

London Councils Executive

London Councils – Consolidated Pre-Audited Financial Results 2021/22

Item no: 8

Report by: David Sanni **Job title:** Director of Corporate Resources
Date: 21 June 2022
Contact Officer: David Sanni
Telephone: 020-7934-9704 **Email:** David.sanni@londoncouncils.gov.uk

Summary: This report highlights the pre-audited consolidated financial position for London Councils for the 2021/22 financial year, including separate revenue summaries 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 2022 are also shown, together with overall conclusions and prospects for 2022/23 onwards, after considering known commitments. The provisional revenue outturn and reserves position for the year, is summarised as follows:

Revenue Account (£000)	Revised Budget	Actual	Variance
Total Expenditure	336,034	334,252	(1,782)
Total Income	(332,893)	(333,098)	(205)
Use of reserves	(3,141)	(2,801)	340
Bad Debts provision	-	8	8
Net Deficit/(Surplus)	-	(1,639)	(1,639)
General and Specific Reserves (£000)	General Reserve	Specific Reserve	Total
As at 1 April 2021	11,584	2,129	13,713
Transfer (to)/from revenue	(2,477)	(324)	(2,801)
Provisional Surplus for the Year	1,500	139	1,639
As at 31 March 2022	10,607	1,944	12,551

Recommendations: The Executive is asked:

- To note the provisional consolidated outturn surplus of £1.639 million for 2021/22 and the provisional outturn position for each of the three funding streams;
- To approve the carry forward request of £286,000 into 2022/23 in respect of the equalities and Covid-19 recovery work (£86,000) and contribution to Health-related partnership working (£200,000);
- To approve the request to earmark £100,000 General Reserves in respect of the unspent provision for health-related partnership work included in 2019/20 budget (paragraph 34);
- To note the carry forward of £141,000 into 2022/23 in respect of TEC London Lorry Control scheme review, subject to final approval by the TEC Executive Sub-Committee in July;
- To note and approve the setting up of a Shared Ambition Impact fund which officers can draw down during 2022/23, up to a maximum of £300,000 subject to the maintenance of a sustainable level of reserves;
- To note the provisional level of reserves of £12.551 million as at 31 March 2022 (paragraphs 60-61), which reduces to £9.506 million once known commitments of £3.045 million are considered (paragraphs 53-55);
- To note the updated financial position of London Councils as detailed in paragraphs 56-59 of this report; and
- To note that a further report will be presented to the Executive after the completion of the external audit by Grant Thornton LLP (GT) to adopt the final accounts for 2021/22. The final accounts will

be considered and approved by the Audit Committee at which point GT will formally present the Annual Audit Report for approval.

London Councils – Consolidated Pre-Audited Final Results 2021/22

Executive Summary

1. The provisional revenue outturn for 2021/22, split across London Councils three funding streams is as follows:

	Grants	TEC	Joint	Consolidated
	£000	£000	£000	£000
Total Expenditure	7,258	317,839	9,155	334,252
Total Income	(6,687)	(317,684)	(8,727)	(333,098)
Use of Reserves	(627)	(1,191)	(983)	(2,801)
Bad Debts provision	-	8	-	8
Surplus	(56)	(1,028)	(555)	(1,639)

2. Once figures relating to potential carried forward amounts are considered, the headline surplus of £1.639 million reduces to £1.212 million, as follows:

	Grants	TEC	Joint	Consolidated
	£000	£000	£000	£000
Surplus for the Year	(56)	(1,028)	(555)	(1,639)
TEC balances c/f	-	141	-	141
Joint Committee c/f	-	-	286	286
Adjusted underlying Surplus	(56)	(887)	(269)	(1,212)

3. The provisional level of reserves for each funding stream, including one-off funds arising from the closure of externally funded projects, as at 31 March 2022 is as follows:

	Grants	TEC	Joint	Consolidated
	£000	£000	£000	£000
Audited Reserves at 1 April 2021	1,363	6,006	6,344	13,713
Transfer (to)/from Revenue	(627)	(1,191)	(983)	(2,801)
Provisional surplus/ (deficit) for the Year	56	1,028	555	1,639
Provisional Reserves at 31 March 2022	792	5,843	5,916	12,551

