

London Councils Executive

London Councils – Consolidated Pre- Audited Financial Results 2019/20

Item no: 7

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Summary: This report highlights the pre-audited consolidated financial position for London Councils for the 2019/20 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 2020 are also shown, together with overall conclusions and prospects for 2020/21 onwards, after considering known commitments. The provisional revenue outturn and reserves position is summarised as follows:

Revenue Account (£000)	Revised Budget	Actual	Variance
Total Expenditure	381,774	380,918	(856)
Total Income	(379,918)	(380,366)	(448)
Use of reserves	(1,856)	(3,038)	(1,182)
Bad Debts provision	-	(133)	(133)
Net Deficit/(Surplus)	-	(2,619)	(2,619)
General and Specific Reserves (£000)	General Reserve	Specific Reserve	Total
As at 1 April 2019	9,843	4,883	14,726
Transfer (to)/from revenue	(1,674)	(1,364)	(3,038)
Provisional Surplus for the Year	2,323	296	2,619
As at 31 March 2020	10,492	3,815	14,307

Recommendations: The Executive is asked:

- To note the provisional consolidated outturn surplus of £2.619 million for 2019/20 and the provisional outturn position for each of the three funding streams;

- To agree the carry forward of £452,000 into 2020/21 in respect of the Challenge Implementation Fund (CIF);
- To note the carry forward of £91,000 into 2020/21 in respect of TEC London Lorry Control scheme review, subject to final approval by the TEC Executive on 16 July;
- To note the provisional level of reserves of £14.307 million as at 31 March 2020 (paragraphs 58-59), which reduces to £9.743 million once known commitments of £4.564 million are considered (paragraphs 59-60);
- To note the updated financial position of London Councils as detailed in paragraph 62 of this report; and
- To agree to receive a further report in November 2020 after the completion of the external audit by Grant Thornton LLP (GT) to adopt the final accounts for 2019/20. The final accounts will be signed off at the meeting of the Audit Committee on 17 September 2020, at which GT will formally present the Annual Audit Report for approval.

London Councils – Consolidated Pre-Audited Final Results 2019/20

Executive Summary

1. The provisional revenue outturn for 2019/20, split across London Councils three funding streams is as follows:

	Grants	TEC	Joint	Consolidated
	£000	£000	£000	£000
Total Expenditure	7,515	365,308	8,095	380,918
Total Income	(7,357)	(364,281)	(8,728)	(380,366)
Use of Reserves	(256)	(1,428)	(1,354)	(3,038)
Bad Debts provision	-	(133)	-	(133)
Surplus	(98)	(534)	(1,987)	(2,619)

2. Once figures relating to potential carried forward amounts are considered, the headline surplus of £2.619 million reduces to £2.076 million, as follows:

	Grants	TEC	Joint	Consolidated
	£000	£000	£000	£000
Surplus for the Year	(98)	(534)	(1,987)	(2,619)
TEC balances c/f	-	91	-	91
Joint Committee c/f	-	-	452	452
Adjusted underlying Surplus	(98)	(443)	(1,535)	(2,076)

3. The provisional level of reserves for each funding stream as at 31 March 2020 is as follows:

	Grants	TEC	Joint	Consolidated
	£000	£000	£000	£000
Audited Reserves at 1 April 2019	2,051	7,489	5,186	14,726
Transfer (to)/from Revenue	(256)	(1,428)	(1,354)	(3,038)
Provisional surplus/ (deficit) for the Year	98	534	1,987	2,619
Provisional Reserves at 31 March 2020	1,893	6,595	5,819	14,307

4. However, once all potential and known commitments of £4.564 million are considered, the estimated level of uncommitted reserves reduces to £9.743 million, as follows:

	Grants	TEC	Joint	Consolidated
	£000	£000	£000	£000
Provisional Reserves at 31 March 2020	1,893	6,596	5,819	14,307
Underspends c/f into 2020/21	-	(91)	(452)	(543)
Committed in setting 2020/21 budget	-	(579)	(400)	(979)
Reinvestment of surplus S.48 ESF reserves	(1,074)	-	-	(1,074)

Other provisional commitments to 2021/22	-	(1,596)	(372)	(1,968)
Uncommitted Reserves	819	4,330	4,595	9,743

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	(36)	(299)	(1,133)	(1,468)
Forecast at Month 6	(40)	(595)	(1,155)	(1,790)
Forecast at Month 9	(21)	(743)	(1,531)	(2,295)
Provisional Outturn	(98)	(534)	(1,987)	(2,619)
Movement between M9 and provisional outturn	(77)	209	(456)	(324)

