



SUPPLEMENTARY AGENDA

Audit and Risk Management Committee

Date: TUESDAY, 16 JULY 2019
Time: 2.00 pm
Venue: COMMITTEE ROOMS, 2ND FLOOR, WEST WING, GUILDHALL

AGENDA

Part 1 – Public Agenda

6. **2018-19 CITY FUND AND PENSION FUND FINANCIAL STATEMENTS**
Report of the Chamberlain.

For Decision
(Pages 1 – 256)

7. **BRIDGE HOUSE ESTATE ACCOUNTS**
Report of the Chamberlain.

For Decision
(Pages 257 – 364)

Part 2 – Non-Public Agenda

- 20.a) **CORPORATE CATERING CONTRACTS - DELAYS TO CONTRACT SIGNATURE**
Joint report of the Chamberlain and the Comptroller & City Solicitor.

For Information
(Pages 365 - 370)

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Committee(s): Audit and Risk Management – For decision Finance Committee – For decision	Date(s): 16-07-2019 23-07-2019
Subject: 2018-19 City Fund and Pension Fund Financial Statement	Public
Report of: The Chamberlain	For Decision
Report author: Philip Gregory, Chamberlain's Department	

Summary

The City Fund and Pension Fund Statement of Accounts are required to be published by 31 July as set out in the Account and Audit Regulations 2015, subject to approval by your Committee. The latest version of the 2018-19 City Fund and Pension Fund accounts is appended to this report which reflects changes agreed with BDO, our external auditors.

BDO will be submitting their audit progress report at this meeting. The audit is progressing well, and it is anticipated that an unqualified opinion will be issued.

At the time of writing, there is one material unresolved issue relating to the 'McCloud case' which relates to changes made to public sector pension schemes which has now been deemed discriminatory on the grounds of age. Work is still on-going to assess the impact and agree the changes required to the City Fund accounts to reflect this decision.

Recommendation(s)

The Audit and Risk Management Committee are asked to:

- Consider the content of BDO's audit progress report (to follow);
- Recommend approval of the 2018-19 City Fund and Pension Fund Statement of Account to Finance Committee; and
- Delegate authority to the Chamberlain, in consultation with the Chairman and Deputy Chairman of the Audit and Risk Management Committee, approval of any material change to the financial statement required before the signing of the audit opinion by BDO, which is expected by the end of July.

The Finance Committee are asked to:

- Consider the resolution from the Audit and Risk Management Committee and, if appropriate, approve the 2018-19 City Fund and Pension Fund Statement of Accounts; and

- Delegate to the Chamberlain, in consultation with the Chairman and Deputy Chairman of Finance Committee, approval of any material changes to the statement of accounts required before the signing of the audit opinion by BDO – which is expected by the end of July

Main Report

Background

1. The 2018-19 City Fund and Pension Funds Statement of Accounts are set out in Annex 1.
2. The Accounts and Audit Regulations 2015 require the approval and publication of the City Fund and Pension Funds Statement of Account for the year to 31 March 2019 to take place as soon as reasonably practicable, and in any event by 31 July 2019.
3. Approval of each year's financial statements has been delegated by the Court of Common Council to Finance Committee.
4. The statements are prepared in accordance with proper accounting practice as set out in the Code of Practice on Local Authority Accounting 2018-19 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), supported by International Financial Reporting Standards (IFRS).

Summary of 2018-19 City Fund Accounts

Revenue

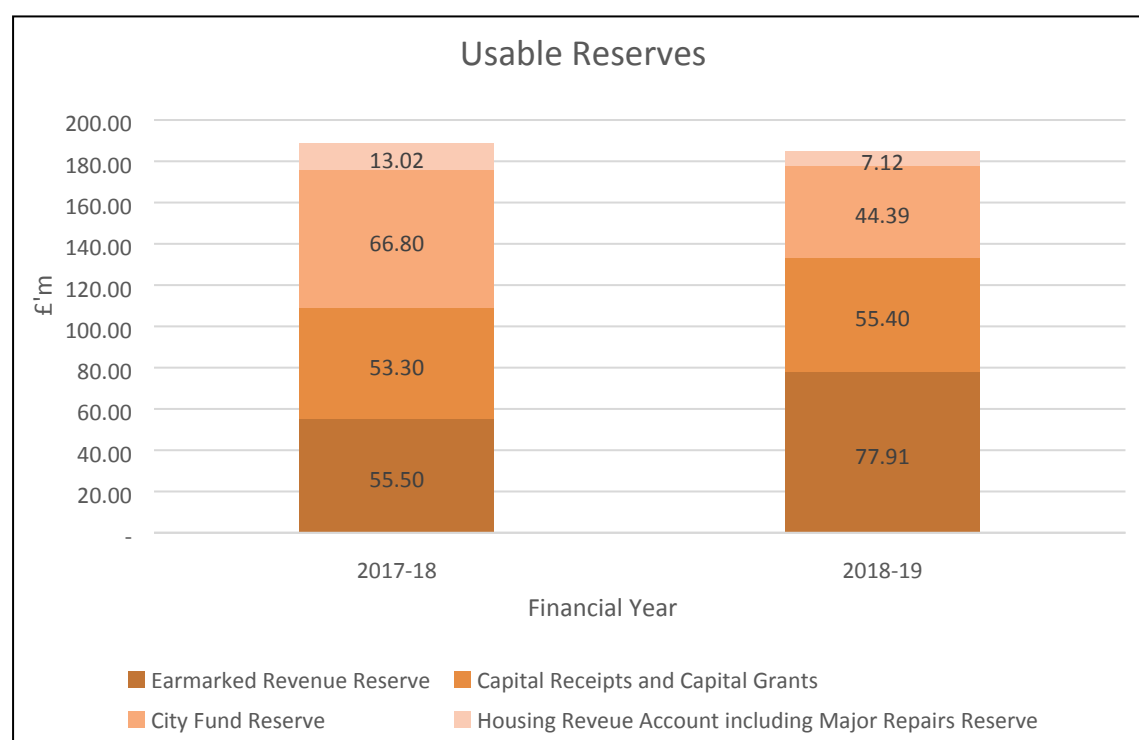
5. The provisional net expenditure for spend against Committee budgets is £7.5m better than budget. More detailed analysis of the outturn compared to budget is currently being submitted to spending committees. Bringing in funding from taxation and grants, the City Fund was £24.3m better than budget.
6. In accordance with the City's budget management arrangements, requests for the carry forward of City Fund resources totalling £0.5m have been approved by the Chamberlain, in consultation with the Chairman and Deputy Chairman of the Resource Allocation Sub-Committee. This will increase the call on the City Fund General Reserve in 2019-20. In addition, £2.3m of projects and works programmes have slipped and/or been re-phased to 2019-20.

Balance Sheet

7. The Balance Sheet net assets have increased by £67.1m from £1,346.7m to £1,413.8m.
8. The increase in net assets of £67.1m is reflected in a decrease in usable reserves of £3.8m and an increase in unusable reserves of £70.9m.
9. Usable reserves are those relatively liquid reserves that can be applied to fund expenditure or reduce local taxation. They are required over the medium term for

the funding of the capital programme and includes sums earmarked, either by statute or as agreed by Members, for specific purposes such as spend on Highways, the Housing Revenue Account and the Police.

10. Unusable reserves hold unrealised gains and losses and differences between the accounting basis and statutory basis for preparing local authority financial statements.
11. The £3.8m decrease in usable reserves reflects the use of the City Fund balances to fund major project spend, which totalled £38.4m in 2018-19. A breakdown of usable reserve is show below.



12. The £70.9m year on year increase in unusable reserves from £1,158.1m to £1,229.0m is analysed further in note 30 to the City Fund financial statements. The most significant items contributing to this increase was the increase in investment (£32.9m) and operational property valuations (£27.4m). These increases were offset by an increase of £38.4m in the negative pension reserve to match the increase in estimated pension liabilities.

Pension Liability

13. The City Fund's total net assets of £1,413.8m are after having deducted net pension liabilities totalling £1,299.2m. The comparator for 31 March 2018 is £1,260.7m. The liabilities arise from applying the requirements of International Accounting Standard (IAS) 19. This accounting standard is complex but is based on the principle that an organisation should recognise liabilities for pension benefits as they are earned, even if the payment of such benefits will be many years into the future. The estimated net liabilities are calculated by independent actuaries, Barnett Waddingham. A breakdown of the liability between the 3 pension schemes operating under City Fund is shown below.

Net Pension Liability breakdown by scheme	31 March 2018	31 March 2019
City of London LGPS Scheme - City Fund	(302.4)	(310.5)
Police Pension Schemes	(955.7)	(985.8)
Judges Pension Scheme	(2.6)	(2.9)
Total	(1,260.7)	(1,299.2)

14. The Police and Judges' schemes are wholly accounted for by the City Fund but the Local Government Pension Scheme (LGPS), which is open to all other staff who don't qualify for the other schemes, is apportioned between the City Corporations 3 funds (City Fund, City's Cash and Bridge House Estates) so to present a fairer view of the funds' financial positions than if the deficit were excluded.
15. An apportionment has been made based on employer's annual contributions to the fund which meant the City Fund accounted for 51% of the overall deficit which is the same proportion as the previous year.
16. Pension fund deficits (or surpluses) are relatively sensitive to movements in the underlying assumptions. Whilst there have been changes in these assumptions from the previous year, these have been offsetting and the overall deficit has remained similar to last year. Details of these changes can be found in note 23 of the accounts.
17. It should be noted that the employer's pension contribution rate is a separate issue from the IAS19 calculations. It is considered and determined by Finance Committee following each triennial valuation (updated by any subsequent interim valuations). The triennial valuation considers the period over which the pension deficit should be recovered through employer's contributions and the City Corporation is consulted on the assumptions used by the actuary for these valuations. Following the triennial valuation as at 31 March 2016, Finance Committee agreed to increase the employer's contribution rate from 17.5% to 21% for the years 2017-18 to 2019-20 in order to recover the pension fund deficit over a period of 17 years.
18. Work on the triennial valuation covering the period 2020-21 to 2022-23 has begun and the outcomes will be brought to the November Finance Committee for decision on future employer contribution rates.

McCloud Judgement

19. The above analysis of the City Fund Pension Liability excludes the impact of the recent McCloud judgement. This case relates to action being brought against the Government by members of the Judges' and Firefighter pension schemes challenging the transitional protections given as part of pension reforms enacted in 2015.

20. In December 2018 the Court of Appeal ruled that the transitional protections were unlawful. On 27 June 2019, the Supreme Court refused the Government's request to appeal.
21. The likely impact of this decision is an increase in the liabilities in all public sector pension schemes. The scale of the impact will only be known when the Government confirms its response to the judgement. It is not clear when this decision will be made. The City Fund accounts have disclosed this issue as a contingent liability. We are in discussions with BDO and our actuary regarding changes to the accounts required to reflect this judgement. An update will be provided at your Committee with the latest position on this issue.

Audit Progress

22. BDO commenced its audit on 3 June 2019. At the time of writing the audit was still underway. It is anticipated that the audit will be concluded satisfactorily to enable BDO to issue unqualified opinions. Representatives from BDO will be in attendance at the Audit and Risk Management Committee to present their progress reports and to clarify any points or issues.

Conclusion

23. BDO is expecting to sign its audit opinion by the end of July. Should any material adjustments to the financial statements be required before that position is reached, it is recommended that authority to approve such amendments should be delegated to the Chamberlain in consultation with the Chairmen and Deputy Chairmen of the Audit and Risk Management and Finance Committees.
24. As soon as reasonably possible after the conclusion of the audit, and in any event by 31 July 2019, the City is required to publish the 2018-19 City Fund and Pension Fund Financial Statements including the Audit Opinion on its website. Copies of the published statements will be placed in the Members' Reading Room. The final management letters from BDO on its audit will be presented to the Court of Common Council for information.