4. However, once all potential and known commitments of £3.045 million are considered, the estimated level of uncommitted reserves reduces to £9,506 million, as follows:

	Grants	TEC	Joint	Consolidated
	£000	£000	£000	£000
Provisional Reserves at 31 March 2022	792	5,843	5,916	12,551
Underspends c/f into 2022/23	-	(141)	(286)	(427)
Committed in setting 2022/23 budget	-	(1,156)	(623)	(1,779)
Other provisional commitments to 2022/23	-	(539)	(300)	(839)
Uncommitted Reserves	792	4,007	4,707	9,506

5. Overall estimated uncommitted reserves of £9.506 million compares to £9.768 million 12 months ago. This reserves position, amongst the backdrop of the Covid-19 pandemic, leaves the organisation in a strong position to meet the financial challenges as London continues in the recovery phase.
6. The actual financial results and the actual level of reserves will be confirmed during the external audit of the 2021/22 accounts, which will be undertaken by Grant Thornton LLP in October 2022. The Audit Report and the audited accounts relating to this year will be reported to the Audit Committee and will be presented to 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. Grant Thornton LLP will audit the accounts for 2021/22 during October 2022 and present the accounts to the Audit Committee, along with the annual audit report. The audited accounts and the audit report will then be presented for adoption by the London Councils Executive.
2. The format of this report will be:
 - A summary provisional consolidated outturn position for the year (Table 1);
 - 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 2-6);
 - 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 2021/22, including the effect of IAS19 Retirement Benefits (Table 7); and
 - The provisional position on London Councils reserves as at 31 March 2022, adjusted for all current and future commitments to provide an updated position on residual uncommitted reserves position (Tables 8-11).
3. 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. London Councils budgets and reports on a gross accounting basis in accordance with UK Generally Accepted Accounting Practice (GAAP).
4. Table 1 below summarises the provisional consolidated revenue outturn position for the year.

Table 1 – Consolidated Income and Expenditure position 2021/22

	Grants	TEC	Joint	Consolidated
	£000	£000	£000	£000
Total Expenditure	7,258	317,839	9,155	334,252
Total Income	(6,687)	(317,684)	(8,727)	(333,098)
Use of Reserves	(627)	(1,191)	(983)	(2,801)
Bad Debts provision	-	8	-	8
Surplus	(56)	(1,028)	(555)	(1,639)

5. 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.
6. **Comparison of Income and Expenditure against Revised Budget – Grants Committee**
7. Table 2 below summarises the provisional outturn position for the Grants Committee for 2021/22.

Table 2 – Provisional Outturn 2021/22 – Grants Committee

2020/21 Actual		2021/22 Revised Budget	2021/22 Actual	2021/22 Variance	
£000	Expenditure	£000	£000	£000	%
240	Employee Costs	247	275	28	11.3
15	S.48 Staff Exit Costs	-	-	-	
9	Running Costs	19	8	(11)	(57.9)
134	Central Recharges	169	166	(3)	(1.8)
398	Total Operating Expenditure	435	449	14	3.2
6,101	Borough commissioned services	6,173	6,081	(92)	(1.5)
618	S.48 Commissioned services - NRPF	327	319	(8)	(2.4)
-	S.48 Commissioned services - Homelessness	300	300	-	-
60	Membership fees to London Funders	60	60	-	-
49	ESF commissions	-	-	-	-
-	End of programme evaluations	-	38	38	
-	Changes to the value of investments held at fair value	-	11	11	-
7,226	Total Expenditure	7,295	7,258	(37)	(0.5)
	Income				
(6,173)	Borough contributions towards commissioned services	(6,173)	(6,173)	-	-

2020/21 Actual		2021/22 Revised Budget	2021/22 Actual	2021/22 Variance	
(495)	Borough contributions towards the administration of commissions	(495)	(495)	-	-
(27)	ESF Grant	-	(11)	(11)	-
(20)	Interest on Investments	-	(8)	(8)	-
(8)	Other Income	-	-	-	-
(618)	Transfer from Reserves	(627)	(627)	-	-
(7,339)	Total Income	(7,295)	(7,314)	(19)	(0.3)
-	Increase/(Reduction) in bad debt provision	-	-	-	-
(115)	Deficit/(Surplus)	-	(56)	(56)	-