6. The £77,000 movement for the Grants Committee is largely due to an increased underspend on employee and central recharge costs.
7. The £209,000 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 central recharges and general running costs.
8. The £456,000 movement for the Joint Committee is due to further savings on staffing and general running costs along with an additional underspend on the commissioning budget.
9. Overall estimated uncommitted reserves of £9.743 million compares to £10.229 million 12 months ago. However, the previous year's figure included a provision for the £1.108 million spent during 2019/20 on the 2020 bulk Freedom Pass issue exercise. If this one-off expenditure is excluded; the estimated current position is some £600,000 better than the comparative position at the end of 2018/19. This leaves the organisation in a strong position to meet the financial challenges currently faced by the Covid-19 crisis, which will impact during the current financial year. Brief commentary on the estimated financial effects of the Covid-19 crisis on each of London Council's three funding streams is included at paragraph 61.
10. The actual financial results and the actual level of reserves will be confirmed during the external audit of the 2019/20 accounts, which will be undertaken by Grant Thornton 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 17 September 2020 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. Grant Thornton LLP will audit the accounts for 2019/20 during July/August 2020 and present the accounts to the Audit Committee, along with the annual audit report, on 17 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 2019/20 was £382.765 million, as agreed by the Leaders' Committee in December 2018. The corresponding revised revenue income budget was £381.041 million, with the budget balanced by the approved transfer of £1.724 million from reserves.
3. After a number of adjustments, gross budgeted expenditure was revised to £381.775 million, with a further £133,000 transferred from reserves for the year. The revised budget is shown in Table 1 below:

Table 1 – Revised budget 2019/20

	£000
Original Expenditure budget	382,765
Reduction to Rail Delivery Group Settlement	(503)
Plus carried forward funding: TEC IT system developments and London lorry control review costs	133
Less adjustment to Taxicard provider budget	(620)
Total Expenditure	381,775
Funded by:	
Original Income budget	(382,765)
Reduction in Borough Contribution to Rail Delivery Group	503
Plus approved additional transfer from reserves	(133)
Less reduction in Taxicard funding from boroughs/TfL	620
Total Funding	(381,775)
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 2019/20, including the effect of IAS19 Retirement Benefits (Table 9); and
 - The provisional position on London Councils reserves as at 31 March 2020, 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 actual external audit of the accounts by Grant Thornton LLP. This may be more apparent this year, given that these results were compiled remotely during the lockdown period. 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 2019/20

2018/19 Actual		2019/20 Revised Budget	2019/20 Actual	2019/20 Variance	
£000	Expenditure	£000	£000	£000	%
5,093	Employee Costs	5,742	5,381	(361)	(6.3)
3,377	Running Costs	3,563	3,487	(76)	(2.1)
426	Central Recharges	491	845	354	72.1
8,896	Total Operating Expenditure	9,796	9,713	(83)	(0.8)
9,390	Direct Services	9,221	10,437	1,216	13.2
-	European Services contract	-	-	-	-
356,110	Payments in respect of Freedom Pass and Taxicard	355,105	353,291	(1,814)	(0.5)
6,093	Borough commissioned services	6,173	6,149	(24)	(0.4)
1,599	ESF commissioned services	102	828	726	711.8
60	Contribution to London Funders	60	60	-	-
-	One-off borough payment	-	-	-	-
22	Improvement and Efficiency	201	122	(79)	(39.3)
478	Research and Commissioning	542	218	(324)	(59.8)
208	Challenge Implementation Fund	525	73	(452)	(86.1)
51	YPES Regional Activities	50	27	(23)	46.0
-	Debt write-off	-	-	-	-
382,918	Total Expenditure	381,775	380,918	(857)	(0.2)
	Income				

(356,993)	Contributions in respect of Freedom Pass and Taxicard	(355,254)	(352,915)	2,339	0.7
(6,476)	Borough contributions towards commissioned services	(6,173)	(6,382)	(209)	(3.4)
(10,932)	Charges for direct services	(9,789)	(11,274)	(1,485)	(15.2)
(5,726)	Core Member Subscriptions	(5,744)	(5,726)	18	(0.3)
(180)	Borough contributions towards YPES	(180)	(180)	-	-
(331)	Borough contribution towards LCP payments	(496)	(390)	106	21.4
(840)	Government grants	(58)	(471)	(413)	(712.1)
(171)	Interest of Investments	(75)	(121)	(46)	(61.3)
(337)	Other Income	(285)	(434)	(149)	(52.3)
(1,902)	Central Recharges	(1,864)	(2,473)	(609)	(32.7)
(1,732)	Transfer from Reserves	(1,857)	(3,038)	(1,181)	(63.6)
(385,620)	Total Income	(381,775)	(383,404)	(1,629)	(0.4)
183	Increase/(Reduction) in bad debt provision	-	(133)	(133)	-
(2,519)	Deficit/(Surplus)	-	(2,619)	(2,619)	-
	Applied to Funding Streams				
(198)	Grants Committee	-	(98)	(98)	-
(1,435)	Transport and Environment Committee	-	(534)	(534)	-
(886)	Joint Committee Services	-	(1,987)	(1,987)	-
(2,519)	Deficit/(Surplus)	-	(2,619)	(2,619)	-

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 2019/20.