Appendices

Appendix 1 – 2018-19 Statement of Accounts for the City Fund and the Pension Fund

Appendix 2 - BDO's City Fund Progress Report

Appendix 3 - BDO's Pension Fund Progress Report

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THE CITY OF LONDON CORPORATION

Unaudited Statement of Annual Accounts for the City Fund Year Ended 31 March 2019

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Preface

AN INTRODUCTION TO THE CITY OF LONDON CORPORATION

1. The City of London Corporation (City Corporation) is the governing body of the Square Mile dedicated to a vibrant and thriving City, supporting a diverse and sustainable London within a globally-successful UK. The Square Mile is the historic centre of London and is home to the 'City' – the financial and commercial heart of the UK. Our reach extends far beyond the Square Mile's boundaries and across private, public and charitable and community sector responsibilities. This, along with our independent and non-party political voice, convening power and ability to work with others, enable us to promote the interests of people and organisations across London and the UK and play a valued role on the world stage.
2. The City Corporation is responsible for managing three funds, City Fund, City's Cash and Bridge House Estates. Bridge House Estates funds the maintenance of Tower, London, Southwark, Millennium and Blackfriars Bridges and the work of City Bridge Trust (London's largest independent charitable funder) and City's Cash allows us to provide services that are of importance to Greater London as well as to the City at little or no cost to the public. More information about the City Fund is given in the following pages.
3. As the governing body of the Square Mile, we are responsible for delivering the functions of a local authority and a police authority for our residents, workers, learners and visitors, as well as being the port health and animal health authorities for London. There are approximately 7,500 residents living in the Square Mile. However, we have a high daytime population in the Square Mile made up of approximately 513,000 workers daily and approximately 19 million visitors annually.

The UK financial services industry contributed

£75bn
in tax revenue in 2018.

11% of the total tax contribution to the UK is generated from financial services.



CORPORATE STRATEGY

4. In 2018-19 the City Corporation launched a new Corporate Plan for 2018-23. It sets out our three aims which in turn are broken down into 12 outcomes (shown below). Our Plan commits us to strengthening the character, capacity and connections to the City, London and the UK for the benefit of residents, workers, learners and visitors. This Plan will guide our thinking and decision-making, providing us with the focus to achieve sustainable systemic change during what is likely to be another period of significant change on a global, national and regional level, bringing both threats and opportunities. These include preventing climate change, terrorism and cyber-crime, and countering their effects, which will all remain high priorities for the organisation. So too will retaining the UK's competitiveness, in the context of Brexit; increases in the cost of living; and reductions in public sector spending. We are also ensuring that we can support our residents, workers, visitors, partners and our own organisation to respond effectively to other disruptive changes, such as the digitisation of our work and personal lives.



Contribute to a flourishing society

1. People are safe and feel safe.
2. People enjoy good health and wellbeing.
3. People have equal opportunities to enrich their lives and reach their full potential.
4. Communities are cohesive and have the facilities they need.



Support a thriving economy

5. Businesses are trusted and socially and environmentally responsible.
6. We have the world's best legal and regulatory framework and access to global markets.
7. We are a global hub for innovation in finance and professional services, commerce and culture.
8. We have access to the skills and talent we need.



Shape outstanding environments

9. We are digitally and physically well-connected and responsive.
10. We inspire enterprise, excellence, creativity and collaboration.
11. We have clean air, land and water and a thriving and sustainable natural environment.
12. Our spaces are secure, resilient and well-maintained.

5. The Plan is designed to be used as a strategic framework for the organisation. It has therefore been aligned to corporate strategies, service level business plans, team plans and staff appraisal forms. This 'golden thread' allows us to monitor the impact of everything we do has on the aims and outcomes we have identified.
6. As an organisation we are committed to being relevant, responsible, reliable and radical – acting strategically and at pace in order to ensure everyone can share in the benefits we aim to create. This means that we must be open: to unlocking the full potential of our many assets – our people, heritage, green and urban spaces, funds, data and technology; to trying new things and learning as we go; and to working with our stakeholders and partners who share our aims. To deliver this we have developed a number of key strategies:
 - **Responsible Business Strategy, 2018-25:** committing us to creating a positive impact and reducing negative impact across all our activities and decisions – encouraging those we work with externally to do the same.
 - **Social Mobility Strategy, 2018-28:** committing us to bridge and reduce the social and economic divides that may be experienced by people during their lifetime, by maximising and promoting social mobility within businesses, organisations, central and local government and educational and cultural institutions.
 - **Digital Skills Strategy, 2018-23:** committing us to equipping people and businesses across the City, London and beyond to take full advantage of digital technologies and innovations to help themselves and their economies thrive.
 - **Apprenticeships Strategy, 2018-23:** committing us to a workforce and organisation that thrives through high-quality and wide-ranging apprenticeships that welcomes diverse talent and develops relevant skills.
 - **Education, Skills and Cultural and Creative Learning Strategies, 2018-23:** Committing us to preparing people to flourish in a rapidly changing world through exceptional education, cultural and creative learning and skills which link to the world of work.

OUR FUNDING STRUCTURE

In common with other local authorities, the City Fund received funding via grants from central government, a share of business rates income and the proceeds of the local council tax. The City Fund also generates rental and interest income to help finance its activities. A breakdown of these amounts for 2018-19 is shown below in the financial summary for the year.

Whilst collecting more than £1bn in business rate income, the City Fund only retains only a small proportion of the amounts collected from its area, in accordance with the national arrangements. The remainder is paid over to central government and is redistributed to local authorities throughout the country. Because of its special circumstances – notably its very low resident population and high daytime population – the City of London is allowed uniquely to set its own business rate. It may set this rate, subject to certain constraints, at a higher or lower level than the National Non-Domestic Rate determined by central government for the rest of the country.

The City Fund is uniquely allowed to set its own business rate. More information on the role and ongoing work of the City Corporation, can be found on the City's website at www.cityoflondon.gov.uk¹

PERFORMANCE

Our recognised achievements in 2018-19 include awards within a range of schemes and categories:



¹ The City of London Corporation is responsible for the maintenance and integrity of the corporate and financial information included on its website. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions

Risk Management and Priorities for the Coming Year

Our risk management processes help us identify and manage the most significant risks to the organisation that could stop us achieving our strategic objectives or have a significant detrimental impact on the City of London Corporation. The Audit and Risk Management Committee maintains oversight of risk management and is ultimately responsible for ensuring that satisfactory arrangements are in place for this.

The key risks to the organisation relate to managing the impact of Brexit, maintaining a safe and healthy environment and ensuring the financial sustainability of our operations. In the case of this last, we are about to embark upon a fundamental review of our operations to ensure we align our spend against our Corporate Plan, strengthen financial discipline in a time of declining resources and enable us to fund our major projects.

OTHER DISCLOSURES

The Trade Union Regulations 2017 requires public authorities to disclose trade union activity as part of the annual accounts. The below table set out the detail required under this regulation. It outlines the volume of union activity as well as the annual cost to the City where union activity is carried out during working hours.

Trade Union representatives and full-time equivalents	
Number of trade union representatives (people)	36
FTE trade union representative	31

Total pay bill and facility time costs 2018-19	£m
Total City of London pay bill	209.9
Total cost of facility time	0.1
Percentage of pay spend on facility time	0.06%

Percentage of working hours spend on facility time by union representative	
0% of working hours	23
1% to 50% of working hours	10
51% to 99% of working hours	3
100% of working hours	0
Total	36

Paid trade union activities 2018-19	
Hours spend on paid facility time	4,802.60
Hours spend on trade union activities	0.0
Time spend on paid trade union activities as a percentage of total paid facility time	0.0%

FINANCIAL OUTLOOK

The City Corporation is about to embark on an ambitious programme of investment across its funds aimed at fulfilling its strategic aims and continuing to make the City the place people want to live, work and enjoy. For the City Fund these major projects include the Combined Courts project, which will relocate the central criminal court to a new world class facility and the relocation of the Museum of London to a new purpose-built facility. These programmes require significant financial investment at a time where the City Fund is facing a number of threats to its funding and pressures on its services. These include:

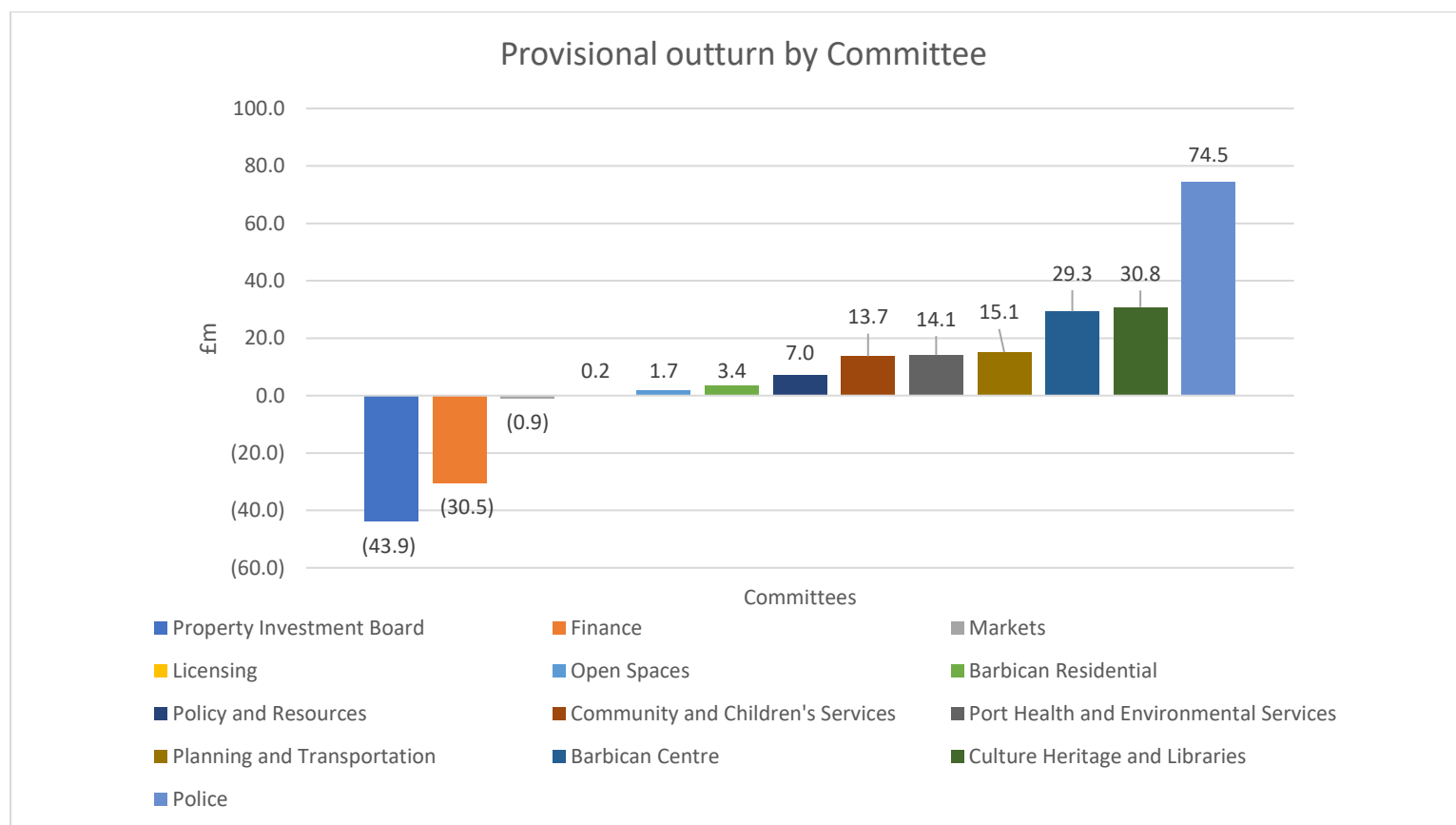
- **Spending Review** (potentially reporting November 2019) – there is unlikely to be significant additional government funding for local government or police, with the most likely outcome being a further squeeze.
- The **Fair Funding Review** of local government funding could shift resources away from London.
- **Police Funding Formula Review** – this has been delayed but might well re-emerge after the Spending Review and carries significant risks.
- **Business Rates** – funding baselines are due to reset in 2020-21 along with other reforms which could impact on the level of business rates the City Corporation retains. Consultation on these changes are being conducted during the summer but we have put in place plans on the assumption that these changes will be carried forward.

The below table sets out the current financial projections for City Fund across the medium-term planning horizon. This highlights the financial challenge facing the City Fund and is one of the motivating factors for instigating the fundamental review of the City Corporations activities. Mitigating actions are also being developed by the City of London Police Force to manage their forecast deficit position.