8. The provisional surplus of £56,000 compares to a forecast surplus of £11,000 at the month 9 stage of the year, as reported to this Committee in February 2022. The provisional underspend is attributable to:

- an overspend on operating expenditure of £14,000 made up of an overspend on employee costs of £28,000 offset by an underspend on running costs and central recharges of £14,000;
- an underspend on the S.48 Commissioned services of £100,000. As part of the approved monitoring arrangements, officers review financial information including the audited accounts at the end of the year. This has identified some underspends on the programme across a number of organisations with the most significant being an amount held back with respect to Tender Education and Art of £41,000;
- expenditure of £38,000, not originally budgeted for, on the evaluation of the main S.48 grants programme and the S.48 ESF match funded grants programme, which are required at the end of both programmes. The cost of the evaluation is partially offset by £11,000 of ESF grant income;
- additional expenditure of £11,000 recognised in the accounts as a result of changes in the fair value of short-term cash bonds held by the City of London due to global economic events which have reduced the value of investments held; and
- an additional sum of £8,000 from investment income has been received on Committee reserves, which was not included in the budget.

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

9. Table 3 below summarises the provisional outturn position for TEC for 2021/22.

Table 3 – Provisional Outturn 2021/22 – Transport and Environment Committee

Actual 2020/21		Revised Budget 2021/22	Actual 2021/22	Variance 2021/22	
£000	Expenditure	£000	£000	£000	%
805	Non-operational Staffing	835	762	(73)	(8.7)
419	Running Costs	255	361	106	41.6
525	Central Recharges	567	561	(6)	1.1
1,749	Total Operating Expenditure	1,657	1,684	27	1.6
8,950	Direct Services	10,015	11,796	1,781	17.8
348,545	Payments in respect of Freedom Pass and Taxicard	306,717	304,073	(2,644)	(0.9)
-	Research	40	-	(40)	100
-	System Developments	382	101	(281)	73.6
105	Transfer to Joint Committee – Environmental Initiatives	144	146	2	1.4
-	Changes to the value of investments held at fair value	-	39	39	-
359,349	Total Expenditure	318,955	317,839	(1,116)	(0.3)
	Income				
(348,556)	Contributions in respect of Freedom Pass and Taxicard	(306,665)	(304,487)	2,178	0.7
(9,813)	Charges for direct services	(10,514)	(12,914)	(2,400)	(22.8)
(97)	Core Member Subscriptions	(97)	(97)	-	-
(72)	Interest on Investments	-	(28)	(28)	-
(65)	Other Income	(73)	(82)	(9)	(12.3)
(58)	TfL Environmental initiatives	(98)	(76)	22	22.4
(833)	Net transfer to/(from) Reserves	(1,508)	(1,191)	317	21.0
(359,494)	Total Income	(318,955)	(318,875)	80	0.0
(7)	Increase/(Reduction) in bad debt provision	-	8	8	-
(152)	Deficit/(Surplus)	-	(1,028)	(1,028)	-

10. In addition to the transactions detailed in Table 3 above, there are costs and income associated with the London European Partnership for Transport (LEPT), which is TfL/EU funded, and shown in table 4 below.

Table 4 – Income and Expenditure relating to LEPT 2021/22

	£000
Employee Related Costs	41
Premises Costs	8
Running/Central Costs	22
Total Expenditure	71
Grant/Other Income including c/f	(71)
Deficit/(Surplus)	-

11. A provisional surplus on revenue activities of £1.028 million has been posted for 2021/22, the headlines of which are summarised in Table 5 below:

Table 5 – TEC – Analysis of revenue account surplus 2021/22

	Outturn Variance
	£000
Freedom Pass non-TfL bus services	(326)
Freedom Pass survey and reissue costs (including replacement Freedom Passes income surplus)	(139)
Interest earned on investment of cash- balances	(28)
Research	(40)
Shortfall in replacement taxicard passes income	18
Net position on parking appeals	36
Net position on other traded parking services	38
Northgate PS Fixed Costs	(113)
Net position on London Tribunals Administration	(66)
Lorry Control Administration	(196)
Lorry Control PCNs	(324)
Freedom Pass Administration	2
Taxicard Administration	(15)
Payments to JC re Environmental initiatives covered by specific reserves	2
Non-operational staffing costs	(73)
Underspend on running costs including system development	(185)
Fair Value of investments	39
Underspend on Central Recharges	(6)
Net additional in Health Emergency Badge income	(17)
Miscellaneous Income	40
Increase in Bad Debt provision	8
Decrease in Transfer from Reserves	317
Provisional surplus for the year	(1,028)

12. The TEC Executive Sub-Committee will be asked to note carry forward balances amounting to £141,000 into 2022/23 (paragraph 21). If this request is approved, the provisional surplus reduces to £887,000. An explanation for each of the variances is provided in subsequent paragraphs.

