

# Grants Committee

## Month 6 Revenue Forecast 2022/23

Item: 8

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**Date:** 30 November 2022  
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### Summary

This report:

- Outlines actual income and expenditure against the approved income and expenditure in the budget to the end of September 2022 for the Grants Committee;
- Provides a forecast of the outturn position for 2022/23 for both actual and committed expenditure on commissions, along with the administration of all these commissions.

Members are reminded that the position stated in this report is at the end of the second quarter of 2022/23, which is the first year of the new four-year programme of commissions. At this stage, a surplus of £3,000 is forecast over the approved budget.

### Recommendations

The Grants Committee is asked to :

- Note the projected surplus of £3,000 for the year; and
  - Note the projected level of Grants Committee reserves, as detailed in paragraph 8 of this report.
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## Introduction

1. This is the second budget monitoring report of the year, but the first to be presented to the Grants Committee during 2022/23. The next report will be the three quarter-year figures, which will be reported to the main Committee in February 2023.
2. The London Councils Grants Committee's income and expenditure revenue budget for 2022/23 was approved by the Leaders' Committee in December 2021, following recommendations by the Grants Committee. The total revenue budget for 2022/23 was £6.668m. To date, there has been no adjustment to this budget.

## Variance from Budget

3. Table 1 below summarises the forecast outturn position for the Grants Committee:

**Table 1 –Summary Forecast**

	<b>M6 Actual</b>	<b>Budget</b>	<b>Forecast</b>	<b>Variance</b>
<b>Expenditure</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Employee Costs	134	271	289	18
Running Costs	7	19	10	(9)
Central Recharges	73	145	142	(3)
<b>Total Operating Expenditure</b>	<b>214</b>	<b>435</b>	<b>441</b>	<b>6</b>
S.48 Commissioned services	2,698	6,173	6,173	-
London Funders Group	60	60	60	-
<b>Total Expenditure</b>	<b>2,972</b>	<b>6,668</b>	<b>6,674</b>	<b>6</b>
<b>Income</b>				
Borough contributions towards commissioned services	(2,840)	(6,173)	(6,173)	-
Borough contributions towards the administration of commissions	(495)	(495)	(495)	-
Interest on Investments	(4)	-	(9)	(9)
Other Income	-	-	-	-
<b>Total Income</b>	<b>(3,339)</b>	<b>(6,668)</b>	<b>(6,677)</b>	<b>(9)</b>
<b>Net Expenditure</b>	<b>(367)</b>	<b>-</b>	<b>(3)</b>	<b>(3)</b>

4. The projected surplus of £3,000 will be monitored throughout the year however, factors that impact on the overall net expenditure to budget which is explored in more detail in the narrative below, is broadly split between the following:

- There is no projected underspend in respect of 2022/23 S.48 borough funded commissioned services (paragraph 5). This will be monitored throughout the year;
- A projected overspend on employee costs of £18,000 where a full complement of administration and other support staff are forecasted to be in place for the year. The overspend is party due to the conclusion of an externally funded project which contributed towards staff and administration costs. This is, however, mitigated by a small reduction in the anticipated central recharges of £3,000;
- An underspend of £9,000 on general running costs, made up of several small underspends across a number of budgets; and
- An additional sum of £9,000 from investment income is forecast to be received on Committee reserves, not previously budgeted for.

### **Payments to Commissions – London Councils Borough S.48 Programme**

5. Table 2 below outlines the actual spend for the period 1 April 2022 to 30 September 2022 for the borough funded commissions, covering priorities 1 and 2.

**Table 2 – Actual Spend 1 April 2022 to 30 September 2022 – Priorities 1 and 2**

<b>2022/23 budget (£)</b>	<b>Forecast payments Quarter 2 (£)</b>	<b>Actual Payments (£)</b>	<b>Projected Underspend (£)</b>	<b>Balance (£)</b>
6,173,132	<sup>1</sup> 3,086,566	2,697,566	-	-

6. At the 6-month stage of the year there are four payments to commissioned services being held back totalling £389,000. However, it is anticipated that these payments will be released once payment requirements have been met in the following quarter.
7. Overall, the programme is not forecast to underspend, however, officers will continue to review financial information relating to each project during the year and the audited accounts at the end of the year. It is possible that underspends will be identified as

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<sup>1</sup> Although payments are approved, some of these amount will be released in Quarter 3.

the year progresses, which will be reflected in the monitoring reports presented to the Grants Committee during 2022/23.