City Fund Medium Term Forecast	19-20	20-21	21-22	22-23
	£000	£000	£000	£000
City Fund – (non Police) including Major Project financing costs	19.8	(11.5)	(10.4)	(12.2)
Major Project Financing Reserve	0.0	8.3	0.0	0.0
Police Forecast Deficit	(0.1)	(7.8)	(8.3)	(9.1)
Current forecast surplus/(deficit)	19.7	(11.0)	(18.7)	(21.3)
City Fund Reserves post projected surplus/(deficit)	64.0	53.0	34.3	13.0

2018-19 FINANCIAL SUMMARY

Our budget for 2018-19 was agreed by the Court of Common Council (the City Corporations primary decision-making body) in March 2018 for both capital and revenue expenditure. The below chart sets out the revenue outturn by Committee, which reflects the operational areas of City Fund activity. The City Funds largest area of spend is the City of London Police which is largely funded via grants from government along with a contribution from the business rate premium, which for 2018-19 was set at 0.5p. The City Corporation also benefits from a large property investment portfolio, managed by the Property Investment Board Committee, which generates income to fund our services.



The adjacent table compares each committee outturn to its final budget for 2018-19. Taking into account service expenditure and funding from taxation and grants, the City Fund recorded a £24.3m underspend for the year.

The key variances include an overspend in Culture, Heritage and Libraries due to additional grant issued to the Museum of London (MoL) to fund the MoL relocation project, an underspend in Finance Committee due to unspent contingency/provision funds (£1.3m) and lower cyclical works programme costs (£3.5m) and additional rental income accounts for the underspend in Property Investment Board.

A breakdown of the City Fund taxation and grants income can be seen below.

2018-19 Budget v Outturn - City Fund Summary by Committee			
	Budget	Provisional	Variation (Better)/Worse
<i>Net Expenditure (Income)</i>	Net	Outturn	Total
	£m	£m	£m
Barbican Centre	30.0	29.3	(0.7)
Barbican Residential	3.3	3.4	0.1
Community and Children's Services	13.8	13.7	(0.1)
Culture Heritage and Libraries	26.8	30.8	4.0
Finance	(23.2)	(30.5)	(7.3)
Licensing	0.1	0.2	0.1
Markets	(0.8)	(0.9)	(0.1)
Open Spaces	1.8	1.7	(0.1)
Planning and Transportation	15.4	15.1	(0.3)
Police	74.1	74.5	0.4
Policy and Resources	7.8	7.0	(0.8)
Port Health and Environmental Services	14.7	14.1	(0.6)
Property Investment Board	(41.8)	(43.9)	(2.1)
City Fund requirement to be met from government grants, local taxation and transfers to/(from) reserves.	122.0	114.5	(7.5)
Transfer from City of London Police Reserve		(0.4)	
Funding from Taxation and Grants		(138.4)	
2018-19 Transfer to City Fund Balance		(24.3)	

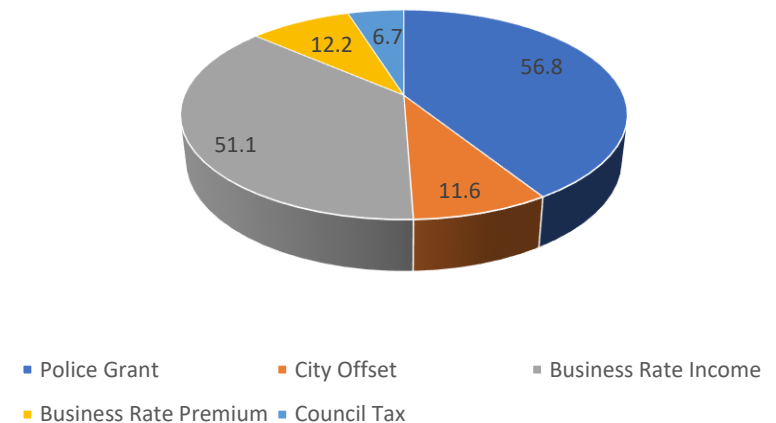
7. 2018-19 was the first year in which the City Fund did not receive any revenue support grant from Government as this has been rolled into retained business rate income. This was also the first year of the London Business Rate Pool Pilot, which has been entered into by all 32 London Boroughs, the Greater London Authority (GLA) and the City Corporation, enabling the region to retain all business rate income growth.

The City Corporation has acted as lead authority for the pool managing the cashflows between participating authorities and the pool benefit distribution model which has been agreed by all. The 2018-19 pool is based on 100% growth being retained by London and has created an additional £397.2m of funding being retained in London compared to the previous business rate scheme. Of this gain, £337.6m has been distributed directly to participate authorities, of which the City Fund received £13.5m, whilst £59.6m has been retained in a Strategic Investment Pot (SIP) to fund sub-region projects to support sustainable growth of London's economy and growth in business rates income.

Transactions relating to the aggregation and distribution of business rate income have been treated on an agency basis as the City Corporation is acting on behalf of participating authorities. These transactions have not been accounted for in the CI&ES but outstanding balances have been recognised on the balance sheet as debtors and creditors. Details of these balances can be found in note 39 – Agency Transactions.

As the City Corporation is the final decision maker for the allocation of SIP funds, these amounts have been included in the CI&ES. Payments of £46.8m due to successful projects are shown on the face of the CI&ES so not to confuse year on year comparison with Committee lines. An unallocated SIP balance of £12.8m has been taken to earmarked reserves pending future allocation to projects.

2018-19 Funding from Taxation and Grants
£m



2018-19 STATEMENT OF ACCOUNTS

The 2018-19 Statement of Accounts have been prepared in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2018-19. This year we have reviewed how we present the accounts with the aim of making them more usable, readable and understandable. Where possible we have removed or amalgamated disclosures to present a concise picture of the City Fund whilst also complying with statutory requirements. The notes to the accounts have been grouped in line with the main financial statements i.e. all balance sheet notes are now grouped together, to enhance readability and understanding of the main statements. However, this remains a complex document, but we hope these changes enable you to better understand the City Fund accounts.

This year sees the introduction of 2 new accounting standards, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. Both standards have been adopted without the need for prior year restatements although IFRS 9 does require an “opening balance” adjustment correcting the 1 April 2018 opening value to that which would have been if the standard had always been in place. Only minor changes were required to City Fund balances following this remeasurement.

IFRS 9 is a complex standard related to the classification and measurement of financial assets including a new model for calculating expected credit losses, which seeks to provide for potential non-collection of financial assets. The standard does not apply to statutory transactions e.g. council tax and business rate collection, parking fines etc. The impact of this standard has been limited as seen in note 18.

IFRS 15 relates to the timing of revenue income recognition linked to delivery of performance obligations and control of an asset. This has had no impact on revenue recognition of City Fund income from previous years.

The City of London Corporation's Responsibilities

The City of London Corporation is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. This officer is the Chamberlain
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the Statement of Accounts.

The Chamberlain's Responsibilities

The Chamberlain is responsible for the preparation of the Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 ("the Code").

In preparing this Statement of Accounts, the Chamberlain has:

- selected suitable accounting policies and then applied them consistently
- made judgments and estimates that were reasonable and prudent
- complied with the local authority Code.

The Chamberlain has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Chamberlain's Certificate

I certify that the Statement of Accounts gives a true and fair view of the financial position of the City Fund and the Pension Funds of the City of London Corporation at the reporting date and of its expenditure and income for the year ended 31 March 2019.



Dr Peter Kane

Chamberlain

Date: 31 May 2019

Independent Auditor's Report on the City Fund to the City of London Corporation

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Core Financial Statements

Comprehensive Income and Expenditure Statement

2017-18				Notes	2018-19		
Gross Expenditure	Gross Income	Net Expenditure/ (Income)			Gross Expenditure	Gross Income	Net Expenditure/ (Income)
£m	£m	£m			£m	£m	£m
			Services				
128.3	(60.2)	68.1	Police		132.2	(61.0)	71.2
58.0	(30.9)	27.1	Barbican Centre		56.2	(25.3)	30.9
28.9	(13.9)	15.0	Community & Children's Services		28.9	(13.3)	15.6
22.1	(15.9)	6.2	Housing Revenue Account (HRA)		28.3	(16.1)	12.2
41.7	(37.1)	4.6	Planning & Transportation		35.9	(34.5)	1.4
27.2	(14.8)	12.4	Port Health & Environmental Services		28.2	(14.7)	13.5
28.9	(2.7)	26.2	Culture, Heritage and Libraries		34.6	(2.9)	31.7
27.0	(14.7)	12.3	Finance		25.4	(14.0)	11.4
12.2	(13.8)	(1.6)	Barbican Residential		13.2	(14.2)	(1.0)
12.4	(7.6)	4.8	Policy & Resources		14.0	(6.3)	7.7
2.4	(0.5)	1.9	Open Spaces and City Gardens		2.5	(0.6)	1.9
1.5	(0.5)	1.0	Property Investment Board		1.6	(0.6)	1.0
0.8	(0.7)	0.1	Licensing		1.0	(0.8)	0.2
0.0	0.0	0.0	London NNDR Pool Strategic Investment Pot		46.8	0.0	46.8
391.4	(213.3)	178.1	Cost of Services		448.8	(204.3)	244.5
		(1.7)	Other Operating Income	7			(2.3)
		(87.7)	Financing & Investment Income & Expenditure	7			(52.2)
		(161.5)	Taxation & Non-Specific Grant Income	7			(243.3)
		(72.8)	(Surplus)/Deficit on the Provision of Services				(53.3)
		(27.4)	Surplus on the Revaluation of Property, Plant & Equipment	13			(27.4)
		8.0	Remeasurements of the Pensions Liability	26			13.4
		0.0	Gain/Loss on Financial Instruments	18			0.2
		(19.4)	Other Comprehensive (Income) & Expenditure				(13.8)
		(92.2)	TOTAL COMPREHENSIVE (INCOME) & EXPENDITURE				(67.1)

Movement in Reserves Statement

	Notes	City Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves	Total Reserves
		£m	£m	£m	£m	£m	£m	£m	£m
Balance at 31 March 2018		(122.3)	(4.5)	(26.2)	(27.1)	(8.5)	(188.6)	(1,158.1)	(1,346.7)
Movement in reserves during 2018-19									
Total Comprehensive Income & Expenditure		(64.2)	10.9	0.0	0.0	0.0	(53.3)	(13.8)	(67.1)
Adjustments between accounting basis & funding basis under regulations	11	64.2	(10.2)	4.6	(6.8)	5.3	57.1	(57.1)	0.0
(Increase) or decrease in 2018-19		0.0	0.7	4.6	(6.8)	5.3	3.8	(70.9)	(67.1)
Balance at 31 March 2019 carried forward*		(122.3)	(3.8)	(21.6)	(33.9)	(3.2)	(184.8)	(1,229.0)	(1,413.8)

* The City Fund balance of £122.3m comprises unallocated revenue funds of £44.3m and earmarked revenue reserves of £78.0m (see note 12)

	Notes	City Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves	Total Reserves
		£m	£m	£m	£m	£m	£m	£m	£m
Balance at 31 March 2017 carried forward		(90.9)	(8.1)	(33.7)	(23.4)	(6.5)	(162.6)	(1,091.9)	(1,254.5)
Movement in reserves during 2017-18									
Total Comprehensive Income & Expenditure		(77.0)	4.2	0.0	0.0	0.0	(72.8)	(19.4)	(92.2)
Adjustments between accounting basis & funding basis under regulations	11	45.6	(0.6)	7.5	(3.7)	(2.0)	46.8	(46.8)	0.0
(Increase) or decrease in 2017-18		(31.4)	3.6	7.5	(3.7)	(2.0)	(26.0)	(66.2)	(92.2)
Balance at 31 March 2018 carried forward**		(122.3)	(4.5)	(26.2)	(27.1)	(8.5)	(188.6)	(1,158.1)	(1,346.7)

** The City Fund balance of £122.3m comprises unallocated revenue funds of £66.8m and earmarked revenue reserves of £55.5m (see note 12)

Balance Sheet

The Statement of Accounts was authorised for issue by the Chamberlain on 31 May 2019. Events after the balance sheet date and up to 31 May 2019 have been considered in respect of material impact on the financial statements. Events taking place after this date are not reflected in the financial statements or notes.