Freedom Pass non-TfL bus services (-£326,000)

13. The level of trips made in the claims submitted by the independent bus operators continues to be impacted upon by the Covid-19 pandemic, which was reflected when setting the 2021/22 budget. There is an ongoing recovery however actual expenditure of £774,000 for 2021/22 remains a significant underspend on the annual budget of £1.1 million.

Net Freedom Pass survey and issue costs (-£139,000)

14. 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 2021/22 was £1.599 million, an overspend of £81,000. A large proportion of this was on work carried out to improve the website for the Freedom Pass service, which should result in ongoing future years savings. In addition, a sum of £820,000 was collected during 2021/22 in respect of replacement Freedom Passes, £220,000 above the £600,000 budgetary provision. In net terms, there was a surplus of £139,000, which, in accordance with approved TEC practice, will be transferred from the provisional surplus to the specific reserve created to fund the future freedom pass renewal process.

Interest earned on investment of cash-balances (-£28,000)

15. Cash-flow management undertaken at the City of London, who invest London Councils cash balances on behalf of boroughs, has yielded interest receipts of £28,000 against a zero budgetary provision.

Research Budget (-£40,000)

16. No expenditure on research was recorded in 2021/22 against an annual budget of £40,000.

Taxicard (Net Nil)

17. Total payments to the contractor, City Fleet were £8.040 million, £2.407 million below the revised total budgetary provision of £10.447 million. The most significant factor is that the number of taxicard trips was significantly impacted by the Covid-19 pandemic.
18. Due to the reduction in expenditure, no boroughs were required to contribute to the scheme cost; therefore, boroughs will be refunded for any actual contributions made. The net refund to the Boroughs is £1.588 million. TfL fund the scheme cost in arrears, based on actual trips data from the preceding quarter. Payments received from TfL have therefore reduced in line with actual claims by £819,000 during the year.

Income from the issue of replacement Taxicards (-£18,000)

19. No charges we made for replacement Taxicards during the year against the annual income budget of £18,000.

Traded Services (-£39,000)

20. The Traded Services budget is made up of several elements the majority of which produce a neutral effect and do not change the overall net surplus position. There is however, an underspend on Northgate's, the managed services contractor, fixed costs of £36,000, which reflects a lower than anticipated inflation factor applied to the annual contract increase in July 2021 compared to when the budget was set.

Net position on London Tribunals Administration (-£66,000)

21. The appeals Hearing Centre underspent the budget of £3.084 million by £66,000. Of which £100,000 is attributable to additional leaseholder costs being built into the budget. This is largely as a result small savings across various expenditure codes including staff vacancy periods.

Lorry Control Administration/PCN income (-£196,000)

22. The administration of the London Lorry Control Scheme underspent the revised budget of £911,000 by £196,000. This is attributable to small underspends on general office costs along with an underspend on the review of the LLC scheme of £141,000.

As a result of delays to completing the review, largely due to the Covid-19 pandemic, the TEC Executive Sub-Committee will be asked to approve the carry forward of these funds of £141,000 into 2022/23 at its July meeting.

Lorry Control PCN income (-£324,000)

23. Enforcement of the London Lorry Control Scheme has seen a significant recovery since the pandemic. The number of PCNs issued have returned to normal levels and this recovery has meant that there is a surplus against the reduced budget of £1 million. The bad debt provision has been increased by £8,000 in respect of this outstanding amount, in accordance with usual accounting practice.

Freedom Pass and Taxicard Administration (-£13,000)

24. The administration of the Freedom Pass and Taxicard schemes underspend their budgets by £13,000, attributable to several small underspends across various budgets.