Table 3 – Provisional Outturn 2019/20 – Grants Committee

2018/19 Actual		2019/20 Revised Budget	2019/20 Actual	2019/20 Variance	
£000	Expenditure	£000	£000	£000	%
286	Employee Costs	328	276	(52)	(15.9)
29	Running Costs	19	30	11	57.9
152	Central Recharges	227	172	(55)	(24.2)
467	Total Operating Expenditure	574	478	(96)	(16.7)
6,093	Borough commissioned services	6,173	6,149	(24)	(0.4)
60	Membership fees to London Funders	60	60	-	-
1,599	ESF commissions	102	828	726	71.2

2018/19 Actual		2019/20 Revised Budget	2019/20 Actual	2019/20 Variance	
8,219	Total Expenditure	6,909	7,515	606	8.8
	Income				
(6,476)	Borough contributions towards commissioned services	(6,173)	(6,382)	(209)	(3.4)
(495)	Borough contributions towards the administration of commissions	(495)	(495)	-	-
(840)	ESF Grant	(58)	(471)	(413)	(712.1)
(16)	Interest on Investments	-	(9)	(9)	-
(590)	Transfer from Reserves	(183)	(256)	(73)	(47.5)
(8,417)	Total Income	(6,909)	(7,613)	(704)	(10.2)
-	Increase/(Reduction) in bad debt provision	-	-	-	-
(198)	Deficit/(Surplus)	-	(98)	(98)	-

9. The provisional surplus of £98,000 compares to a forecast surplus of £21,000 at the month 9 stage of the year, as reported to the Grants Committee in February 2020. 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 final year of activity of the S.48 ESF/borough matched funded commissions (priority 3). The provisional surplus of £98,000 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 2019/20

	S.48 borough £000	ESF/borough £000	Total £000
Payments for commissioned services	6,149	828	6,977
Plus contribution to London Funders Group	60	-	60
Sub-Total	6,209	828	7,037
Plus LC grants administration	370	108	478
Plus repayments to boroughs	-	-	-
Sub-Total	6,579	936	7,515
Less Borough subscriptions	(6,668)	(209)	(6,877)
Less ESF grants income	-	(471)	(471)
Less investment income	(9)	-	(9)
Less transfer from reserves	-	(256)	(256)
Deficit/(Surplus) for the year	(98)	-	(98)

10. For the S.48 borough funded services, a provisional underspend of £24,000 has been recorded in respect of the payments to providers of commissioned services. As reported during the month 9 forecast report, the majority of the underspend relates to a reduction in

payments made to St Mungo Community Housing Association of £22,000 along with amount being held back of £2,000 due to the fact work is still ongoing. 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 £74,000 in relation to the administration of the S.48 commissions, attributable to:

- an underspend of £39,000 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 £11,000 for general running costs including central recharges; and
- an additional sum of £9,000 from investment income has been received on Committee reserves, not previously budgeted for.

12. For the S.48 ESF/borough matched funded commissions, the programme completed on 30 June 2019, subject to finalisation of claims throughout the year. Payments to providers of £828,000 have been recognised in the 2019/20 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, the remaining £209,000 of deferred income in respect of advance payments to commissioned services being held from previous borough contributions can be recognised as income in the provisional results for the year, along with £256,000 of borough contributions received before 2019/20 and held in reserves. Administrative costs, estimated to be in the region of £108,000, have been incurred in respect the programme. The provisional accumulated reserves of £1.074 million, as highlighted in Table 12 at paragraph 59 will be used to fund the No Recourse to Public Funds programme as agreed by members in March 2020.

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

13. Table 5 below summarises the provisional outturn position for TEC for 2019/20.

Table 5 – Provisional Outturn 2019/20 – Transport and Environment Committee

Actual 2018/19		Revised Budget 2019/20	Actual 2019/20	Variance 2019/20	
£000	Expenditure	£000	£000	£000	%
661	Non-operational Staffing	716	708	(8)	(1.1)

Actual 2018/19		Revised Budget 2019/20	Actual 2019/20	Variance 2019/20	
312	Running Costs	271	359	88	32.5
84	Central Recharges	77	513	436	566.2
1,057	Total Operating Expenditure	1,064	1,580	516	48.5
9,390	Direct Services	9,221	10,437	1,216	13.2
356,110	Payments in respect of Freedom Pass and Taxicard	355,105	353,291	(1,814)	(0.5)
11	Research	40	-	(40)	-
-	One off payment to boroughs	-	-	-	-
-	Debt write-off	-	-	-	-
366,568	Total Expenditure	365,430	365,308	(122)	(0.0)
	Income				
(356,993)	Contributions in respect of Freedom Pass and Taxicard	(355,254)	(352,915)	2,339	0.7
(10,829)	Charges for direct services	(9,688)	(11,175)	(1,487)	(15.3)
(97)	Core Member Subscriptions	(97)	(97)	-	-
(44)	Interest on Investments	-	(40)	(40)	-
(106)	Other Income	(71)	(54)	17	23.9%
(117)	Net transfer to/(from Reserves	(320)	(1,428)	(1,108)	(346.3)
(368,186)	Total Income	(365,430)	(365,709)	(279)	(0.1)
183	Increase/(Reduction) in bad debt provision	-	(133)	(133)	-
(1,435)	Deficit/(Surplus)	-	(534)	(534)	-

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 £34,000 largely as a result of a carried forward balance from 2018/19. The surplus will be carried forward to be spent on future LEPT related activities.