31 March 2018		Notes	31 March 2019
£m			£m
915.6	Property, Plant and Equipment	13	937.0
9.0	Heritage Assets	14	9.0
1,521.8	Investment Property	17	1,586.2
0.9	Intangible Assets		0.6
0.2	Investments	18	0.0
17.6	Long-Term Debtors	16	17.2
2,465.1	Long-Term Assets		2,550.0
686.0	Short-Term Investments	18	688.5
0.3	Assets Held for Sale		0.5
0.5	Inventories		0.5
0.3	Intangible Current Assets		0.2
92.8	Short-Term Debtors	20	184.0
55.2	Cash and Cash Equivalents		38.5
835.1	Current Assets		912.2
(360.7)	Short-Term Creditors	21	(363.1)
(58.0)	Provisions	22	(72.7)
(418.7)	Current Liabilities		(435.8)
(1,260.7)	Pensions Liability	26	(1,299.2)
(102.8)	Capital Grants and Contributions Received in Advance	27	(108.9)
(167.3)	Deferred Credits	28	(166.3)
(4.0)	Other Long-Term Liabilities	29	(38.2)
(1,534.8)	Long-Term Liabilities		(1,612.6)
1,346.7	NET ASSETS		1,413.8
(188.6)	Usable Reserves		(184.8)
(1,158.1)	Unusable Reserves	31	(1,229.0)
(1,346.7)	TOTAL RESERVES		(1,413.8)

Cash Flow Statement

2017-18		Notes	2018-19
£m			£m
(72.8)	Net (surplus)/deficit on the provision of services		(53.3)
17.1	Adjustments for non-cash movements	32	(114.0)
29.5	Adjustments for items that are investing and financing activities	32	33.0
(26.2)	Net cash (inflows)/outflows from operating activities		(134.3)
(12.5)	Investing activities	33	34.1
36.7	Financing activities	34	116.9
(2.0)	Net (increase)/decrease in cash and cash equivalents		16.7
(53.2)	Cash and cash equivalents at the beginning of the reporting period		(55.2)
(55.2)	Cash and cash equivalents at the end of the reporting period		(38.5)

Notes to the Core Financial Statements

1. Critical Judgements in Applying Accounting Policies

In applying accounting policies authorities may have to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgement that management considers will have a material effect on the amounts recognised in the financial statements is the net deficit on the City of London Pension Fund and the future levels of local government and police funding.

The Pension Fund is the responsibility of the City Corporation as a whole rather than the specific responsibility of any of its three funds. Therefore, the City Fund does not have an exclusive relationship with the Pension Fund and the portion of the Pension Fund net deficit relating to City Corporation employees engaged on City Fund activities is not separately identifiable. An apportionment is made based on employer's pension contributions paid by each of the three funds into the Pension Fund.

2019-20 is the final year of the government's 4 year financial settlement with local authorities which has provided certainty on funding levels. The Government is currently consulting on the Fair Funding Review which is looking at refreshing the local government funding formula, used to distribute funding to local authorities, as well as consulting on changes to the business rates retention regime, which is a major source of funding for the City Fund. Despite these uncertainties the City Corporation has not deemed it necessary to impair its assets linked to potential service changes at this point in time.

2. Assumptions Made About the Future and Other Major Sources of Estimation and Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the City Fund about the future or that are otherwise uncertain. The estimates and associated assumptions are continually reviewed and are based on historical experience and other factors including expectations of future events that are considered to be reasonable under the circumstances. However, because balances cannot be determined with certainty, actual results could be materially different from those estimates. Changes in accounting estimates may be necessary if there are changes in circumstances on which the estimate was based, or as a result of new information or more experience. The estimates and assumptions that have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

(a) **Business Rates**

Since the introduction of the Business Rates Retention Scheme effective from 1 April 2013, Local Authorities are liable for successful appeals against business rates in their proportionate share. Therefore, a provision has been recognised for the best estimate of successful appeals up to 31 March 2019. The estimate has been calculated using the Valuation Office Agency (VOA) ratings list of appeals and the analysis of successful appeals. Due to the limited information available on appeals to the 2017 list following the introduction of the Check, Challenge and Appeals process, the average loss on appeal rate of 4.7% has been applied to calculate the provision for 2018-19.

(b) Pension Benefits

Estimation of the net liability to pay pensions depends on a number of complex adjustments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages and mortality rates. The actuarial firm Barnett Waddingham LLP have been appointed as the City Corporation's actuary to provide the City Fund with expert advice about the assumptions to be applied.

The effect of changes in individual assumptions on the net pension liability can be measured but are complex and interact in a complex manner. For example the actuary determines the appropriate discount rate at the end of each year after taking account of the yield from a high quality bond of appropriate duration, a 0.1% decrease in the discount rate assumption across all 3 pension schemes (LGPS, Police and Judges') would result in an increase in the pension liabilities of City Fund of some £34.2m. Other key assumptions for pension obligations are based in part on current market conditions and demographic data. Additional information on pension schemes is given in notes 23 to 26.

(c) Property Valuations

The carrying values of property, plant and equipment and investment properties are primarily dependent on judgements of such variables as the state of the property market, location, asset lives, condition of the property, indices etc. Valuation is an inexact science with assessments provided by different surveyors rarely agreeing and with prices subsequently realised diverging from valuations. A reduction in estimated valuations would result in reductions to the Revaluation Reserve and/or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement. For example a 1% reduction in the value of investment properties would result in a £15.9m debit to "Financing and Investment Income and Expenditure" in the Comprehensive Income and Expenditure Statement. Conversely, an increase in operational property values would result in increases to the Revaluation Reserve and/or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and/or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.

However, the risk of material adjustments is mitigated by using the experience and knowledge of professional chartered surveyors, both in-house staff and external firms. In addition, tests are undertaken to ensure that variations between the valuations of different surveyors, and between valuations and actual prices, are within reasonable tolerances. Additional information on investment property asset valuation is provided in note 17.

(d) Arrears

At 31 March 2019, the City Fund had a balance for rents, trade and sundry debtors of £55.2m (2017-18: £40.2m). A review of the length of time past due, progress on recovery action and forward look on economic factors which could influence recovery of the debt suggested that an impairment allowance for expected credit losses and doubtful debts of £7.9m (2017-18: £8.5m) was appropriate. If collection rates and/or economic factors were to deteriorate an increase in the amount of the impairment allowance would be required.



Notes to the Comprehensive Income and Expenditure Statement

3. Expenditure and Funding Analysis

2017-18				2018-19		
Net Expenditure Chargeable to City Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the CIES		Net Expenditure Chargeable to City Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the CIES
£m	£m	£m		£m	£m	£m
			Committees			
73.5	(5.4)	68.1	Police	79.7	(8.5)	71.2
25.2	1.9	27.1	Barbican Centre	29.2	1.7	30.9
13.4	1.6	15.0	Community and Children's Services	14.4	1.2	15.6
3.7	2.5	6.2	HRA	0.8	11.4	12.2
4.5	0.1	4.6	Planning and Transport	3.7	(2.3)	1.4
13.2	(0.8)	12.4	Port Health and Environmental Services	13.8	(0.3)	13.5
25.6	0.6	26.2	Culture, Heritage and Libraries	30.6	1.1	31.7
(14.6)	26.9	12.3	Finance	9.9	1.5	11.4
2.9	(4.5)	(1.6)	Barbican Residential	3.4	(4.4)	(1.0)
4.2	0.6	4.8	Policy and Resources	7.3	0.4	7.7
1.8	0.1	1.9	Open Spaces and City Gardens	1.8	0.1	1.9
(42.0)	43.0	1.0	Property Investment	(43.9)	44.9	1.0
0.1	0.0	0.1	Licensing	0.2	0.0	0.2
(1.1)	1.1	0.0	Markets	(0.9)	0.9	0.0
0.0	0.0	0.0	London NNDR Pool Strategic Investment Pot	(12.8)	59.6	46.8
110.4	67.7	178.1	Net Cost of Services	137.2	107.3	244.5
(138.2)	(112.7)	(250.9)	Other Income and Expenditure	(136.5)	(161.3)	(297.8)
(27.8)	(45.0)	(72.8)	(Surplus) or Deficit on the Provision of Services	0.7	(54.0)	(53.3)
(99.0)			Opening City Fund and HRA Balances	(126.8)		
(27.8)			Add (Surplus) or Deficit on City Fund and HRA Balance in Year	0.7		
(126.8)			Closing City Fund and HRA Balances at 31 March*	(126.1)		

* For a split of this balance between the City Fund and the HRA – see the Movement in Reserves Statement

Further information on the City Corporation's Committees can be found on the website at : <http://democracy.cityoflondon.gov.uk/mgListCommittees.aspx?bcr=1>

4. Note to the Expenditure and Funding Analysis

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the City Fund and HRA Balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement.

2017-18						2018-19				
Adjustments for Capital Purposes	Net Changes for Pension Adjustments	Collection Fund Adjustment Account	Other Adjustments	Total Adjustments	Committees	Adjustments for Capital Purposes	Net Changes for Pension Adjustments	Collection Fund Adjustment Account	Other Adjustments	Total Adjustments
£m	£m	£m	£m	£m		£m	£m	£m	£m	£m
1.8	(7.1)	0.0	(0.1)	(5.4)	Police	3.8	(13.0)	0.0	0.7	(8.5)
0.0	1.5	0.0	0.4	1.9	Barbican Centre	0.0	1.3	0.0	0.4	1.7
0.4	0.5	0.0	0.7	1.6	Community and Children's Services	0.0	0.5	0.0	0.7	1.2
2.1	0.4	0.0	0.0	2.5	HRA	11.0	0.3	0.0	0.1	11.4
0.1	0.9	0.0	(0.9)	0.1	Planning and Transport	0.1	0.8	0.0	(3.2)	(2.3)
0.0	1.0	0.0	(1.8)	(0.8)	Port Health and Environmental Services	0.0	0.9	0.0	(1.2)	(0.3)
0.0	0.7	0.0	(0.1)	0.6	Culture, Heritage and Libraries	0.0	0.6	0.0	0.5	1.1
17.8	0.6	0.0	8.5	26.9	Finance	(12.1)	0.6	0.0	13.0	1.5
0.0	0.3	0.0	(4.8)	(4.5)	Barbican Residential	0.0	0.3	0.0	(4.7)	(4.4)
0.0	0.6	0.0	0.0	0.6	Policy and Resources	0.0	0.4	0.0	0.0	0.4
0.0	0.1	0.0	0.0	0.1	Open Spaces and City Gardens	0.0	0.1	0.0	0.0	0.1
0.0	0.0	0.0	43.0	43.0	Property Investment	0.1	0.0	0.0	44.8	44.9
0.0	0.0	0.0	0.0	0.0	Licensing	0.0	0.0	0.0	0.0	0.0
0.0	0.1	0.0	1.0	1.1	Markets	0.0	0.1	0.0	0.8	0.9
					London NNDR Pool Strategic Investment Pot	0.0	0.0	0.0	59.6	59.6
22.2	(0.4)	0.0	45.9	67.7	Net Cost of Services	2.9	(7.1)	0.0	111.5	107.3
(93.8)	32.8	(5.8)	(45.9)	(112.7)	Other Income and Expenditure	(58.3)	32.1	(24.9)	(110.2)	(161.3)
(71.6)	32.4	(5.8)	0.0	(45.0)	Difference between the City Fund and HRA surplus or deficit and the Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(55.4)	25.0	(24.9)	1.3	(54.0)

Adjustments for Capital Purposes

This column adjusts for capital items which need to be included in the Comprehensive Income and Expenditure Statement such as:

- the net gain on the disposal of fixed assets
- revaluation gains or losses on investment properties
- income from capital grants

Net Changes for Pensions Adjustments

This column removes the employer pension contributions charges to services during the year and replaces them with pension related expenditure and income calculated in accordance with International Accounting Standard (IAS) 19 *Employee Benefits*.

Collection Fund Adjustment Account

This is a timing difference between what is chargeable under statutory regulations for business rates and council tax, which is largely based on estimates at the start of the year, and the income recognised under generally accepted accounting practices.

Other Adjustments

This column includes:

- the re-mapping of items reported to service committees to financing and investment income and expenditure in the Comprehensive Income and Expenditure Statement. Such items include income and expenditure relating to investment properties reported to the Property Investment Board, trading activities reported to the Markets Committee and interest on cash balances reported to Finance Committee
- the elimination of recharges between committees which would otherwise result in gross expenditure and income being overstated in the Comprehensive Income and Expenditure Statement
- changes in the fair value of financial assets which are designated to be charged through the CIES.

The above adjustments net to nil overall. The net difference remaining relates to accruals for the cost of annual leave entitlement earned but not taken in the year.