Non-Operational Staffing Costs (-£73,000)

25. The non-operational employee cost budget of £835,000, including £19,000 for member's allowances plus £30,000 maternity cover, underspent by £73,000. This is primarily due to staff vacant periods during the year.

Running Costs (-£185,000)

26. Running costs have underspent the annual budget by £185,000, however this is the net impact of additional bank charges and interest payments and an underspend on system development costs which are funded by a transfer from the special projects reserve as agreed by TEC. The reduction of these development costs by £317,000 has resulted in a decrease in the transfer from reserves as noted below.

Miscellaneous income (+£23,000)

27. The net impact of small reductions of miscellaneous income, additional Health Emergency Badge receipts and reduction in secondment income from TfL.

Bad Debts provision (+£8,000)

28. The Committee's bad debt provision as at 1 April 2021 was £128,000 all of which related to Lorry Control PCNs that had been registered at the County Court but which were unpaid at 31 March 2021. A review of debts at the year-end has resulted in a revised year-end provision of £136,000 all of which again relates to Lorry Control PCN income, an increase of £7,000.

Comparison of Income and Expenditure against Revised Budget – Joint Committee

29. Table 6 below summarises the position for the Joint Committee:

Table 6 – Provisional Outturn 2021/22– Joint Committee

Actual 2020/21		Revised Budget 2021/22	Actual 2021/22	Variance 2021/22	
£000	Expenditure	£000	£000	£000	%
4,740	Employee Costs	5,160	4,707	(453)	(8.8)
2,859	Running Costs	3,356	3,501	145	(14.9)
156	Central Recharges	156	190	34	4
7,755	Total Operating Expenditure	8,672	8,398	(274)	(3.2)
124	Improvement and Efficiency	182	100	(82)	(31.9)
260	Research and Commissioning	602	375	(227)	(48.2)
174	Legacy Challenge Implementation Fund	278	192	(86)	(61.5)
19	YPES Regional Activities	50	30	(20)	(62.2)
-	Changes to the value of investments held at fair value	-	60	60	-
8,332	Total Expenditure	9,784	9,155	(629)	(6.4)
	Income				
(128)	Income for direct services	(101)	(131)	(30)	(26.7)
(5,134)	Core Member Subscriptions	(5,136)	(5,134)	2	0.3
(180)	Borough contribution towards YPES payments	(180)	(180)	-	-
(389)	Borough contribution towards LCP payments	(496)	(432)	64	21.6
(128)	Interest on Investments	(65)	(50)	15	(70.7)
(105)	Income from TEC – Environmental Policy	(68)	(217)	(149)	-
(133)	Other Income	(164)	(229)	(65)	(39.6)
(2,231)	Central Recharges	(2,568)	(2,354)	214	8.3
(852)	Transfer from Reserves	(1,006)	(983)	23	-
(9,280)	Total Income	(9,784)	(9,710)	74	0.8
-	Increase/(Reduction) in bad debt provision	-	-	-	-
(948)	Deficit/(Surplus)	-	(555)	(555)	-

30. A provisional surplus on revenue activities of £555,000 has been posted for 2021/22, the main constituents of which are explored in the paragraphs below.

Expenditure

Employee Costs (-£453,000)

31. Employee costs underspent by a net amount of £453,000, largely due to staff turnover and holding off recruiting to certain vacant posts during the period, some of which are senior positions. However, this has resulted in increased recruitment costs when these roles are filled which are included within running costs below. Further underspends of £15,000 on members allowances, £50,000 on the maternity cover provision, a reduced pay award compared to budget and £23,000 on a Recovery Officer due to timing of secondment costs, have contributed to this variance.

Running Costs (£145,000)

32. Despite the ongoing Covid-19 pandemic in 2021/22, many running costs are fixed such as rent and rates of the Southwark Street offices. During 2021/22 other one off overspends have been identified such as; an increase in recruitment costs of £56,000 against budget, in part due to changes in the recruitment methodology and rate of staff turnover; an increase to the dilapidations provision of £53,000 due to an increase in inflation forecasts; and the reversal of previously capitalised premises costs of £82,000 which have contributed to an overall overspend.

Improvement and Efficiency work (-£82,000)

33. 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. Expenditure in 2021/22 primarily relates to London Councils annual £100,000 contribution to the London Office of Technology and Innovation (LOTI).