Table 6 – Income and Expenditure relating to LEPT 2019/20

	£000
Employee Related Costs	77
Premises Costs	23
Running/Central Costs	47
Other Costs	9
Total Expenditure	156
Grant/Other Income including c/f	(189)
Deficit/(Surplus)	(34)

15. A provisional surplus on revenue activities of £534,000 has been posted for 2019/20, the headlines of which are summarised in Table 7 below. This compares the position reported at the end of December 2019 (Month 9) and highlights the movement between the two positions.

Table 7 – TEC – Analysis of revenue account surplus 2019/20

	Outturn	M9	Movement
	£000	£000	£000
Freedom Pass non-TfL bus services	333	300	33
Freedom Pass survey and reissue costs (net of additional replacement Freedom Passes income)	333	522	(189)
2020 Freedom Pass Renewal (funded by Specific reserves, see below)	(1,108)	-	(1,108)
Interest earned on investment of cash-balances	40	48	(8)
Research	40	35	5
Shortfall in replacement taxicard passes income	(9)	(9)	-
Net position on parking appeals	(73)	64	(137)
Net position on other traded parking services	164	6	158
Net position on London Tribunals Administration	(61)	(16)	(45)
Lorry Control Administration	100	38	62
Lorry Control PCNs	144	200	(56)
Freedom Pass Administration	(27)	(33)	6
Taxicard Administration	(8)	10	(18)
Non-operational staffing costs	7	(2)	9
Overspend on running costs/central recharges	(564)	(428)	(136)
Underspend on IT system developments	-	-	-
Net additional in Health Emergency Badge income	9	8	1
Miscellaneous Income	(27)	-	(27)
Reduction in Bad Debt provision	133	-	133
Specific Reserve to cover the 2020 Freedom Pass renewal	1,108	-	1,108
Provisional surplus for the year	534	743	(209)

16. The TEC Executive will be asked to carry forward balances amounting to £91,000 into 2020/21 (paragraphs 27). If this request is approved at its meeting on 16 July, the provisional surplus reduces to £443,000. An explanation for each of the variances is provided in subsequent paragraphs.

Freedom Pass non-TfL bus services (-£333,000)

17. In December 2018, TEC approved a budgetary provision of £1.3 million for 2019/20 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 £1.1m based on mid-year 2018/19 data plus a £200,000 contingency to cover potential new bus operators joining the scheme. Claims from operators amounting to £967,000 have been received and accepted for 2019/20, which has led to an underspend of £333,000, or 25.6%, which reflects a lower take up of new bus operators compared to the contingent element of the budget along with a fall in journeys and the withdrawal of one operator from January 2020.

Net Freedom Pass survey and issue costs (-£333,000)

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. Total expenditure for 2019/20 was £1.420 million, an underspend of £98,000. In addition, a sum of £985,000 was collected during 2019/20 in respect of replacement Freedom Passes, £235,000 in excess of the £750,000 budgetary provision, which reduces by £37,000 to £198,000 once bank charges are taken into account. In net terms, therefore, there was a surplus of £296,000, which, in accordance with approved TEC practice, will be transferred from the provisional surplus to the specific reserve created to fund future freedom pass renewal processes.

Freedom Pass 2020 Freedom Pass Renewal (Net Nil)

19. During 2019/20 the 2020 freedom pass renewal process took place; the largest London Councils has undertaken since 2015. The total cost recognised during 2019/20 equated to £1.108 million, which was funded by a transfer from the specific reserve built up from previous underspends and surplus replacement pass income as detailed in paragraph 18.

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

20. Cash-flow management undertaken at the City of London, who invest London Councils cash balances on behalf of boroughs, has yielded interest receipts of £40,000 against a zero budgetary provision.

Research Budget (-£40,000)

21. No expenditure on research was recorded in 2019/20 against an annual budget of £40,000.

Taxicard (Net Nil)

22. Total payments to the contractor, City Fleet were £8.312 million, £2.544 million below the revised total budgetary provision of £10.856 million. The most significant factor is that taxicard trips are reported down by 18% from the previous year.

23. Due to the reduction in expenditure no boroughs were required to contribute to the scheme therefore boroughs will be refunded. The net refund to the Boroughs is £1.495 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 £1.09 million during the year. This is after taking in to account the management charge for LB of Barnet of £11,730 which TFL fund.

Income from the issue of replacement Taxicards (+£9,000)

24. A sum of £9,000 was collected against a full year budgetary provision of £18,000, leading to a £9,000 shortfall.

Traded Services (-£91,000)

25. The net surplus position of £91,000 is made up of several 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 £844,000 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, including the Ultra Low Emission Zone scheme (ULEZ) is estimated to be £605,000, £262,000 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 17,707, which is 8,549 more than the budgeted figure of 9,158 which is largely due to the introduction of ULEZ. The throughput of appeals was calculated at 2.46 appeals per hour, compared to 1.93 per hour for 2018/19. 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 £262,000, which therefore has a zero effect on the Committee's provisional financial position for the year.
- Secondly, there is a net surplus of £58,000 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 43,995 against a budget of 41,694, generating income of £1.131 million, £48,000 more than the budget estimate of £1.083 million. In addition, there is net underspend of £10,000 in adjudicators costs and contractor costs. The throughput of appeals was 3.79 appeals per hour, compared 3.54 appeals per hour for 2018/19.
- Thirdly, the transaction volumes for other parking systems used by boroughs and TfL continue to fluctuate overall, resulting in a projected net cost of £10,000. On the expenditure side, this considers the pricing structure offered by Northgate and

expenditure was £5,000 less than the £209,000 budget. On the income side, unit cost recharges to boroughs for 2019/20 were set by the full Committee in December 2018 and amounted to £567,000, £15,000 less than the £582,000 income target.