5. Expenditure and Income Analysed by Nature

City Fund income and expenditure included in the net cost of services is analysed as follows:

2017-18		2018-19
£m		£m
	Expenditure	
173.5	Employee expenses	178.9
174.3	Other service expenses	211.6
36.8	Support service recharges	38.0
29.8	Depreciation, amortisation and impairments	46.1
32.4	Interest payments	31.6
0.5	Precepts and levies	0.5
291.9	Business rates tariff and levy payments to Government	590.0
0.3	Payments to Government's housing capital receipts pool	0.4
(2.9)	Gain on the disposal of assets	(3.8)
736.6	Total expenditure	1,093.3
	Income	
(186.0)	Fees, charges and other service income	(180.8)
(4.3)	Interest and investment income	(8.6)
(369.7)	Business rates and council tax income	(753.2)
(177.4)	Government grants and other grants, contributions and reimbursements	(171.1)
(72.0)	Unrealised gains on revaluation of investment properties	(32.9)
(809.4)	Total Income	(1,146.6)
(72.8)	(Surplus) or Deficit on the Provision of Services	(53.3)

6. Grant Income

2017-18	Credited to Services	2018-19
£m	<u>Revenue Grants (Government)</u>	£m
	Home Office	
(18.5)	Police Pensions	(19.5)
(4.8)	Counter Terrorism	(6.2)
(4.2)	National Cyber Security Programme	(5.3)
(1.9)	National Enabling Programme	(0.4)
(4.5)	National and International Capital City Grant	0.0
(8.0)	National Fraud Intelligence Bureau	(4.0)
(2.5)	National Lead Force for Fraud	(2.5)
(1.5)	Other	(1.0)
0.0	Action Fraud Managed Services	(5.5)
0.0	Economic Crime Capability	(1.1)
0.0	National to Local Fraud & Cyber Data Sharing	(1.2)
	Department for Work and Pensions	
(5.2)	Housing and Council Tax Benefit	(4.5)
(5.7)	HM Courts and Tribunals Service	(5.5)
	Department for Education	
(2.6)	Dedicated Schools Grant	(2.8)
(0.2)	Other	(1.2)

2017-18	Credited to Services	2018-19
£m	<u>Revenue Grants (Government) Continued</u>	£m
	Ministry of Housing, Communities and Local Government	
(2.0)	Cost of Collection Allowance	(2.0)
(3.0)	Top up and tariff reconciliation	0.0
(0.4)	Other	(1.9)
	Department for Health	
(1.7)	Public Health	(1.6)
(0.2)	Other	(0.3)
(3.3)	Transport for London	(3.3)
(1.4)	Intellectual Property Office	(1.6)
(0.3)	Greater London Authority	(0.9)
(0.2)	Department for International Development	(0.2)
(0.5)	Arts Council England	(0.4)
(1.9)	Other revenue grants (Government)	(1.4)
	<u>Non-Government revenue grants and contributions</u>	
(2.6)	S106/S278 and other developer contributions	(2.2)
(2.3)	UK Payments Administration Ltd	(2.3)
(3.9)	Association of British Insurers	(3.6)
(1.3)	European Commission	0.0
(8.2)	Other	(7.4)
	<u>Capital Grants and contributions (funding revenue expenditure under statute)</u>	
(0.6)	Section 106 contributions	0.0
0.0	Other	(1.2)
(93.4)	Total	(91.0)

The above grants, contributions and donations have been credited to the Comprehensive Income and Expenditure Statement

7. Income and Expenditure below Cost of Services

2017-18		2018-19
Net Expenditure/ (Income)		Net Expenditure/ (Income)
£m		£m
(2.9)	Net Gain on Disposal of Fixed Assets	(3.7)
0.4	Inner and Middle Temple Precepts	0.4
0.1	Local levies	0.1
0.3	Payment to Government Housing Capital Receipts Pool	0.4
0.4	Pension Fund Administration Expenses	0.5
(1.7)	Total Other Operating Income and Expenditure	(2.3)
	Investment Properties	
(43.0)	Operational	(44.1)
(72.0)	Gain on revaluation	(32.9)
(4.2)	Interest receivable and similar income	(8.6)
32.4	Pension Interest Cost	31.6
(0.9)	Contribution from Trading Services	(0.7)
0.0	Impairment gains/losses	2.5
(87.7)	Total Financing and Investment Income and Expenditure	(52.2)

Operational Investment Properties is comprised of income of (£60.6m) and operating expenses of £16.5m

Contribution from Trading Services comprises a turnover of (£8.0m) and expenditure of £7.3m.

2017-18		2018-19
Income		Income
£m		£m
(47.9)	Retained National Business Rates	(67.9)
(12.0)	City Fund Non-Domestic Rates Premium	(12.2)
(11.3)	City Fund Offset	(11.6)
(6.6)	Council Tax Income	(7.5)
0.0	London NNDR Pool Strategic Investment Pot	(59.6)
	Non Ringfenced Government Revenue Grants	
(8.8)	Revenue Support Grant	0.0
(51.4)	Police Core Grant	(56.8)
(4.6)	Other	(7.3)
	Capital Grants & Contributions	
(0.4)	Home Office	(0.4)
0.0	Greater London Authority	(0.3)
(0.1)	Transport for London	(2.2)
(1.1)	Ministry of Justice	(1.1)
(12.1)	Section 106/278 Contributions	(10.2)
(4.8)	Community Infrastructure Levy	(5.4)
(0.1)	Bridge House Estates	0.0
0.0	Department of Health	(0.6)
(0.3)	Other Capital Grants and Contributions	(0.2)
(161.5)	Total Taxation and Non-Specific Grant Income	(243.3)
(250.9)	Total Income and Expenditure below Cost of Services	(297.8)

There are no restrictions on the City Fund's ability to realise the value inherent in its Investment Property or on the City Fund's right to the remittance of income and the proceeds of disposal.

8. Dedicated Schools Grants

In 2018-19, the City Fund received a specific grant from the Department for Education, the Dedicated Schools Grant (DSG), of £2.98m (2017-18: £2.75m). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget as defined in the School Finance (England) Regulations 2017. The Schools Budget includes elements for a range of education services provided on an authority-wide basis and for the Individual School Budget for maintained schools.

Details of the deployment of DSG receivable for 2018-19 are as follows:

2018-19	Schools Budget Funded by DSG		
	Central Expenditure	Individual School Budget	Total
	£m	£m	£m
Final DSG for 2018-19 before Academy recoupment	1.0	2.0	3.0
Academy Figure recouped for 2018-19	0.0	0.0	0.0
Total DSG after Academy recoupment for 2018-19	1.0	2.0	3.0
Plus: Brought forward from 2017-18	0.5	0.0	0.5
Less: Carry forward to 2019-20 agreed in advance	0.0	0.0	0.0
Agreed initial budgeted distribution in 2018-19	1.5	2.0	3.5
In year adjustments	0.0	0.0	0.0
Final budgeted distribution for 2018-19	1.6	2.0	3.5
Less: Actual central expenditure	(0.8)	0.0	(0.8)
Less: Actual ISB deployed to schools	0.0	(2.0)	(2.0)
Plus: Local authority contribution for 2018-19	0.0	0.0	0.0
Carry forward to 2019-20	0.7	0.0	0.7

2017-18	Schools Budget Funded by DSG		
	Central Expenditure	Individual School Budget	Total
	£m	£m	£m
Final DSG for 2017-18 before Academy recoupment	0.9	1.8	2.8
Academy Figure recouped for 2017-18	0.0	0.0	0.0
Total DSG after Academy recoupment for 2017-18	0.9	1.8	2.8
Plus: Brought forward from 2016-17	0.4	0.0	0.4
Less: Carry forward to 2018-19 agreed in advance	0.0	0.0	0.0
Agreed initial budgeted distribution in 2017-18	1.3	1.8	3.1
In year adjustments	0.0	0.0	0.0
Final budgeted distribution for 2017-18	1.3	1.8	3.1
Less: Actual central expenditure	(0.8)	0.0	(0.8)
Less: Actual ISB deployed to schools	0.0	(1.8)	(1.8)
Plus: Local authority contribution for 2017-18	0.0	0.0	0.0
Carry forward to 2018-19	0.5	0.0	0.5

9. Remuneration and Exit Packages of Employees

Tables 1 to 3 set out the information required in accordance with the Accounts and Audit Regulations 2015 for 2018-19 and 2017-18 respectively.

The number of officers whose remuneration, excluding employer's pension contributions, were £50,000 or more grouped in rising bands of £5,000 is set out in Table 1 (only bands which include officers are shown in the table). Officers have been classified between those employees charged wholly to the City Fund, including Police officers, and those employees charged partly to the City Fund and partly to other funds of the City Corporation. The numbers include those officers required to be separately disclosed and set out in Table 2.

The information in Table 1 relates to those officers' full salary and not just the part charged to the City Fund.

Table 3 relates to the Exit Packages of employees.

Table 1 – Remuneration in Bands

Proportion to City Fund				Proportion to City Fund		
Wholly charged		Partially Charged		Wholly charged		Partially Charged
2017-18			Salary Range	2018-19		
Police Officers	Other		£	Police Officers	Other	
146	54	110	50 - 54,999	145	62	84
91	32	61	55 - 59,999	98	61	99
74	22	61	60 - 64,999	60	20	49
37	13	25	65 - 69,999	37	19	39
12	12	19	70 - 74,999	21	13	27
5	3	14	75 - 79,999	9	8	20
7	4	11	80 - 84,999	6	4	11
5	2	4	85 - 89,999	3	0	4
1	0	4	90 - 94,999	4	0	7
1	2	2	95 - 99,999	2	3	3
0	2	4	100 - 104,999	2	2	0
3	1	4	105 - 109,999	0	0	3
0	0	2	110 - 114,999	0	0	6
0	0	2	115 - 119,999	0	2	3
0	0	3	120 - 124,999	1	1	2
0	1	1	125 - 129,999	0	0	2
0	0	1	130 - 134,999	0	0	0
0	0	1	135 - 139,999	0	0	0
0	0	0	140 - 144,999	0	2	2
1	1	1	145 - 149,999	0	0	0
0	1	1	150 - 154,999	1	0	0
0	0	1	155 - 159,999	0	0	1
0	0	1	160 - 164,999	0	0	1
0	0	0	175 - 179,999	0	0	2
0	0	0	180 - 184,999	0	0	1
1	0	0	185 - 189,999	1	0	1
0	0	1	190 - 194,999	0	0	0
0	1	0	200 - 204,999	0	1	0
0	0	2	205 - 209,999	0	0	0
1	0	1	235 - 239,999	0	0	0
0	0	0	260 - 264,999	0	0	1
385	151	337	Total	390	198	368

Table 2 - Senior Officer Remuneration

2018-19	Proportion charged to Local or Police Authority Activities	Total Salary	Salary (including fees & allowances)	Bonus	Expenses	Benefits in Kind	Compensation for Loss of Office	Other Payments (Police Officers only)	Total Remuneration excluding pension contributions	Pension Contributions	Total Remuneration including Pension Contributions
	%	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Salary is £150,000 or more a year											
Town Clerk & Chief Executive - J. Barradell	55%	253	139	7	0	66	0	0	212	31	243
Chamberlain - P. Kane	60%	181	109	0	0	0	0	0	109	23	132
Police Commissioner - I. Dyson	100%	182	182	0	0	0	0	7	189	0	189
Managing Director Barbican Centre - N. Kenyon	100%	195	195	7	0	0	0	0	202	43	245
Comptroller & City Solicitor - M. Cogher	65%	155	101	5	0	0	0	0	106	22	128
City Surveyor – P. Wilkinson	40%	151	60	10	0	0	0	0	70	15	85
Executive Director of Mansion House & Old Bailey – V. Annells	30%	174	52	1	0	0	0	0	53	11	64
Salary is between £50,000 and £150,000											
Director of Built Environment	100%	139	139	3	0	0	0	0	142	31	173
Director of Community & Children's Services	100%	120	120	0	0	0	0	0	120	25	145
Director of Markets & Consumer Protection (until 31st December 2018)	55%	90	50	1	0	0	0	0	51	11	62
Interim Director of Markets & Consumer Protection (started 1st January 2019)	55%	27	15	0	0	0	0	0	15	3	18
Director of Open Spaces	30%	106	32	0	0	0	0	0	32	7	39