Commissioning (-£227,000)

34. Expenditure on commissioning and other priority work amounted to £375,000 for the year, leading to an underspend of £227,000 against the revised budget of £602,000. £200,000 of this budget is committed to London Councils for health-related work and will be rolled forward through reserves to be used to fund health-related partnership working with the NHS (London Region), OHID and UKHSA (London Region) and

Greater London Authority. London Councils utilised a proportion of this underspend in 2021/22 to take forward work on pandemic learning for integration of health and care, and has committed a contribution to partnership support for pan-London work on mental health and healthy weight. 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 2021/22.

35. Members are asked to note an additional request to earmark £100,000 in respect of the unspent provision for health-related priorities included in 2019/20 budget. This unspent amount was not rolled forward at the end of the financial year and was returned to General Reserves. A request is being made to earmark the unspent funds to fund the health related commitments summarised in paragraph 33, as London Councils contribution to wider partnership activity.

Legacy Challenge Implementation Fund (-£86,000)

36. This one-off legacy budget has been earmarked for work on equalities and Covid-19 recovery work where there was no specific budget set aside in 2021/22 to fund this priority work. The underspend reflects the timing of expenditure and members are asked to note the request to carry forward the underspend of £86,000 on this budget into 2022/23.

Changes to the value of investments held at fair value (+£60,000)

37. There has been additional expenditure of £60,000 recognised in the accounts as a result in of changes in the fair value of short-term cash bonds held by the City of London due to global economic events which have reduced the value of investments held.

Income

Contributions towards London Care Placements (£64,000)

38. Actual contributions received from boroughs and other subscribers including amounts received in advance from previous years amounted to £635,000. However, actual LCP spend amounted to £432,000 for the year, therefore income of £203,000 has been treated as a receipt in advance and carried forward into 2022/23 to fund future

expenditure on the programme. This has resulted in a reduction of income against the approved budget of £64,000.

Interest on Investments (£15,000)

39. Due to the overall decline in short term interest rates during 2021/22, interest receivable is £15,000 less than originally budgeted.

Income from TEC – Environmental Policy (-£149,000)

40. Additional costs associated with the climate change policy agenda have been recognised in 2021/22. The cost of this, including salaries, central recharges and other associated expenditure, is met from a contribution from the TEC Special Projects Specific Reserve of £217,000 agreed by TEC during the year.

Other Income (-£65,000)

41. The annual £100,000 income budget for the letting of meeting room facilities at Southwark Street, including room bookings by internal tenants, has underachieved by £80,000 predominantly due to Covid-19. However, additional income from the Regional Employers Organisation has largely mitigated this shortfall. Additional funding of £65,000 used to fund a Covid support role was received during the year and is included in this budget line.

Central Recharge Income (+£214,000)

42. There has been no change to London Councils recharges model and methodology and despite the impact of the pandemic many central costs such as rent, rates and other support costs are fixed and therefore chargeable. The level of central recharge income has been impacted upon by an underachievement of tenant income compared to the budget.

External Projects

43. Not included in the figures detailed in Table 6 are transactions of £2.669 million relating to work or projects financed by external bodies, which have no effect on the bottom-line position. These include:

- London Office of Technology and Innovation (LOTI) project costs of £900,000

- A range of health, child protection and worklessness projects funded by the MPS/ SFA / DfES of £993,000;
- Residual borough ESF match funded projects of £260,000;
- Expenditure amounting to £169,000 in relation to the Borough funded Housing Directors Group;
- Costs associated with the London Leadership Programme, facilitated by London Councils, of £70,000; and
- Expenditure of £109,000 in relation to the London Environment Directors Network.

Balance Sheet as at 31 March 2022

44. The provisional consolidated balance sheet position as at 31 March 2022 is shown in Table 7 below, compared to the audited position for 2020/21:

Table 7 – Balance Sheet Comparison 2021/22 and 2020/21

	As at 31 March 2022 (£000)	As at 31 March 2021 (£000)
Fixed Assets	778	1,084
Current Assets	22,278	21,709
Current Liabilities	(9,743)	(8,342)
Long-term Liabilities	(32,116)	(29,014)
Total Assets less Liabilities	(18,803)	(29,014)
Represented by:		
General Fund	10,607	11,584
Specific Funds	1,944	2,129
Pension Fund	(31,189)	(42,496)
Accumulated Absence Fund	(165)	(231)
	(18,803)	(29,014)

