

Grants Committee

London Councils Grants Committee – Pre-Audited Financial Results 2021/2022

Item 11

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Summary: This report details the provisional pre-audited final accounts for London Councils Grants Committee for 2021/22. The summary figures are detailed in the boxes below:

Revenue Account	Budget £000	Actual £000	Variance £000
Expenditure	7,295	7,258	(37)
Income	(6,668)	(6,687)	(19)
Sub-Total	627	571	(56)
Net Transfer from Reserves ¹	(627)	(627)	-
Reduction in bad debt provision	-	-	-
Deficit/(Surplus) for the year ²	-	(56)	(56)

Position on reserves	General Reserves £000	Unusable Reserves £000	Total £000
Audited as at 1 April 2021	1,363	(1,204)	159
Transfer (to)/from revenue	(627)	(110)	(735)
Surplus/(Deficit) for the Year	56	256	312
Provisional as at 31 March 2022	792	(1,056)	(264)

¹ Excludes transfers of £109,000 from the Pensions Reserve and £1,000 to the Accumulated Absences Reserve for the year in 'Actuals'.

² Excludes £256,000 Actuarial gain on Pension Fund for the year in 'Actuals'

Recommendations: London Councils Grants Committee is asked:

- to note the provisional pre-audited outturn position and the indicative surplus of £56,000 for 2021/22, the final year of the extended five-year programme of commissions; and
 - to note the provisional level of reserves at paragraphs 13-14 and the financial outlook, as detailed in paragraphs 15-17 of this report.
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London Councils Grants Committee – Pre-Audited Financial Results 2021/202

Pre-audited Accounts 2021/22

1. This report details the provisional financial results prior to audit and provides commentary on the variances against the revised approved budgets for the year – in effect, the format is the same as the revenue forecast monitoring report presented to this Committee three times each financial year at the end of each quarter. Grant Thornton LLP will audit the Committee's accounts for 2021/22 during October 2022 and present the accounts to the Audit Committee, along with the annual audit report, for approval. At its November 2022 meeting, the London Councils Executive will be asked to adopt the accounts along with Transport and Environment Committee and Consolidated accounts. The audited accounts and annual audit report will be circulated to all members of this Committee.

Provisional Outturn 2021/22

2. Members approved the original budget for 2021/22 in November 2020, which was ratified by the Leaders' Committee in December 2020. Table 1 below compares the provisional outturn figures for income and expenditure in 2021/22 which is the final year of the extended 5-year programme of commissions. The audited outturn figures for 2020/21 are also shown for comparative purposes.

Table 1 – 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	

2020/21 Actual		2021/22 Revised Budget	2021/22 Actual	2021/22 Variance	
-	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)	-	-
(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)	-	-
(7,341)	Total Income	(7,295)	(7,314)	(19)	(0.3)
-	Increase/(Reduction) in bad debt provision	-	-	-	-
(115)	Deficit/(Surplus)	-	(56)	(56)	-

3. 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 Arts 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.

Balance Sheet as at 31 March 2022

4. The summarised provisional balance sheet position as at 31 March 2022 is shown in Table 2 below, compared to the position at 31 March 2021:

Table 2 – Balance Sheet Comparison 2021/22 and 2020/21 (inclusive of IAS19).

	As at 31 March 2022 (£000)	As at 31 March 2021 (£000)
Current Assets	1,497	1,648
Current Liabilities	(710)	(291)
Pension Fund Liability	<u>(1,051)</u>	<u>(1,198)</u>
Total Assets less Liabilities	<u>(264)</u>	<u>159</u>
Represented by:		
General Fund	792	1,363
Pension Fund	(1,501)	(1,198)
Accumulated Absences Fund	<u>(5)</u>	<u>(6)</u>
	<u>(264)</u>	<u>159</u>

5. The main features of the balance sheet as at 31 March 2022 are as follows:
- Current assets have decreased by £151,000 from £1.648 million to £1.497 million, which is attributable to a decrease of £302,000 in debtors offset by an increase of £151,00 in cash balances. The decrease in debtors is attributable to:
 - a decrease of £454,000 in respect of ESF match funded grant;
 - an increase of £153,000 in respect of unpaid borough subscriptions; and
 - a residual variance of £1,000;
 - Current liabilities have increased by £419,000 from £291,000 to £710,000, which is attributable to:

- an increase of £403,000 in respect of amounts owed to S.48 commissioned services; and
 - a creditor of £9,000 in respect of the short-term cash bonds held by the City of London; and
 - a creditor of £4,000 in respect of the 2021/22 pay award; and
 - a residual variance of £3,000;
- The pension fund liability has decreased by £147,000 from £ £1.198 million to £1.051 million; and
 - The above movements have resulted in an overall decrease in the level of reserves to a £264,000 negative balance as at 31 March 2022, inclusive of the IAS19 deficit which is explored from paragraph 7 onwards and the accumulated absence reserve.