2017-18	Proportion charged to Local or Police Authority Activities	Total Salary	Salary (including fees & allowances)	Bonus	Expenses	Benefits in Kind	Compensation for Loss of Office	Other Payments (Police Officers only)	Total Remuneration excluding pension contributions	Pension Contributions	Total Remuneration including Pension Contributions
	%	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Salary is £150,000 or more a year											
Town Clerk & Chief Executive - J. Barradell	55%	248	137	7	0	60	0	0	204	30	234
Chamberlain - P. Kane	60%	174	105	0	0	0	0	0	105	22	127
Police Commissioner - I. Dyson	100%	179	179	0	0	0	0	6	185	0	185
Managing Director Barbican Centre - N. Kenyon	100%	192	192	7	0	0	0	0	199	42	241
Comptroller & City Solicitor - M. Cogher	65%	152	99	5	0	0	0	0	104	22	126
Salary is between £50,000 and £150,000											
Director of Built Environment	100%	148	148	3	0	0	0	0	151	32	183
Director of Community & Children's Services	100%	103	103	0	0	0	0	0	103	22	125
Director of Markets & Consumer Protection	55%	118	65	1	0	0	0	0	66	14	80
Director of Open Spaces	30%	103	31	0	0	0	0	0	31	6	37
City Surveyor	40%	149	59	1	0	0	0	0	60	13	73
Executive Director of Mansion House & Old Bailey (started 11th Sept 2017)	30%	95	29	-	-	-	-	-	29	6	35
Acting up Director of Community & Children's Services (until 8th May 2017 and left 31st Dec 2017)	100%	66	66	3	0	0	0	0	69	12	81

Table 3 - Exit Packages

2017-18					2018-19				
Number of Compulsory Redundancies (FTE No.)	Number of Other Departures Agreed (FTE No.)	Total Number of Exit Packages by Cost Band (FTE No.)	Total Cost of exit Packages in Each Band (£000)		Number of Compulsory Redundancies (FTE No.)	Number of Other Departures Agreed (FTE No.)	Total Number of Exit Packages by Cost Band (FTE No.)	Total Cost of exit Packages in Each Band (£000)	
6.0	1.0	7.0	60.0	£0 - £20,000	4.0	2.0	6.0	62.8	
0.0	0.0	0.0	0.0	£20,001 - £40,000	2.0	4.0	6.0	160.4	
2.0	0.0	2.0	105.1	£40,001 - £60,000	1.0	2.0	3.0	138.1	
0.0	0.0	0.0	0.0	£60,001 - £80,000	0.0	0.0	0.0	0.0	
1.0	0.0	1.0	80.0	£80,001 - £100,000	0.0	0.0	0.0	0.0	
1.0	0.0	1.0	100.6	£100,001 - £150,000	0.0	0.0	0.0	0.0	
0.0	0.0	0.0	0.0	£150,001 - £200,000	0.0	0.0	0.0	0.0	
0.0	0.0	0.0	0.0	£200,001 - £250,000	0.0	0.0	0.0	0.0	
1.0	0.0	1.0	265.6	£250,001 - £300,000	0.0	0.0	0.0	0.0	
11.0	1.0	12.0	611.3	Total	7.0	8.0	15.0	361.3	

10. Audit Fees

Costs incurred in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections provided by the City Fund's external auditor, BDO LLP are set out in the adjacent table. Audit Fees of £15,000 (2017-18: £21,000) in respect of the City of London Pension Fund are met by the Pension Fund and are not included in the table. 2017-18 fees have been updated to reflect agreed additional costs.

2017-18		2018-19
£000		£000
106.3	External audit services carried out by the appointed auditor under the National Audit Office Code of Audit Practice in accordance with the Local Audit and Accountability Act 2014.	80.0
18.3	Certification of grant claims and returns by the appointed auditor	16.0
11.3	Non-audit fees - other grant and certification fees	8.3
135.9		104.3

Notes to the Movement in Reserves Statement

11. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to meet future capital and revenue expenditure.

The following sets out a description of the reserves that the adjustments are made against.

City Fund Balance

This is the statutory fund into which all receipts are required to be paid and out of which all liabilities are to be met in respect of the City Fund's activities as a local authority, police authority and port health authority, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the City Fund unallocated reserve, which is not necessarily in accordance with proper accounting practice. The City Fund Balance is not available to fund Housing Revenue Account (HRA) services. With this exception, the City Fund Balance therefore summarises the resources that the City Fund is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the City Fund is required to recover) at the end of the financial year.

Housing Revenue Account (HRA) Balance

The HRA Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund the City Fund's HRA landlord function or (where in deficit) that is required to be recovered from tenants in future years.

Capital Receipts Reserve

This reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied

This reserve holds the grants and contributions received towards capital projects which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

Major Repairs Reserve

The City Fund is required to maintain this reserve, which controls an element of resources limited to being used on capital expenditure on HRA assets or the financing of historic capital expenditure by the HRA. The balance shows the resources that have yet to be applied at the year-end.

2018-19	Usable Reserves					Movement in Unusable Reserves
	City Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	
	£m	£m	£m	£m	£m	£m
Adjustments to the Revenue Resources						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements						
Pensions costs (transfers to or from the Pensions Reserve)	(24.8)	(0.3)				25.1
Council Tax and Non-Domestic Rates (transfers to or from the Collection Fund Adjustment Account)	24.9					(24.9)
Holiday pay (transfers to or from the Accumulated Absences Reserve)	(1.2)					1.2
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (transfers to or from the Capital Adjustment Account)	8.6	(12.2)				3.6
Transfer of capital grants & contributions from revenue to the Capital Grants Unapplied Account	7.6			(7.6)		0.0
Total Adjustments to Revenue Resources	15.1	(12.5)	0.0	(7.6)	0.0	5.0
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	8.4	1.8	(10.2)			0.0
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	(0.1)		0.1			0.0
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(0.4)		0.4			0.0
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	41.8					(41.8)
Posting of HRA resources from revenue to the Major Repairs Reserve		0.5			(0.5)	0.0
Other adjustments	(0.6)		0.4	0.1		0.1
Total Adjustments between Revenue and Capital Resources	49.1	2.3	(9.3)	0.1	(0.5)	(41.7)
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure			14.6			(14.6)
Use of the Major Repairs Reserve to finance capital expenditure					5.8	(5.8)
Application of capital grants to finance capital expenditure (transferred to the Capital Adjustment Account)				0.7		(0.7)
Cash payments in relation to deferred capital receipts			(0.7)			0.7
Total Adjustments to Capital Resources	0.0	0.0	13.9	0.7	5.8	(20.4)
Total Adjustments	64.2	(10.2)	4.6	(6.8)	5.3	(57.1)

2017-18		Usable Reserves					Movement in Unusable Reserves
Comparative Figures		City Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	
		£m	£m	£m	£m	£m	£m
Adjustments to the Revenue Resources							
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements							
Pensions costs (transfers to or from the Pensions Reserve)		(32.0)	(0.4)				32.4
Council Tax and Non-Domestic Rates (transfers to or from the Collection Fund Adjustment Account)		5.8					(5.8)
Holiday pay (transfers to or from the Accumulated Absences Reserve)		0.1					(0.1)
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (transfers to or from the Capital Adjustment Account)		52.0	(7.0)				(45.0)
Transfer of capital grants & contributions from revenue to the Capital Grants Unapplied Account		5.2			(5.2)		0.0
Total Adjustments to Revenue Resources		31.1	(7.4)	0.0	(5.2)	0.0	(15.7)
Adjustments between Revenue and Capital Resources							
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve		6.7	1.8	(8.5)			0.0
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)							0.0
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)		(0.3)		0.3			0.0
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)		8.1					(8.1)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)			5.0			(5.0)	0.0
Posting of HRA resources from revenue to the Major Repairs Reserve							0.0
Total Adjustments between Revenue and Capital Resources		14.5	6.8	(8.2)	0.0	(5.0)	(8.1)
Adjustments to Capital Resources							
Use of the Capital Receipts Reserve to finance capital expenditure				16.3			(16.3)
Use of the Major Repairs Reserve to finance capital expenditure						3.0	(3.0)
Application of capital grants to finance capital expenditure (transferred to the Capital Adjustment Account)					1.5		(1.5)
Cash payments in relation to deferred capital receipts				(0.6)			0.6
Total Adjustments to Capital Resources		0.0	0.0	15.7	1.5	3.0	(20.2)
Total Adjustments		45.6	(0.6)	7.5	(3.7)	(2.0)	(46.8)

12. Transfers (to)/from Earmarked Revenue Reserves

This note sets out the amounts set aside within the City Fund Balance in earmarked revenue reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet City Fund expenditure in 2018-19.

	Notes	Balance at 31 March 2017	Transfers Out 2017-18	Transfers In 2017-18	Balance at 31 March 2018	Transfers Out 2018-19	Transfers In 2018-19	Balance at 31 March 2019
		£m	£m	£m	£m	£m	£m	£m
Highway Improvements	(i)	(20.1)	4.7	(14.5)	(29.9)	6.8	(13.7)	(36.8)
London NNDR Pool Strategic Investment Pot	(ii)	0.0	0.0	0.0	0.0	0.0	(12.8)	(12.8)
Major Projects Reserve	(iii)	0.0	0.0	0.0	0.0	38.4	(46.7)	(8.3)
Police Future Expenditure	(iv)	(3.5)	0.0	(3.4)	(6.9)	5.9	(0.7)	(1.7)
Crime Reduction Initiatives	(v)	(3.7)	0.7	0.0	(3.0)	0.5	0.0	(2.5)
Other Earmarked Reserves	(vi)	(13.3)	1.5	(3.9)	(15.7)	(2.1)	1.9	(15.9)
Total		(40.6)	6.9	(21.8)	(55.5)	49.5	(72.0)	(78.0)

- (i) Highway Improvements - Created from on-street car parking surpluses to finance future highways related expenditure and projects as provided by section 55 of the Road Traffic Regulation Act 1984, as amended by the Road Traffic Act 1991.
- (ii) Unallocated London NNDR Pool Strategic Investment Pot (SIP) – This relates to yet to be allocated SIP funds generate through the London NNDR Pool. The City Corporation acts a lead authority for the pool and in that role has the final say on the allocation of SIP funds.
- (iii) Major Projects Reserve – This reserve has been established to fund the 2 major projects funded from City Fund resources, the Combined Criminal Court and the Museum of London Relocation. £46.7m has been transferred in from the City Fund general reserve with £38.4m funding works on these projects during 2018-19.
- (iv) Police Reserve - Revenue expenditure for the City Police service is cash limited. The net position each year is taken from/to this reserve to fund future service costs.
- (v) Under the guidelines of the Proceeds of Crime Scheme funds received by the City Police must be ring fenced for “crime reduction initiatives”.
- (vi) Other Earmarked Reserves – The total for all other reserves set aside for specific purposes including service projects, VAT, the School’s reserve and renewals and repairs.

Notes to the Balance Sheet

13. Property, Plant and Equipment

Movements on Balances 2018-19	Council Dwellings	Other Land & Buildings	Leasehold Improvements	Vehicles, Plant & Equipment	Infrastructure	Community Assets	Assets Under Construction	Surplus Assets	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cost or valuation									
at 1 April 2018	324.7	471.0	61.6	44.0	98.0	1.5	24.6	6.3	1,031.7
Additions	4.7	2.7	0.9	5.7	11.2	0.0	13.4	0.3	38.9
Transfers	6.4	(2.9)	0.0	0.0	0.0	0.0	(7.2)	(0.4)	(4.1)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(13.8)	28.9	0.0	0.1	0.0	0.0	0.0	(0.3)	14.9
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(8.6)	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	(8.7)
Derecognition - disposals	(3.5)	(0.2)	0.0	(11.7)	0.0	0.0	0.0	(2.2)	(17.6)
at 31 March 2019	309.9	499.4	62.5	38.1	109.2	1.5	30.8	3.7	1,055.1
Accumulated Depreciation and Impairment									
at 1 April 2018	(0.1)	(5.0)	(24.2)	(34.1)	(52.0)	0.0	0.0	(0.7)	(116.1)
Depreciation Charge	(2.9)	(10.4)	(3.0)	(3.3)	(6.9)	0.0	0.0	(0.1)	(26.6)
Depreciation written out to the Revaluation Reserve	2.5	9.9	0.0	0.0	0.0	0.0	0.0	0.1	12.5
Depreciation written out to the Surplus/Deficit on the Provision of Services	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Derecognition - disposals	0.0	0.0	0.0	11.7	0.0	0.0	0.0	0.0	11.7
at 31 March 2019	(0.1)	(5.5)	(27.2)	(25.7)	(58.9)	0.0	0.0	(0.7)	(118.1)
Net Book Value									
at 31 March 2018	324.6	466.1	37.4	9.9	46.0	1.5	24.6	5.6	915.6
at 31 March 2019	309.8	493.9	35.3	12.4	50.3	1.5	30.8	3.0	937.0