45. The main features of the provisional balance sheet as at 31 March 2022 are as follows:

- Fixed assets have decreased by £306,000 to £778,000 from £1.084 million. The decrease is attributable to the annual depreciation charge of £277,000 offset, write down of premises related costs of £86,000 and expenditure on the acquisition of assets of £57,000;

- Current assets have increased by £569,000 to £22.278 million from £21.709 million, which is attributable to increases of £57,000 in debtors and £512,000 in cash balances. The increase in debtors is due to:
 - an increase of £672,000 in respect of borough contributions for the registration of PCN debts at Northampton County Court;
 - an increase of £564,000 in respect of charges to the GLA in respect of the Road User Charging Adjudication service;
 - an increase of £180,000 in respect of contributions to the London Office for Technology and Innovation (LOTI);
 - an increase of £176,000 in respect of VAT recoverable from HMRC;
 - an increase of £153,000 in respect of contributions to the Grants Committee;
 - a decrease of £356,000 in respect of amounts owed by TfL for the Taxicard scheme;
 - a decrease of £1.453 million in respect of ESF match funded grant;
 - a decrease of £1.025 million in respect of advance payments to ESF commissions; and
 - residual variances of £121,000;
- Current liabilities have increased by £1.401 million to £9.743 million from £8.342 million which is attributable to:
 - an increase of £403,000 in respect of amounts owed to Grant Committee commissioned services;
 - an increase of £421,000 in respect of balances held on behalf of the London Innovation and Improvement Alliance;
 - an increase of £259,000 in respect of balances held on behalf of the Housing Directors – Special Projects Fund;
 - an increase £166,000 in respect of borough Taxicard budget refunds;
 - an increase of £147,000 in respect secondment fees;
 - an increase of £131,000 in respect of independent bus operators;

- an increase of £125,000 in respect of Freedom Pass reissue costs;
- a decrease of £469,000 in respect of property lease obligations; and
- residual variances of £218,000;
- Long term liabilities have decreased by £11.349 million to £32.116 million from £43.465 million which is attributable to a decreases of £11.307 million in the value of the IAS19 pension deficit and £192,000 in the long-term creditors on property leases offset by an increase of £150,000 in long-term property provisions; and
- The above movements have resulted in an overall increase in reserves to a negative balance of £18.803 million as at 31 March 2022, inclusive of the IAS19 deficit (which is explored from paragraph 45 onwards) and the balance on the accumulated absences reserve.

Effect of IAS19 Employee Benefits

46. 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).
47. 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.
48. 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.
49. 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.
50. 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 2021 was £42.496 million. The deficit on the Pension Fund as at 31 March 2022, as determined from the latest valuation undertaken by the actuary, is £31.189 million, a decrease of £11.307 million.
51. The key financial assumptions required for determining the defined benefit pension obligation under IAS19 are the discount rate, linked to corporate bond yields, and the rate of future inflation. There has been an increase in the discount rate which reduces the value of the pension obligation offset by an increase in the rate of inflation which increases the value of the obligation. The net effect of these changes to the financial assumptions contributes to the overall decrease in the defined benefit obligation of £2.286 million. The return on pension scheme assets during the period was higher than the discount rate assumed at 31 March 2021 which contributed to an increase in asset values of £9.021 million.
52. Table 10 clearly demonstrates, therefore, that the Committee's provisional reserves of £18.083 million as at 31 March 2022 are notionally reduced by £31.189 million as a

result of the requirement to fully disclose the pension fund deficit on the balance sheet. Future reviews of the employer's 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 pension fund deficit. London Councils' external auditor, Grant Thornton LLP will test the assumptions made by the actuary in arriving at this valuation during its external audit review during its audit of the financial accounts.

