met by the Communications discretionary budget;
- Consultants fees of £9,000 in respect of providing GLEF/ Regional Employers related training courses, which has raised additional income of £25,000, as detailed in paragraph 44;
- Reduction on premises related expenditure of £91,000, largely as a result of smoothing of the Southwark Street rent free period across the lease, and savings on energy costs compared to the original budget;
- £89,000 underspend on the depreciation charge for 2018/19 compared to the original budget of £204,000;
- A net underspend of £6,000 on indirect staff budgets such as recruitment costs and training; and
- £13,000 saving across various Service Level Agreements London Councils has in place.

Improvement and Efficiency work (-£218,000)

39. This relates to the funding of former Capital Ambition performance and procurement legacy projects that the Leaders' Committee agreed to continue in December 2011. These are managed via a variety of borough networks, the budget for which in 2018/19 was initially £265,000 but reduced in the year by £25,000 to cover a staffing restructure. Work has continued on the Information Security for London (ISfL) network project during 2018/19 resulting in a cost of £22,000. This budget will be used to fund London Councils contribution to LOTI from 2019/20.

Commissioning (-£97,000)

40. Expenditure on commissioning and other priority work amounted to £478,000 for the year, leading to an underspend of £97,000 against the revised budget of £575,000. This budget is subject to developing proposals and is often impacted upon by the timing of commissioning work, the result of which has been an underspend in 2018/19.

Challenge Implementation Fund (-£317,000)

41. Expenditure charged to the CIF revenue budget during 2018/19 amounted to £208,000. In accordance with the decision of the Leaders' Committee in December 2018 in setting the revenue budget for 2019/20, the underspend, replenished by uncommitted joint committee reserves, will be rolled into 2019/20, to make the available budget £525,000. In addition to the revenue expenditure noted in table 8 above, capital expenditure on CIF relates projects amounted to £266,000. These capitalised costs will be depreciated over the life of the respective assets.

Income

Contributions towards London Care Placements (£165,000)

42. Actual contributions received from boroughs and other subscribers including amounts received in advance from 2017/18 amounted to £714,000 and, therefore, exceeded the budgeted target of £496,000 by £218,000. However, as actual LCP spend amounted to £332,000 for the year, income of £382,000 has been treated as a receipt in advance and carried forward into 2019/20, leaving a deficit in the accounts of £165,000 against the income target.

Interest on Investments (+£36,000)

43. Investment income on joint committee reserves raised £111,000 for the year, £36,000 ahead of the budget estimate of £75,000. This is due to higher returns being received compared to returns anticipated when setting the budget along with stable cash balances being maintained throughout the year.

Other Income (-£344,000)

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

- Income in respect of the London Summit (£20,000) and the Homelessness Award (£22,000), as detailed in paragraph 38 above.;
- Additional income of £79,000 for the letting of meeting room facilities at Southwark Street;
- Contributions recognised from externally funded projects of £200,000 to support of London Councils partnerships working;
- Additional Income of £25,000 for GLEF/Regional Employers related courses and other associated work, offset by the cost of consultants engaged to deliver some of the courses of £9,000, leading to net additional income of £16,000 (refer paragraph 38 above); and
- £9,000 in miscellaneous income.

45. The additional income in paragraph 44 above is offset by a deficit £11,000 in publications and other communications income.

Central Recharge Income (+£67,000)

46. A reduction in central recharge income has been recorded in 2018/19 of £67,000 primarily due to a reduction of £89,000 in respect of income from tenants offset by other small additional income due to changes in occupancy and/or actual consumption of supplies and services.

External Projects

47. Not included in the figures detailed in Table 8 are transactions of £2.187 million relating to work or projects financed by external bodies, which have no effect of the bottom-line position. These include:

- The ESF Borough funded commissions, amounting to £1,186,000, which fall under the purview of the Joint Committee rather than the Grants Committee;
- A range of health, child protection and worklessness projects funded by the MPS/ SFA / DfES of £223,000;

- Capital Ambition Programme Office and residual project costs, including London Ventures, of £484,000;
- Various smaller projects, amounting to £294,000, which includes projects under the purview of the London Housing Directors group (£147,000), the London Leadership Programme (£83,000) and the London Environment Directors Network (£63,000).

48. A provision against uncommitted reserves of £285,000 has been established in respect of the prospect of not fully recovering all administration costs in respect of the current ESF borough funded commissions. During the course of the external audit, KPMG may indicate that this sum should be fully reflected in the final outturn figures for the year. On that basis, it is prudent to establish a further provision to cover potential shortfalls in claiming ESF grants and borough contributions in respect of administration costs for the current programme. A review of balances held in respect of previous ESF programmes will be carried out to identify funds that can offset any actual loss incurred. Measures introduced during 2017/18 and 2018/19 to support this work include the recruitment of an ESF technical advisor and a restructuring of the existing administration team to best support delivery of the programme and deliver efficiencies in terms of reduced costs. This indicative provision has, therefore, been reflected in the Joint Committees short term reserves position and is included in Tables 12 and 13 at paragraphs 60-61.