Effect of IAS19

6. International Accounting Standard 19 (IAS19), Employee Benefits, is an international accounting standard that all authorities administering pensions funds must follow. This includes London Councils through its Admitted Body status as part of the Local Government Pension Scheme (LGPS) administered by the London Pensions Fund Authority (LPFA).
7. IAS19 requires an organisation to account for retirement benefits when it is committed to give them, even if the actual giving will be many years to come and is, therefore, a better reflection of the obligations of the employer to fund pensions promises to employees. It requires employers to disclose the total value of all pension payments that have accumulated (including deferred pensions) at 31 March each year.
8. 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.
9. 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.
 10. London Councils has to obtain an IAS19 valuation report as at 31 March each year in order to make this required disclosure. This is done through the actuaries of the LPFA fund, Barnett Waddingham. The effect of the standard was reflected in London Councils' accounts for the first time for the 2003/04 financial year and is apportioned across London Councils' three functions – this Committee, the Transport and Environment Committee (TEC) and the London Councils Joint Committee (JC) functions, in proportion to the actual employers pensions contributions paid in respect of staff undertaking each of the three functions. IAS19 has no effect on the net position of income and expenditure for the year. However, as detailed in paragraph 8 above, the IAS19 deficit or surplus needs to be reflected in the annual balance sheet. For London Councils Grants Committee, the Pension Fund deficit as at 31 March 2021 was £1.198 million. The deficit on the Pension Fund as at 31 March 2022, as determined from the latest valuation undertaken by the actuary, is £1.051 million, a decrease of £147,000.
 11. 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 increase in the defined benefit obligation of £499,000. The return on pension scheme assets during the period was higher than

the discount rate assumed at 31 March 2022 which contributed to an increase in asset values of £646,000.

12. Table 3 clearly demonstrates, therefore, that the Committee's balances are notionally reduced by £1.051 million as a result of the requirement to fully disclose the pension fund deficit on the balance sheet. However, recent and future reviews of the employers pension contribution rate is intended, over time, to assist in reducing the overall deficit and the Committee should, therefore, not view general balances as being a first call on funding the IAS19 pensions deficit. London Councils External Auditors (Grant Thornton) will also test the assumptions made by the actuary in arriving at this valuation in the course of their external audit during October.

Committee Reserves

13. The pre-audited position on the Committee's overall reserves, as at 31 March 2022, is detailed in Table 3 below:

Table 3 – Grants Committee reserves as at 31 March 2022

	General Reserve (£000)	Pension Fund (£000)	Accumulated Absences Reserve (£000)	Total (£000)
Balance at 1 April 2021	1,363	(1,198)	(6)	159
Transfer (to)/from Revenue Account	(627)	(109)	1	(735)
Movement on Pension Fund	-	256	-	256
(Deficit)/Surplus for Year	56	-	-	56
Balance at 31 March 2022	792	(1,051)	(5)	(264)

14. The table above indicates that the Committee is projected to have a pre-audited general reserves of £792,000 at the end of March 2022.

Conclusions

15. The pre audited total reserves of £792,000, after considering the projected surplus of £56,000 for the year and applying £327,000 and £300,000 from reserves to cover the priority 1 & 2 payments in relation to no recourse to public funds and the youth homelessness hub respectively. This level of general reserves relating to the S.48

borough funded commissions (Priorities 1&2), equates to 11.9% of the £6.668 million commissions 2022/23 budget. There remains uncertainty surrounding Covid-19 and the impact this may have on the Grants budgets. Potentially unforeseen issues could impact 2022/23 and this will be reported on accordingly.

16. Based on an on-going £6.668 million S.48 commissioning budget, estimated reserves of £792,000, equating 11.9% of the total budget, is above the benchmark of £250,000 or 3.75% established by the Grants Executive Committee in September 2013. The Committee may wish to consider how to use the reserves in excess of the benchmark.

17. The audit of these accounts by the external auditors, Grant Thornton LLP, will take place during October, with the outcome reported to the Audit Committee. The audited accounts and annual audit report will be circulated to all members of the Grants Committee.

Recommendations

18. The Committee is asked:

- to note the provisional pre-audited outturn position and the indicative surplus of £56,000 for 2021/22, the final year of the extended 5-year programme; and
- to note the provisional level of reserves at paragraphs 13-14 and the financial outlook, as detailed in paragraphs 15-17 of this report.

Financial Implications for London Councils

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

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Background Papers

GC Budget File 2021/22

GC Final Accounts File 2021/22

GC Revenue Forecast File 2021/22