Committee Reserves

53. Inclusive of the IAS19 Pension and the Accumulated Absence Reserves, the pre-audited overall position on the Committee's Reserves as at 31 March 2022 is detailed in Table 8:

Table 8 – Overall London Councils Reserves as at 31 March 2022

	General Reserve (£000)	Specific Reserve (£000)	Pension Fund (£000)	Accumulated Absences (£000)	Total (£000)
Audited balance at 1 April 2021	11,584	2,129	(42,496)	(231)	(29,014)
Transfer (to)/from Revenue Account	(2,477)	(324)	(3,237)	66	(5,972)
Movement on Pension Fund Reserve	-	-	14,544	-	14,544
(Deficit)/Surplus for Year	1,500	139	-	-	1,639
Provisional Balance at 31 March 2022	10,607	1,944	(31,189)	(165)	(18,803)

54. The pre-audited position on the Committee's Reserves as at 31 March 2023, split across the three-funding streams and exclusive of the IAS19 Pension and the Accumulated Absence Reserves, is detailed in Table 9:

Table 9– Analysis of Provisional Reserves as at 31 March 2022

	Transport and Environment Committee (£000)		Joint Committee (£000)	Grants Committee (£000)	Total (£000)
	General	Specific	General	S.48	
Total audited reserves at 1 April	3,877	2,129	6,344	1,363	13,713

2021					
Resources committed in 2021/22	(726)	(199)	(605)	-	(1,530)
Approved reserves c/f into 2021/22	(141)	-	(378)	(627)	(1,146)
Use of TEC Special Projects reserve	-	(125)			(125)
Provisional (deficit)/surplus for 2021/22	889	139	555	56	1,639
Provisional reserves as at 31 March 2022	3,899	1,944	5,916	792	12,551

55. Table 10 below details the current level of commitments arising from the current and future financial years of £3.045 million and highlights the residual forecast level of uncommitted reserves available:

Table 10– Residual balances after Current Commitments

	Transport and Environment Committee (£000)	Joint Committee (£000)	Grants Committee (£000)	Total (£000)
Estimated General Reserves at 31 March 2022	3,899	5,916	792	10,607
Estimated Specific reserves at 31 March 2022	1,944	-	-	1,944
Provisional reserves at 31 March 2022	5,843	5,916	792	12,551
Committed in setting 2022/23 budget	(1,156)	(623)	-	(1,779)
Balances c/f into 2022/23	(141)	(286)	-	(427)
Provisional other commitments in 2022/23 -2023/24	(539)	(300)	-	(839)
Uncommitted reserves	4,007	4,707	792	9,506

56. The current level of commitments from reserves, as detailed in Table 10, of £3.045 million over the short-to-medium term are detailed in Table 11 below:

Table 11– Commitments from Reserves

	2022/23	2023/24	Total
	£000	£000	£000
Approved resources b/f from 2021/22	427	-	427
Approved transfer from JC general			

reserves	623	-	623
Additional transfer from reserves for Health related projects	100	-	100
Approved transfer from TEC general reserves	881	-	881
Support to the health transition process	100	100	200
TEC priority projects	275	539	814
Totals	2,406	639	3,045

Conclusions

57. Tables 10 and 11 show that the approved use of reserves over the two-year period 2022/23 to 2023/24 is forecast to reduce the overall projected level of reserves by £3.045 million from £12,551 million to £9.506 million.

58. For the Grants Committee, the Grants Executive in September 2013 agreed that the level of reserves to cover the S.48 borough funded commissions (priorities 1 and 2) should be set at 3.75% of the budget, which will equate to £250,000 in respect of a proposed budget of £6.668 million for 2022/23. The forecast level of uncommitted reserves of £792,000 is, therefore, in excess of this benchmark at 11.9% of the proposed budget.

59. For TEC, uncommitted general reserves are forecasted to be £3,899 million as at 31 March 2022 and reflects the forecast surplus on general reserves of £889,000 for the current year. This represents 25% of operating and trading expenditure of £15.231 in the 2022/23 budget, which is excess of the TEC minimum level of reserves benchmark of 15%.

60. For the Joint Committee functions, uncommitted general reserves are projected to be £5.916 million as at 31 March 2022. In a period of continuing financial constraint for London local government, and as demonstrated in the recent past, there is continued value in holding a reasonable level of reserves as a contingency. This will also facilitate a period of transition for the organisation, including working with members to fulfil the Shared Ambitions.

Financial Implications for London Councils

Included in the body of the report

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendices

None

Background Papers

Final Accounts Working Papers File 2021/22;

Budget Monitoring Working Papers File 2021/22;

Budget Working Papers Files 2021/22 and 2022/23.