Balance Sheet as at 31 March 2019

49. The provisional consolidated balance sheet position as at 31 March 2019 is shown in Table 9 below, compared to the audited position for 2017/18:

Table 9 – Balance Sheet Comparison 2018/19 and 2017/18

	As at 31 March 2019 (£000)	As at 31 March 2018 (£000)
Fixed Assets	1,324	1,255
Current Assets	24,446	23,295
Current Liabilities	(9,392)	(9,756)
Long-term Liabilities	(27,992)	(29,027)
Total Assets less Liabilities	<u>(11,614)</u>	(14,233)
Represented by:		
General Fund	11,759	10,810
Specific Funds	3,251	3,111
Pension Fund	(26,483)	(28,019)
Accumulated Absence Fund	<u>(141)</u>	(135)
	<u>(11,614)</u>	(14,233)

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

- Fixed assets have increased by £69,000 to £1.324 million from £1.255 million. The increase is attributable to expenditure of £285,000 on the acquisition of assets offset by the annual depreciation charge of £216,000;
- Current assets have increased by £1.151 million to £24.446 million from £23.295 million, which is attributable to an increase of £1.694 million in debtors offset by a £543,000 decrease in cash balances. The increase in debtors is due to:
 - an increase of £968,000 in respect of amounts owed by TfL for the Taxicard scheme;
 - an increase of £900,000 in respect of ESF match funded grant;
 - an increase of £423,000 in respect of advance payments to Northampton County Court for the registration of debts;
 - a decrease of £304,000 in respect of advance payments to ESF commissions; and
 - a decrease in residual variances of £293,000;
- Current liabilities have decreased by £364,000 to £9.392 million from £9.756 million which is attributable to:
 - a decrease of £527,000 in respect of premises costs;
 - a decrease of £358,000 in respect of Capital Ambition balances;
 - a decrease of £291,000 in respect of an overpayment to be refunded to a member borough;
 - a decrease of £273,000 in respect of deferred income for externally funded projects;
 - a decrease of £271,000 in respect of amounts owed to CityFleet the Taxicard contractor;
 - an increase of £1.137 million in respect of borough Taxicard budget refunds;
 - an increase of £336,000 in respect of the ICT transformation programme; and
 - a decrease in residual variances of £117,000;
- Long term liabilities have decreased by £1.035 million to £27.992 million from £29.027 million which is attributable to a decrease of £1.536 million in the value of the IAS19 pension deficit offset by an increase of £501,000 in respect of long-term provisions and creditors on property leases; and

- The above movements have resulted in an overall increase in reserves to a negative balance of £11.614 million as at 31 March 2019, inclusive of the IAS19 deficit (which is explored from paragraph 52 onwards) and the balance on the accumulated absences reserve.

Effect of IAS19 Employee Benefits

51. 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 pension 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).
52. 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.
53. 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.
54. 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.
55. 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 2018 was £28.019 million. The deficit on the Pension Fund as at 31 March 2019, as determined from the latest valuation undertaken by the actuary, is £26.483 million, a reduction of £1.536 million.

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

57. Table 9 clearly demonstrates, therefore, that the Committee's provisional reserves of £15.01 million as at 31 March 2019 are notionally reduced by £26.483 million as a result of the requirement to fully disclose the pension fund deficit on the balance sheet. Future reviews of the employers pension contribution rate are intended, over time, to reduce the overall deficit and the provisional balance on reserves is not a potential call on funding the pensions fund deficit. The London Councils' external auditor, KPMG LLP 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

58. Inclusive of the IAS19 Pension and the Accumulated Absence Reserves, the pre-audited overall position on the Committee's Reserves as at 31 March 2019 is detailed in Table 10:

Table 10 – Overall London Councils Reserves as at 31 March 2019

	General Reserve (£000)	Specific Reserve (£000)	Pension Fund (£000)	Accumulated Absences (£000)	Total (£000)
Audited balance at 1 April 2018	10,810	3,111	(28,019)	(135)	(14,233)
Transfer (to)/from Revenue Account	(2,106)	-	(1,902)	(6)	(3,924)
Transfer between reserves	(140)	140	-	-	-
Movement on Pension Fund Reserve	-	-	3,438	-	3,438
(Deficit)/Surplus for Year	3,105	-	-	-	3,105
Provisional Balance at 31 March 2019	11,759	3,251	(26,483)	(141)	(11,614)

59. The pre-audited position on the Committee's Reserves as at 31 March 2019, 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 2019

	Transport and Environment Committee (£000)		Joint Committee (£000)	Grants Committee (£000)		Total (£000)
	General	Specific	General	S.48	ESF	
Total audited reserves at 1 April 2018	3,060	3,111	5,307	523	1,920	13,921
Resources committed in 2018/19	(289)	-	(1,007)	-	(590)	(1,886)
Approved reserves c/f into 2018/19	(130)	-	-	-	-	(130)
In year transfer between reserves	(140)	140	-	-	-	-
Provisional (deficit)/surplus for 2018/19	1,437	302	1,166	200	-	3,105
Provisional reserves as at 31 March 2019	3,938	3,553	5,466	723	1,330	15,010