Net position on London Tribunals Administration (+£61,000)

26. The appeals Hearing Centre overspent the budget of £2.687 million by £221,000. In April 2019 the Ultra Low Emission Zone (ULEZ) was introduced to London, the result of which is an increase in RUCA appeals being heard. As a result of the introduction of the scheme Northgate fixed costs increased by £129,000 in the year which are fully covered by additional contributions from the GLA/TfL. The remaining variance of £60,000 were due to several small overspends across various codes including staffing and central recharges.

Lorry Control Administration/PCN income (-£244,000)

27. The administration of the London Lorry Control Scheme underspent the budget of £858,000 by £100,000. This is attributable to small underspends on general office costs along with an underspend on the review of the LLC scheme of £91,000. The TEC Executive Sub-Committee will be asked to approve the carry forward of the underspend on the review of the LLC Scheme of £91,000 into 2020/21.

28. There was, however, a significant overachievement in the collection of PCN income of £144,000 above the budgetary provision of £900,000. 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 £1.044 million income due for the year, £193,000 has yet to be collected and has been registered with the County Court. The bad debt provision has been decreased by £133,000 in respect of this outstanding amount, in accordance with usual accounting practice.

Freedom Pass Administration (+£27,000)

29. The administration of the freedom pass over spent the budget by £27,000, attributable to several small overspends across various budgets.

Taxicard Administration (+£8,000)

30. The administration of the taxicard scheme overspent the budget by £8,000, again attributable to several small overspends across various budgets.

Non-Operational Staffing Costs (-£7,000)

31. The non-operational employee cost budget of £715,000, including £19,000 for member's allowances plus £30,000 maternity cover, underspent by £7,000 at £708,000. This is primarily attributable to the maternity cover budget not being fully used along with other small vacancy periods.

Running Costs/Central Recharges (+£564,000)

32. As advised throughout the Revenue Forecast reports throughout 2019/20 a review of how London Councils apportions its central costs between the three committees identified some overheads, which are attributed to members of staff working on TEC related activities, which were not being fully passed on to TEC. This has now been addressed and has resulted in additional costs of approximately £420,000 being included in the TEC. The remaining variances were due to several small overspends across various codes including bank charges which are covered by income receipts and additional legal fees due to a review of TEC's governance arrangements.

Other income (+£18,000)

33. The Net impact of small reductions of miscellaneous income and additional Health Emergency Badge Receipts.

Bad Debts provision (-£133,000)

34. The Committee's bad debt provision as at 1 April 2018 was £286,000, of which £267,000 related to Lorry Control PCNs that had been registered at the County Court but which were unpaid at 31 March 2019. A review of the aged debts at the year-end has resulted in a revised year-end provision of £135,000, all of which relates to Lorry Control PCN income, a decrease of £133,000, as highlighted in paragraph 28.

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 2019/20– Joint Committee

Actual 2018/19		Revised Budget 2019/20	Actual 2019/20	Variance 2019/20	
£000	Expenditure	£000	£000	£000	%
4,139	Employee Costs	4,698	4,397	(301)	(6.4)
3,044	Running Costs	3,273	3,098	(175)	(5.3)
190	Central Recharges	187	160	(27)	(14.4)

7,373	Total Operating Expenditure	8,158	7,655	(503)	(6.2)
22	Improvement and Efficiency	201	122	(79)	(39.3)
478	Research and Commissioning	502	218	(284)	(56.6)
208	Challenge Implementation Fund	525	73	(452)	(86.1)
51	YPES Regional Activities	50	27	(23)	(46.0)
8,132	Total Expenditure	9,436	8,095	(1,341)	(14.2)
	Income				
(103)	Income for direct services	(101)	(99)	2	2.0
(5,134)	Core Member Subscriptions	(5,152)	(5,134)	18	0.3
(180)	Borough contribution towards YPES payments	(180)	(180)	-	-
(331)	Borough contribution towards LCP payments	(496)	(390)	106	21.4
(111)	Interest on Investments	(75)	(72)	3	4.0
(250)	Other Income	(214)	(380)	(166)	(77.6)
(1,902)	Central Recharges	(1,864)	(2,473)	(609)	(32.7)
(1,007)	Transfer from Reserves	(1,354)	(1,354)	-	-
(9,018)	Total Income	(9,436)	(10,082)	(646)	(6.8)
-	Increase/(Reduction) in bad debt provision	-	-	-	-
(886)	Deficit/(Surplus)	-	(1,987)	(1,987)	-

36. A provisional surplus on revenue activities of £1.987 million has been posted for 2019/20, the main constituents of which are explored in the paragraphs below.