Property, Plant and Equipment (Continued)

Movements on Balances Comparative for 2017-18	Council Dwellings	Other Land & Buildings	Leasehold Improvements	Vehicles, Plant & Equipment	Infrastructure	Community Assets	Assets Under Construction	Surplus Assets	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cost or valuation									
at 1 April 2017	343.9	440.7	61.2	39.7	87.4	1.3	11.2	6.4	991.8
Additions	0.3	2.8	0.4	4.4	9.8	0.2	17.2	0.1	35.2
Transfers	0.6	2.4	0.0	0.0	0.8	0.0	(3.8)	0.0	0.0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(11.2)	25.8	0.0	0.0	0.0	0.0	0.0	(0.2)	14.5
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(3.6)	(0.7)	0.0	0.0	0.0	0.0	0.0	0.0	(4.3)
Derecognition - disposals	(5.3)	0.0	0.0	(0.1)	0.0	0.0	0.0	0.0	(5.4)
at 31 March 2018	324.7	471.0	61.6	44.0	98.0	1.5	24.6	6.3	1,031.7
Accumulated Depreciation and Impairment									
at 1 April 2017	(0.1)	(4.8)	(21.2)	(31.5)	(45.3)	0.0	0.0	(0.7)	(103.6)
Depreciation Charge	(3.9)	(9.8)	(3.0)	(2.7)	(6.7)	0.0	0.0	(0.1)	(26.2)
Depreciation written out to the Revaluation Reserve	3.2	9.6	0.0	0.0	0.0	0.0	0.0	0.1	12.9
Depreciation written out to the Surplus/Deficit on the Provision of Services	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7
Derecognition - disposals	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1
at 31 March 2018	(0.1)	(5.0)	(24.2)	(34.1)	(52.0)	0.0	0.0	(0.7)	(116.1)
Net Book Value									
at 31 March 2017	343.8	435.9	40.0	8.2	42.1	1.3	11.2	5.7	888.2
at 31 March 2018	324.6	466.0	37.4	9.9	46.0	1.5	24.6	5.6	915.6

Depreciation

The useful lives and depreciation rates generally used in the calculation of depreciation are listed below.

- | | |
|--|----------------|
| • General operational buildings | 50 years |
| • Council Dwellings | 125 years |
| • Leasehold improvements | 10 – 30 years |
| • Certain “listed” operational buildings | 75 – 125 years |
| • Infrastructure | 10 – 25 years |
| • Heavy vehicles and plant | 7 years |
| • Equipment | 5 -12 years |
| • Cars and light vans | 5 years |
| • Assets under construction | None |
| • Community Assets | None |

Where there is a material impact on depreciation and/or the carrying value, components are treated as separate assets and depreciated over their own useful economic lives. Indicative economic lives of typical asset components include:

- | | |
|-----------------------|-------------|
| • Internal fit-out | 10-25 years |
| • Plant and Machinery | 15-25 years |

Commitments

Significant capital commitments of some £28.3m were outstanding at 31 March 2019, detailed as follows:

- £23m outstanding in respect of a major housing development at Golden Lane Estate
- £1.2m relating to phase 3 works at Central Criminal Court (Old Bailey)
- £1.5m relating to the Bishopsgate Police Station Construction
- £1.4m in respect of major lift refurbishment at Middlesex Street Estate
- £1.2m relating to highway works at London Development (Goldman Sachs new HQ)

- Land acquired as the site for the City of London Primary Academy Islington (COLPAI) and new housing
- Investment Properties
- Assets Held for Sale - property on the Woodredon and Warlies Park Estate

The City Fund is not aware of any material change in value of any other assets and therefore the valuations have not been updated. The current asset values used in the accounts for the Barbican Centre, Central Criminal Court, Public Car Parks, Walbrook Wharf (depot and offices), Golden Lane Recreation Centre, Woodredon and Warlies Park, Cemetery and Crematorium, Police Stations, Animal Reception Centre and the investment properties are based on assessments by external valuers. The firms of chartered surveyors who have prepared valuations for the City Fund are Jones Lang Lasalle Ltd, Cushman and Wakefield LLP, Gerald Eve and Savills.

All other asset values have been prepared by registered RICS valuers employed in the City Corporation's City Surveyor's Department.

Revaluations

The following have been revalued at 31 March 2019 in accordance with the rolling five year programme of revaluation or to reflect material changes in value:

- Barbican Estate residential properties, baggage stores, and car bays
- Housing Dwellings (including guest flats)
- Housing Commercial Properties (shops, garages and parking spaces etc)
- Golden Lane Estate Community Centre
- Properties at the City of London Cemetery and Crematorium
- Barbican Centre, including the Barbican lending library
- Central Criminal Court
- Cleansing Depot and Offices at Walbrook Wharf
- Police Stations
- Spitalfields Market
- Surplus Properties
- Public Car Parks
- Disused areas identified for development on the Barbican Residential Estate

14. Heritage Assets

The carrying value of heritage assets currently held in the Balance Sheet at historic cost is £9.0m (2017-18 £9.0m) which relates almost exclusively to one asset – the capital's only Roman Amphitheatre. The amphitheatre was discovered in Guildhall Yard during an archaeological dig taking place in preparation for a building project. In 2002, the doors to the amphitheatre opened for the first time in nearly 2,000 years.

The London Metropolitan Archives look after 105km of books, maps, films and photographs about London and Londoners dating from as far back as 1067. Guildhall Library also specialises in the history of London with a printing books collection from the 15th century onwards and many special collections including those devoted to Samuel Pepys, John Wilkes and Thomas More. Reliable valuations are not available for these assets and the cost of obtaining such valuations in order to recognise them on the balance sheet would outweigh the benefit of such recognition to the users of the financial statements.

Further information on the Roman Amphitheatre and the London Metropolitan Archives, including opening times and details of the collections held by the LMA, can be found on the City Corporation website (www.cityoflondon.gov.uk)

15. Capital Expenditure and Finance

The total amount of capital expenditure incurred in the year is shown, in the table below, together with the resources that have been used to finance it. Where assets are acquired under finance leases (see note 30) the transactions are considered to be the same as if the City Fund had purchased the assets and financed this by taking out a loan. Liabilities are therefore recognised for the same amount as the assets acquired under finance leases.

A nil or negative Capital Financing Requirement (CFR) indicates that the City Fund's provision for debt is equal to or greater than the debt incurred. Where capital expenditure is to be financed in future years by charges to revenue the expenditure results in a positive CFR, a measure of the capital expenditure incurred historically that has yet to be financed. The decrease in the capital financing requirement of £1m reflect the minimum revenue provision made in the year, with no change in the underlying need to borrow.

2017-18		2018-19
£m		£m
40.6	Opening Capital Financing Requirement	44.6
	Capital Investment	
35.2	Property, Plant and Equipment	38.9
5.3	Investment Properties	28.3
0.9	Intangible Assets	0.0
8.2	Revenue Expenditure Funded for Capital Under Statute	10.9
	Sources of Finance	
(0.9)	Minimum Revenue Provision	(1.0)
(16.3)	Capital Receipts	(14.7)
(17.3)	Capital grants, contributions and donations	(15.8)
(11.1)	Direct revenue contributions	(47.6)
44.6	Closing Capital Financing Requirement	43.6

2017-18		2018-19
£m		£m
	Explanation of movement in year	
(0.9)	Minimum Revenue Provision	(1.0)
0.0	Assets acquired under finance leases	0.0
4.9	Increase in underlying need to borrow	0.0
4.0	Increase/(decrease) in Capital Financing Requirement	(1.0)

16. Long Term Debtors

2017-18		2018-19
£m		£m
13.2	Net Investment in Finance Leases	12.4
1.8	Loans to Museum of London (repayable by 2032)	1.7
2.4	Rent	2.9
0.1	Museum in Docklands Loan	0.1
0.1	Service Charge Loans	0.1
17.6	Total	17.2

This is in the context of the active property market that exists in the City of London.

As part of the annual valuation of our investment properties, our external valuers have determined a proportion of the portfolio has been valued on a level 3 basis. This means there are some significant unobservable inputs which determine the value of these properties, namely the market rent and yield when using the valuation method highlighted above. The below table set out the sensitivity of the property valuations to these inputs based on a +/- change in yield and +/-5% change in market value.

Description of Asset	Asset Valuation Range	Value at 31 March 2019 (£m)
Investment Property	+/-0.5%	1,288.1

17. Investment Properties

2017-18		2018-19
£m		£m
1,444.8	Balance at start of the year	1,521.8
0.0	Transfers	3.7
	Additions:	
4.8	Purchases	28.3
0.0	Construction	0
0.5	Subsequent expenditure	0
(0.3)	Disposals	(0.5)
	Revaluations:	
72.0	Net gains from fair value adjustments	32.9
1,521.8	Balance at end of the year	1,586.2

The movement in level 3 valuations for the year is shown below. The change in valuation basis has been recognised at the point of valuation i.e. 31 March.

	1 April 2018	Transfers into Level 3	Transfer out of Level 3	Purchases	Sales	Unrealised Gain/Loses	31 March 2019
	£m	£m	£m	£m	£m	£m	£m
Investment Property	1,218.2	15.3	0	28.3	(0.3)	25.3	1,286.8

The fair values of investment properties have been based on a combination of:

- The market approach having regard to current market conditions, recent sales prices and lettings and other relevant information for similar properties in the area
- The income approach, by means of the discounted cash flow method, where the expected cash flows are discounted at a market rate to establish the present value of the net income stream.

18. Financial Instruments

The financial instruments recognised in the City Fund financial statements include trade debtors and creditors, bank deposits and investments

Categories of Financial Instruments

The financial instruments disclosed in the Balance Sheet are made up of the following categories. The prior year balances have been re-categorised at the 1 April 2018 under the new IFRS 9 grouping to aid comparison. The balance as at 31 March 2018 under the previous accounting standard is provide below.

Long Term	Current		Long Term	Current
1 April 2018	1 April 2018		31 March 2019	31 March 2019
£m	£m		£m	£m
		Investments		
0.0	214.5	Fair value through profit and loss	0.0	383.9
0.0	471.5	Amortised Cost	0.0	304.6
0.0	0.0	Fair value through other comprehensive income – designated equity	0.0	0.0
0.0	686.0	Total Investments	0.0	688.5
		Debtors		
17.6	35.5	Amortised Cost	17.2	46.0
17.6	0.0	Total Debtors	17.2	46.0
		Creditors		
0.0	(56.7)	Amortised Cost	0.0	(97.3)
0.0	(56.7)	Total Creditors	0.0	(97.3)
		Long Term Liabilities		
(4.0)	0.0	Amortised Cost	(3.1)	0.0
(4.0)	0.0	Total Long Term Liabilities	(3.1)	0.0

	Long Term	Current
	31 March 2018	31 March 2018
	£m	£m
Investments		
Unquoted equity investment at cost	0.2	0.0
Loan and receivables	0.0	471.5
Available for Sale	0.0	214.5
Total Investments	0.2	686.0
Debtors		
Loan and receivables	17.6	35.5
Total Debtors	17.6	35.5
Creditors		
Financial Instruments	0.0	(56.7)
Total Creditors	0.0	(56.7)
Long Term Liabilities		
Finance Leases	(4.0)	0.0
Total Long Term Liabilities	(4.0)	0.0

Investments

The City Fund's investments comprise cash that is not required for day to day purposes invested in deposits of varying fixed lengths and money market funds (including short dated bonds). Investments in fixed term deposits, call accounts and notice accounts are classified as amortised cost financial assets because they comprise of cash flows which are solely payments of principal and interest. Investment in money market funds are classed as fair value through profit or loss financial assets as the net asset value of these funds can vary slightly.

With the introduction of IFRS 9 the City Fund has designated a £0.2m investment in the Municipal Bonds Agency plc as fair value through other comprehensive income as at 1 April 2018 on the basis that the equity instrument is not held for trading and is held for strategic purposes

Reclassification and remeasurement of financial assets at 1 April 2018

This note shows the effect of reclassification of financial assets following the adoption of IFRS 9 Financial Instruments by the Code of Practice on Local Authority Accounting and the remeasurements of carrying amounts then required.