60. Table 12 below details the current level of commitments arising from the current and future financial years of £4.781 million and highlights the residual forecast level of uncommitted reserves available:

Table 12– Residual balances after Current Commitments

	Transport and Environment Committee (£000)	Joint Committee (£000)	Grants Committee (£000)	Total (£000)
Estimated General Reserves at 31 March 2019	3,938	5,466	723	10,127
Estimated Specific/ESF reserves at 31 March 2019	3,553	-	1,330	4,883
Provisional reserves at 31 March 2019	7,491	5,466	2,053	15,010
Committed in setting 2019/20 budget	(187)	(1,354)	-	(1,541)
Balances c/f into 2019/20	(133)	(50)	-	(183)
Potential ESF grants commitments in 2019/20 -2020/21	-	-	(1,330)	(1,330)
Provisional other commitments in 2019/20 -2021/22	(1,242)	(485)	-	(1,727)
Uncommitted reserves	5,929	3,577	723	10,229

61. The current level of commitments from reserves, as detailed in Table 12, of £4.781 million over the short-to-medium term are detailed in Table 13 below:

Table 13– Commitments from Reserves

	2019/20	2020/21	2021/22	Total
	£000	£000	£000	£000
Approved resources b/f from 2018/19	183	-	-	183
Approved transfer from JC general reserves	729	-	-	729
Approved transfer from TEC general reserves	187	-	-	187
S.48 residual ESF grants funded commissions	1,330	-	-	1,330
Challenge Implementation Fund	525	-	-	525
Support to the health transition process	100	100	100	300
2020 Freedom Pass reissue	492	-	-	492
TEC priority projects	750	-	-	750
Provision for Borough ESF Programme	285	-	-	285
Totals	4,581	100	100	4,781

Conclusions

62. Tables 12 and 13 show that the approved use of reserves over the three-year period 2019/20 to 2021/22 is forecast to reduce the overall projected level of reserves by £4.781 million from £15.010 million to £10.229 million. A brief commentary on the financial position of each of the three funding streams is provided below:

- Grants Committee – The £46,000 movement for the Grants Committee is largely due to an underspend on employee and central recharge costs. Provisional reserves of £723,000 remain after allowing for potential ESF commitments of £1.33 million during 2019/20 in respect of the current ESF programme. This equates to 10.84% of on-going borough funded commissions of £6.668 million, above the 3.5% benchmark established by the Grants Committee in 2013. The Grants Committee is currently considering options for the use of these reserves, which will be presented to the Leaders' Committee for approval in July 2019.
- TEC – The £328,000 movement for TEC is highlighted in Table 7 and explored in detail in the analysis of actual income and expenditure against the approved budgets in paragraphs 17-34 below and is mainly due to an increase in Lorry Control PCN income which outperformed the income budget by £721,000 due to continued effective performance of the outsourced enforcement function. Provisional residual general reserves of £3.618 million equates to 28.3% of operating and trading expenditure of £12.778 million for 2018/19, which exceeds the upper limit of the 10%-15% benchmark established by TEC in 2015. TEC will be considering options for the use of reserves during the course of this autumn as part of the budget setting process; and

- Joint Committee - The £168,000 movement for the Joint Committee is primarily due to an increase in the salaries underspend of £39,000, an increase underspend on adjusted running costs of £139,000. Provisional residual reserves of £3.577 million remain after considering all current known commitments up to 2021/22.

Summary

63. This report summarises the provisional pre- audited consolidated financial position for London Councils for the 2018/19 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 2019/20 and beyond.

Recommendations

64. The Executive is asked:

- To note the provisional consolidated outturn position of a surplus of £3.105 million for 2018/19 and the provisional outturn position for each of the three funding streams;
- To note the carry forward of £133,000 into 2019/20 in respect of TEC system developments (£17,000) and the review of the London Lorry Control scheme (£116,000), subject to final approval by the TEC Executive on 18 July;
- To note the provisional level of reserves of £15.010 million as at 31 March 2019 (paragraphs 58-59), which reduces to £10.229 million once known commitments of £4.781 million are considered (paragraphs 60-61);
- To note the updated financial position of the London Councils as detailed in paragraph 62 of this report; and
- To agree to receive a further report in November 2019 after the completion of the external audit by KPMG LLP to adopt the final accounts for 2018/19. The final accounts will be signed off at the meeting of the Audit Committee on 18 September 2019, during which KPMG LLP will formally present the Annual Audit Report for approval.

Background Papers

Final Accounts Working Papers File 2018/19;
Budget Monitoring Working Papers File 2018/19;
Budget Working Papers Files 2018/19 and 2019/20.