Expenditure

Employee Costs (-£301,000)

37. Employee costs underspent by £301,000, split between the following areas:

- £251,000 on salary costs including £20,000 in respect of member allowances. The officer salary variance is largely due to staff turnover and holding off recruiting to certain vacant posts during the period; and
- £50,000 in respect of the maternity cover provision not used during the year.

Running Costs (-£175,000)

38. The running cost underspend reflects several under and overspends across a large range of functions which are broadly:

- A £21,000 saving across various Service Level Agreements London Councils has in place;
- Approximately £12,000 underspend on transport related expenditure;
- £125,000 saving on the budget allocated for suppliers and services including purchase of equipment and materials;
- £61,000 underspend on the depreciation charge for 2019/20 compared to the original budget of £253,000;

- Overspends across a number of categories of premises costs totalling approximately £28,000;
- Additional expenditure of £12,000 on consultant fees in respect of providing GLEF/ Regional Employers related training courses, along with £22,000 additional expenditure towards the Homelessness awards, both of which are matched by associated income. (see paragraph 44); and
- The remaining underspend is attributable to a number of small variances across several budget lines.

Improvement and Efficiency work (-£79,000)

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 and expenditure can fluctuate based on demand throughout the year. Work has continued on the Information Security for London (ISfL) network project during 2019/20 at a cost of £22,000. London Councils £100,000 contribution to the London Office of Technology and Innovation (LOTI) makes up the remaining 2019/20 expenditure against this budget.

Commissioning (-£284,000)

40. Expenditure on commissioning and other priority work amounted to £218,000 for the year, leading to an underspend of £284,000 against the revised budget of £502,000. £100,000 of this budget is committed to London Councils on going health work and will be rolled forward through reserves to be used to fund future health related priorities. The remainder of 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 2019/20.

Challenge Implementation Fund (-£452,000)

41. Expenditure was allocated against this budget to address the priorities identified during the Challenge process. A significant proportion of this related to work to be carried out on the Southwark Street building to extend agile working arrangement, as previously agreed by members. However, due in part to external factors including the Covid-19 crisis, there have been delays in progressing the agile work programme resulting in a significant underspend. There are likely to be additional future costs arising from social distancing measures likely to be required at Southwark Street prior to bringing the building back into full use. With no specific budget set aside in 2020/21 to fund these priorities, Members are asked to agree to the recommendation to carry forward the underspend on this budget in 2019/20 into 2020/21 to allow these initiative to be progressed as soon as it is practical.

Income

Contributions towards London Care Placements (+£106,000)

42. Actual contributions received from boroughs and other subscribers including amounts received in advance from previous years amounted to £822,000. However, actual LCP spend amounted to £390,000 for the year, therefore income of £432,000 has been treated as a receipt in advance and carried forward into 2020/21 to further fund the programme. This has resulted in a reduction of income against the approved budget of £106,000.

Interest on Investments (+£3,000)

43. Investment income on joint committee reserves raised £72,000 for the year, £3,000 below the budget estimate of £75,000, due to fluctuating returns being received compared throughout the year.

Other Income (-£166,000)

44. This additional income is made up of several elements however much of the surplus is the net impact of:

- Income in respect of the Homelessness Award (£22,500), which is matched by corresponding expenditure as detailed in paragraph 38 above;
- Additional income of £131,000 for the letting of meeting room facilities at Southwark Street, including room bookings by internal tenants;
- Additional Income of £24,000 for GLEF/Regional Employers related courses and other associated work, offset by the cost of consultants engaged to deliver some of the courses of £13,000, leading to net additional income of £11,000 (refer paragraph 38 above); and
- A £17,000 reduction in miscellaneous income such as charges for service.

Central Recharge Income (-£609,000)

45. As advised to Members throughout 2019/20, a detailed review of how London Councils apportions its central costs between the three committees identified an anomaly within the recharges model. This has now been rectified and has resulted additional income of approximately £420,000 to the Joint Committee. Further adding to the 2019/20 surplus was additional income above the approved budget for externally funded projects of £89,000 and additional Tenant income of £98,000.

External Projects

46. Not included in the figures detailed in Table 8 are transactions of £2.739 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 £1.057 million, which fall under the purview of the Joint Committee rather than the Grants Committee;
- London Office of Technology and Innovation (LOTI) project costs of £277,000
- A range of health, child protection and worklessness projects funded by the MPS/ SFA / DfES of £306,000;
- Capital Ambition Programme Office and residual project costs, including London Ventures, of £591,000;
- Expenditure amounting to £142,000 in relation to the Borough funded Housing Directors Group; and
- Various smaller projects, totalling £366,000, which includes the London Leadership Programme (£132,000) and the London Environment Directors Network (£102,000).

47. A provision against uncommitted reserves of £272,000 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 external audit, in line with normal practice, Grant Thornton are likely to 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. The current ESF borough programme will come to an end in 2020/21 and balances held in respect of previous ESF programmes will be reviewed to identify funds that can be offset against accumulated shortfalls that have arisen. 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 59-60.