### Committee Reserves

8. Table 3 below updates the Committee on the revised estimated level of balances as at 31 March 2023, if all current known liabilities and commitments are considered:

**Table 3 – Analysis of Projected Uncommitted Reserves as at 31 March 2023**

	<b>Borough Total</b>
	<b>£000</b>
Unaudited reserves as at 1 April 2022	745
Projected surplus/(deficit) for the year	3
<b>Projected reserves as at 31 March 2023</b>	<b>748</b>

9. Projected total reserves of £748,000 are forecast at the year-end, after considering the projected surplus of £3,000 for the year. This level of general reserves relating to the S.48 borough funded commissions (Priorities 1&2), equates to 11.2% of the £6.668 million commissions 2022/23 budget. This figure exceeds the benchmark of £250,000 or 3.75% established by the Grants Executive Committee in September 2013 by some £498,000. There remains uncertainty surrounding Covid-19 recovery and inflationary pressures and the impact this may have on the Grants budgets. Potentially unforeseen issues could impact later in the financial year and this will be reported on accordingly.
10. At the meeting of the Grants Committee on 13 July 2022, officers were asked to seek the views of the auditor on the adequacy of the minimum level of reserves given the IAS19 pension deficit of £1.051 million included in the pre-audited 2021/22 financial accounts. The Local Authority Accounting Code of Practice requires the IAS19 pension deficit to be included in the annual accounts. It is calculated by estimating future pension obligations which are then discounted back to present day values and offset against the value of pension assets. The pension obligation is calculated using complex actuarial methods and assumptions.

11. London Councils is currently undertaking a procurement process to appoint an auditor for the 2022/23 to 2025/26 financial years. Therefore, officers approached Grant Thornton, the firm responsible for auditing the 2021/22 financial accounts. The auditor was unwilling to provide a full opinion on the adequacy of reserves as the use of the reserves will impact on the current financial year for which it will not be the auditor. However, it did state that the IAS19 deficit was an accounting deficit and not a true deficit, a more reasonable estimate of the liability arises from the triennial valuation.
12. The purpose of the triennial valuation is to determine if the pension scheme has sufficient assets to meet its future pension obligations. The employers' contribution is set as part of this valuation process at a rate that ensures the future obligations are met. The contributions are included within the annual budgets which are approved by the Committee. The value of the pension obligation in a triennial valuation is likely to be lower than that of an IAS19 valuation due to the use of different financial assumptions such as the discount rate. The discount rate used in the triennial valuation is based on the expected investment return of assets actually held by the pension fund. However, the discount rate used in the IAS19 valuation is calculated with reference to the market yield on high quality corporate bonds and with consideration of the duration of the employer's liabilities. Corporate bond yields are likely to be lower than the return assumed for the triennial valuation as the scheme is likely to invest in a mixture of assets including higher return seeking assets such as equities and property.
13. The results of the recent triennial actuarial valuation of London Councils scheme were published last month. A comparison of projected pension assets to liabilities showed that London Councils had a funding level of 125% with assets exceeding liabilities by 25%. As a result, the actuary has recommended a reduction to London Councils employers' contribution from 13.6% to 7.7% for the three-year period from 2023/24 to 2025/26.

14. While the Local Authority Accounting Code of Practice requires the IAS19 pension deficit to be included in the financial accounts, it also includes a statutory override which essentially strips out the effect of the IAS19 deficit in the accounts by creating an offsetting Pension Reserve. The purpose of this override is to ensure that local authorities charge amounts payable to the pension scheme in the revenue account and General Fund rather than include the full annual effect of the IAS19 accounting liability.
15. The Director of Corporate Resources is satisfied that the current minimum level of reserves remains sufficient taking into consideration the need for a working balance to manage uneven cashflows and a contingency to cushion the impact of unexpected events. However, the matter will be raised with the incoming auditor. Grant Thornton will also consider the Committee's going concern status as part of the annual audit of the 2021/22 financial accounts. Its opinion on the accounts will be reported to members of the Committee.

## **Recommendations**

16. Members are asked to:

- note the projected surplus of £3,000 for the year; and
- note the projected level of Grants Committee reserves, as detailed in paragraph 9 of this report.

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## **Financial Implications for London Councils**

As detailed in report

## **Legal Implications for London Councils**

None

## **Equalities Implications for London Councils**

None

## **Background Papers**

London Councils Budget working papers 2022/23.

London Councils Income and Expenditure Forecast File 2022/23.

Grants Committee report on Pre-audited Financial Results 2021/22 dated 13 July 2022.