Balance Sheet as at 31 March 2020

48. The provisional consolidated balance sheet position as at 31 March 2020 is shown in Table 9 below, compared to the audited position for 2018/19:

Table 9 – Balance Sheet Comparison 2019/20 and 2018/19

	As at 31 March 2020 (£000)	As at 31 March 2019 (£000)
Fixed Assets	1,107	1,324
Current Assets	24,060	24,426
Current Liabilities	(9,900)	(9,656)
Long-term Liabilities	(25,263)	(28,142)
Total Assets less	(9,996)	

Liabilities		(12,048)
Represented by:		
General Fund	10,492	9,843
Specific Funds	3,815	4,883
Pension Fund	(24,148)	(26,633)
Accumulated Absence Fund	(155)	(141)
	(9,996)	(12,048)

49. The main features of the provisional balance sheet as at 31 March 2020 are as follows:

- Fixed assets have decreased by £217,000 to £1.107 million from £1.324 million. The decrease is attributable to expenditure of £66,000 on the acquisition of assets offset by the annual depreciation charge of £283,000;
- Current assets have decreased by £366,000 to £24.06 million from £24.426 million, which is attributable to a decrease of £1.804 million in debtors offset by an increase of £1.438 million in cash balances. The decrease in debtors is due to:
 - a decrease of £1.864 million in respect of amounts owed by TfL for the Taxicard scheme;
 - a decrease of £374,000 in respect of borough contributions for the registration of PCN debts at Northampton County Court;
 - an increase of £180,000 in respect of amounts owed by the GLA for the operation Congestion Charge Appeals service;
 - an increase of £136,000 in respect of a reduction of the bad debt provision in relation to London Lorry Control Service PCN debts registered at Northampton County Court; and
 - an increase in residual variances of £118,000;
- Current liabilities have increased by £244,000 to £9.9 million from £9.656 million which is attributable to:
 - an increase of £790,000 in respect of Freedom Pass reissue costs;
 - an increase of £341,000 in respect of London Office for Technology and Innovation balances;
 - a decrease of £500,000 in respect of Capital Ambition balances;
 - a decrease of £365,000 in respect of premises costs; and
 - a decrease in residual variances of £22,000;
- Long term liabilities have decreased by £2.879 million to £25.263 million from £28.142 million which is attributable to a decrease of £2.485 million in the value of the IAS19

pension deficit and a decrease of £394,000 in respect of long-term provisions and creditors on property leases; and

- The above movements have resulted in an overall decrease in reserves to a negative balance of £9.996 million as at 31 March 2020, inclusive of the IAS19 deficit (which is explored from paragraph 50 onwards) and the balance on the accumulated absences reserve.

Effect of IAS19 Employee Benefits

50. 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).
51. 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.
52. 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.
53. 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.
54. 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 2019 was £26.633 million. The deficit on the Pension Fund as at 31 March 2020, as determined from the latest valuation undertaken by the actuary, is £24.148 million, a reduction of £2.485 million.

55. The reduction is due to the lower rate of inflation used in the calculation of the IAS19 defined benefit obligation and the result of the 2019 triennial valuation exercise which provides more current estimates. The reduction in the defined benefit obligation is offset by a fall in the value of scheme assets at 31 March 2020.
56. Table 9 clearly demonstrates, therefore, that the Committee's provisional reserves of £14.307 million as at 31 March 2020 are notionally reduced by £24.148 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, Grant Thornton 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

57. Inclusive of the IAS19 Pension and the Accumulated Absence Reserves, the pre-audited overall position on the Committee's Reserves as at 31 March 2020 is detailed in Table 10:

Table 10 – Overall London Councils Reserves as at 31 March 2020

	General Reserve (£000)	Specific Reserve (£000)	Pension Fund (£000)	Accumulated Absences (£000)	Total (£000)
Audited balance at 1 April 2019	9,843	4,883	(26,633)	(141)	(12,048)
Transfer (to)/from Revenue Account	(1,674)	(1,364)	(1,982)	(14)	(5,034)
Movement on Pension Fund Reserve	-	-	4,467	-	4,467
(Deficit)/Surplus for Year	2,323	296	-	-	2,619

Provisional Balance at 31 March 2020	10,492	3,815	(24,148)	(155)	(9,996)
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58. The pre-audited position on the Committee's Reserves as at 31 March 2020, 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 2020

	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 2019	3,936	3,553	5,186	721	1,330	14,726
Resources committed in 2019/20	(187)	(1,108)	(1,354)	-	(256)	(2,905)
Approved reserves c/f into 2019/20	(133)	-	-	-	-	(133)
Provisional (deficit)/surplus for 2019/20	238	296	1,987	98	-	2,619
Provisional reserves as at 31 March 2020	3,854	2,741	5,819	819	1,074	14,307

59. Table 12 below details the current level of commitments arising from the current and future financial years of £4.564 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 2020	3,854	5,819	819	10,492
Estimated Specific/ESF reserves at 31 March 2020	2,741	-	1,074	3,815
Provisional reserves at 31 March 2020	6,595	5,819	1,893	14,307
Committed in setting 2020/21 budget	(579)	(400)	-	(979)
Balances c/f into 2020/21	(91)	(452)	-	(543)
Reinvestment of surplus S.48 ESF reserves	-	-	(1,074)	(1,074)
Provisional other commitments in 2020/21 - 2021/22	(1,596)	(372)	-	(1,968)
Uncommitted reserves	4,329	4,595	819	9,743

60. The current level of commitments from reserves, as detailed in Table 12, of £4.564 million over the short-to-medium term are detailed in Table 13 below:

Table 13– Commitments from Reserves

	2020/21	2021/22	Total
	£000	£000	£000
Approved resources b/f from 2019/20	543	-	543
Approved transfer from JC general reserves	300	-	300
Approved transfer from TEC general reserves	579	-	579
Use of S.48 residual ESF borough contributions to fund NRPF	1,074	-	1,074
Support to the health transition process	100	100	200
2020 Freedom Pass reissue	96	-	96
TEC priority projects	750	750	1,500
Provision for Borough ESF Programme	272	-	272
Totals	3,714	850	4,564

Conclusions

61. Tables 12 and 13 show that the approved use of reserves over the two-year period 2020/21 to 2021/22 is forecast to reduce the overall projected level of reserves by £4.564 million from £14.307 million to £9.743 million. A brief commentary on the financial position of each of the three funding streams is provided below:

- Grants Committee – The £77,000 movement for the Grants Committee is largely due to an increased underspend on employee and general/central recharge costs. Provisional reserves of £819,000 are forecast in respect of Priority 1&2 commissions as at 31 March 2020. This equates to 12.28% of on-going borough funded Priority 1&2 commissions of £6.668 million, which is in excess of 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 consideration at a future meeting. Residual S.48 ESF reserves of £1.074 million covering Priority 3 are forecast following the closure of the ESF programme. These funds will be applied in support of NRPF applications, as approved by the Leaders' Committee in March 2020 following recommendations from the Grants Committee. The current COVID19 crisis is projected to have a minimal effect on the Grants Committee's future financial position.
- TEC – The £209,000 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 additional central recharge and general running

costs. Provisional residual uncommitted general reserves of £3.184 million equates to 24.7% of operating and trading expenditure of £12.911 million for 2019/20, 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 autumn as part of the budget setting process. However, the current COVID19 crisis is projected to influence TECs future finances due to a reduction in enforcement activities and a reduction in income raised from the issue of replacement Freedom Passes. For the two-month period covering April and May 2020, this shortfall in income could amount to £340,000. The current level of uncommitted reserves will, therefore, provide a level of security should these projected deficits in income be realised by the year-end; and

- Joint Committee - The £456,000 movement for the Joint Committee is primarily due to further savings on staffing and general running costs along with an additional underspend on the commissioning budget. Provisional residual uncommitted reserves of £4.595 million are projected after considering all current known commitments up to 2021/22. However, the current COVID19 crisis is projected to influence the Joint Committee's future finances. Additional spend of roughly £50,000 has been incurred to date on COVID-19 related issues, although a proportion of these increased costs will be apportioned to the TEC and Grants funding streams. There is the possibility of further costs being incurred to fund specific activities that flow from the crisis recovery process to support London local government work, in accordance with member wishes. In addition, there is likely to be a reduction in room bookings income at Southwark Street due to the building closure (£12,000-£15,000 per month) and the loss of potential income from securing tenants for existing vacant office space in the building (£13,000-£14,000 per month). For the two-month period covering April and May 2020, this shortfall in income could amount to £58,000. Again, the current level of uncommitted Joint Committee reserves will provide a level of security should the projected additional expenditure and deficits in income be realised by the year-end.

Summary

62. This report summarises the provisional pre- audited consolidated financial position for London Councils for the 2019/20 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 future financial outlook. The projected position for uncommitted reserves across all three

funding streams, as illustrated in this report, stands the organisation in good stead to meet the financial challenges arising from the current COVID-19 crisis.

Recommendations

63. The Executive is asked:

- To note the provisional consolidated outturn position of a surplus of £2.619 million for 2019/20 and the provisional outturn position for each of the three funding streams;
- To note the carry forward of £91,000 into 2019/20 in respect of the review of the London Lorry Control scheme, subject to final approval by the TEC Executive on 16 July;
- To note the provisional level of reserves of £14.307 million as at 31 March 2020 (paragraphs 57-58), which reduces to £9.743 million once known commitments of £4.564 million are considered (paragraphs 59-60);
- To note the updated financial position of London Councils as detailed in paragraph 62 of this report; and
- To agree to receive a further report in November 2020 after the completion of the external audit by Grant Thornton LLP to adopt the final accounts for 2019/20. The final accounts will be signed off at the meeting of the Audit Committee on 17 September 2020, during which Grant Thornton LLP will formally present the Annual Audit Report for approval.

Background Papers

Final Accounts Working Papers File 2019/20;
Budget Monitoring Working Papers File 2019/20;
Budget Working Papers Files 2019/20 and 2020/21.