£m		New Classifications at 1 April 2018		
	Carrying amount brought forward at 1 April	Amortised cost	Fair value through other comprehensive income	Fair value through profit and loss
Previous classifications				
Loans and receivables	471.5	471.5	0.0	0.0
Available for Sale	214.5	0.0	0.0	214.5
Unquoted equity investment at cost	0.2	0.0	0.2	0.0
Reclassified amounts at 1 April 2018	686.2	471.5	0.2	214.5
Remeasurements at 1 April 2018	0.0	0.0	(0.2)	0.0
Remeasured carrying amounts at 1 April 2018	686.2	471.5	0.0	214.5
Impact on General Fund Balance				0.0
Impact on Financial Instruments Revaluation Reserve				0.2

The carrying value of the investment in the Municipal Bonds Agency plc was reduced from £0.2m to £0.0m on 1 April 2018

Income, Expense, Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

2017-18		2018-19
£m		£m
0.0	Net (gains)/losses on financial assets	0.2
0.0	Total net (gains)/losses in Surplus or Deficit on the Provision of Services	0.2
(4.2)	Interest revenue from financial assets	(8.6)
(4.2)	Total interest revenue in Surplus or Deficit on the Provision of Services	(8.6)

Fair Value of Assets and Liabilities

Financial assets held at fair value through profit and loss are valued using unadjusted quoted prices in active markets for identical assets (level 1 inputs in the fair value hierarchy).

Shares in the Municipal Bond Agency plc are not traded in an active market and the fair value of £0.2m has been based on valuation techniques that are not based on observable current market transactions or available market data (level 3 inputs in the fair value hierarchy).

All other financial liabilities and financial assets represented by amortised cost and long-term debtors and creditors are carried on the balance sheet at amortised cost. Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

31 March 2018			31 March 2019	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£m	£m		£m	£m
		Financial assets		
686.0	686.0	Short Term Investments	688.7	688.5
7.1	7.6	Long Term Debtors - investment properties	7.1	7.1
10.5	10.5	Long Term Debtors - other	10.1	10.1
703.6	704.1	Total financial assets	705.9	705.7
		Financial liabilities		
(56.7)	(56.7)	Short Term Creditors	(97.3)	(97.3)
(4.0)	(4.0)	Long Term Liabilities	(3.1)	(3.1)
(60.7)	(60.7)	Total financial liabilities	(124.5)	(124.5)

The fair value of long term debtors in relation to investment properties (comprising finance lease debtors) have been assessed based on the investment property fair values categorised within Level 2 of the fair value hierarchy (see accounting policy 1.21). Other long term debtors consist mainly of a loan to and finance lease debtor with the Museum of London. As there is no active market for these items, the fair value is assumed to be the same as the carrying value categorised within level 3 of the fair value hierarchy.

19. Nature and Extent of Risks arising from Financial Instruments

The City Fund's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to City Fund
- Liquidity risk – the possibility that the City Fund might not have enough funds available to meet its commitments to make payments
- Market risk – the possibility that financial loss might arise as a result of changes in factors that affect the overall performance of the financial markets such as interest rates, stock market movements and foreign exchange rates.

The City Corporation has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and sets treasury management indicators to control key financial instrument risks in accordance with CIPFA's Prudential Code. The City Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Court of Common Council in the annual treasury management strategy statement.

Credit Risk

Credit risk arises from deposits with banks, other financial institutions and other local authorities, as well as credit exposures to the City Fund's customers. Deposits are only made with banks with a minimum Fitch (a leading credit rating agency) "rating" of Long term A and Short term F1 or are building societies with assets over £9bn (or which have a minimum credit rating similar to that set for the banks). The City Fund also invests in money market funds, which are subject to a minimum credit rating of AAmmf (Fitch) or equivalent. The City Fund also holds investments in two Short Dated Bond Funds. These financial instruments typically do not obtain their own standalone credit rating. Instead, the funds will invest in a wide array of investment grade instruments, which the City Corporation actively monitors in terms of the fund's composition and credit quality of its underlying assets.

The creditworthiness of the counterparties on the City Fund's lending list is carefully monitored. The lending list is reviewed on a regular basis using advice from credit rating agencies and in-house judgements based partially on credit default swap rates. Security of the investments is the prime criteria when selecting investments with liquidity and yield being secondary and tertiary considerations. The lending limits attributable to HSBC, Barclays, Goldman Sachs International Bank, Royal Bank of Scotland and Santander UK were maintained at maximum lending limits of £100m each during 2018-19, and Lloyds Bank was fixed at £150m (Lloyds being the City of London Corporation's banker). The lending limit for the Nationwide Building Society was maintained at £120m. The maximum duration for such loans is fixed at three years. The lending limits for the Yorkshire, Coventry, Skipton and Leeds Building Societies were maintained at £20m each and the duration for such loans is fixed at 1 year. The list also contains three foreign banks with individual limits of £25m, being National Australia Bank, Australia and New Zealand Banking Group and Svenska Handelsbanken. The lending list also includes six highly rated money market funds (Aberdeen Sterling Liquidity Fund, CCLA, Deutsche Liquidity Fund, Federated Liquidity Fund, Standard Life Ignis Liquidity Funds, Invesco); three highly rated Ultra-Short Dated Bond Funds (Federated Sterling Cash Plus Fund, Standard Life Investments Short Duration Managed Liquidity Fund and Payden Sterling Reserve Fund); and two Short Dated Bond Funds (Legal & General Short Dated Sterling Corporate Bond Index Fund and Royal London Investment Grade Short Dated Credit Fund). The City Corporation will also lend to other UK local authorities with a limit of £25m to any individual authority.

The City Fund's maximum exposure to credit risk in relation to its investments in banks, building societies, local authorities and money market funds cannot be assessed generally, as the risk of any institution failing to make interest payments or failing to repay the principal amount borrowed would be specific to each individual institution. No credit limits were exceeded during the reporting period and the City Fund does not expect any losses from non-performance by any counterparty in relation to outstanding deposits. As at 31 March 2019 the City Fund had £676.3m in cash, cash equivalents and investments.

The City Fund does not generally allow credit for customers. Therefore, the potential maximum exposure to credit risk is with customers for which prudent provision for bad debts and expected credit losses has been included within the accounts based on the length of time past the due date and progress on recovery action.

Liquidity risk

The authority has ready access to borrowings from the money markets to cover any day to day cash flow need, and the Public Works Loans Board, for access to longer term funds. The authority is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. At present, the City Fund has no borrowing exposure.

Market risk

Interest rate risk

The authority is exposed to significant risk in terms of its exposure to interest rate movements on its investments. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following effects:

- investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise,
- investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Changes in interest receivable on variable rate investments are posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement. The Treasury Management Team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget, quarterly during the year. According to this assessment strategy, if interest rates had been 1% higher with all other variables held constant, the financial effect at 31 March on investments with variable rates would be

2017-18		2018-19
£m		£m
	Increase in interest receivable on investments held at variable rates	
2.4	City Fund	3.4
0.0	HRA	0.0
2.4	Total	3.4

The impact of a 1% fall in interest rates would be as above but with the movements being reversed. All of the City Fund's financial investments are due to mature within twelve months as at 31 March 2019 and therefore the impact of a 1% movement in interest rates on the fair value of fixed rate investment assets would not be material.

Price risk

The City of London Corporation has no material investments in equity shares attributable to the City Fund

Foreign exchange risk

The authority has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates

20. Debtors and Payments in Advance falling due within a year

31 March 2018		31 March 2019
£m		£m
34.0	Central Government Bodies	44.7
5.5	Greater London Authority	9.5
0.0	London NNDR Pool	56.4
	All Other Bodies	
11.9	Rents	10.6
6.0	Sundry	26.2
22.3	Trade Debtors	18.4
10.9	City Fund Share of National Business Rates Arrears	13.9
10.7	Other	12.2
(8.5)	Less: Impairment allowances for expected credit losses and doubtful debts	(7.9)
92.8	Total	184.0

The adjacent table provides a breakdown of the short term debtor balance including the allowance made for expecting credit losses and bad debts. The majority of the amounts due to the City Corporation relate to transactions with other public bodies where grant and reimbursements are due to fund its activities and NNDR arrears. The remaining amounts relate to outstanding rental income, fees and charges and PCN income.

21. Creditors and Receipt in Advance

The reduction in the Central Government amounts is due to the London Business Rate Pool pilot, this has seen Central Government's share of business rate income fall from 33% in 2017-18 to 0% in 2018-19. Outstanding balances for appeals, receipts in advance and refunds have not been allocated to them. This change has increased the City Corporations share of these balances, which has gone from 30% to 64% and caused a large increase in sundry creditors due to outstanding payments to the business rates pool.

31 March 2018		31 March 2019
£m		£m
(128.1)	Central Government Bodies	(5.9)
(119.2)	Greater London Authority and Transport for London	(100.4)
0.0	London Business Rates Pool	(58.0)
(29.1)	City Fund share of national business rates creditors and receipts in advance	(71.5)
(9.1)	Deposits	(10.1)
(52.2)	Sundry	(83.1)
(23.0)	Receipts in advance	(34.1)
(360.7)	Total	(363.1)

22. Provisions

With the introduction of the Business Rates Retention Scheme from 1 April 2013, Local Authorities are liable for successful appeals against business rates in their proportionate share. As part of the London 100% Business Rate Pool Pilot, the City Funds share of the appeal provision has increased from 30% to 64% (the remaining 36% is allocated to the GLA). A provision is recognised for the best estimate of the City Fund's liability at the year-end for appeals. The estimate has been calculated using the Valuation Office Agency (VOA) ratings list of appeals outstanding as at 31 March 2019 and an analysis of successful appeals and trends in 2018-19.

	National Business Rates	City Fund Premium on Business Rates	Total
	£m	£m	£m
Balance at 1 April 2018	(56.4)	(1.6)	(58.0)
Appeals settled in 2018-19	48.7	0.8	49.5
Provisions made in 2018-19	(64.0)	(0.2)	(64.2)
Balance at 31 March 2019	(71.7)	(1.0)	(72.7)

23. Pension Schemes

As part of the terms and conditions of employment of its employees, the City Fund makes contributions towards the cost of post-employment benefits. Employees are members of the following pension schemes:

- The City of London Corporation Pension Scheme
- The Police Pension Schemes (1987, 2006 and 2015)
- The Judges' Pension Scheme
- The Teachers' Pension Scheme.

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees working for the City Corporation. Notes 24 to 26 provide further information on each of the above schemes.

The principal risks to the authority of the scheme are the mortality rate assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme.

As an employer participating in the Scheme the City Corporation's estimated share of the net deficit is the responsibility of the City Corporation as a whole. The Corporation and its three funds have a policy in place to share the net defined benefit cost of the pension fund across the three funds. As such the City Fund recognises the net defined benefit cost along with a share of scheme assets and scheme liabilities. The total net defined benefit cost is apportioned across the Corporation's three funds based on the proportion of pensionable payroll of each fund.

Disclosures in relation to City Corporation and the City Fund's share of the overall scheme which satisfy the requirements of a defined benefit pension scheme are set out in this note. This information is not used to determine the employer's pension contribution rate. This is calculated at the triennial valuation and updated by any subsequent interim valuations. The most recent triennial valuation was as at 31 March 2016 and informed consideration of the level of employer's pension contribution to be charged from 1 April 2017 to 31 March 2020.

City of London Pension Scheme

The City Corporation Pension Scheme (the "Scheme") is operated under the regulatory framework for the Local Government Pension Scheme (LGPS) with policy determined in accordance with Pension Fund Regulations. It is a funded defined benefit scheme, meaning that the employers and employees pay contributions into a fund calculated at a level intended to balance the pension liabilities with investment assets. Prior to 1 April 2014, LGPS pension benefits were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme.

The City Corporation administers the Scheme on behalf of its participating employers. The City Corporation's Establishment Committee is responsible for personnel and administration matters, whilst its Financial Investment Board is responsible for appointing fund managers and monitoring performance.

Assets and Liabilities in Relation to Retirement Benefits

a. Reconciliation of present value of the scheme liabilities

CITY OF LONDON CORPORATION	CITY FUND SHARE 51%		CITY OF LONDON CORPORATION	CITY FUND SHARE 51%
31 March 2018	31 March 2018		31 March 2019	31 March 2019
£m	£m		£m	£m
(1,476.8)	(753.1)	1 April	(1,493.3)	(761.5)
(43.9)	(22.4)	Current Service Cost	(44.5)	(22.7)
(39.5)	(20.1)	Interest Cost	(37.7)	(19.2)
		Remeasurement gains/losses:		
0.0	0.0	Actuarial Gains/losses arising from demographic assumptions	41.8	21.3
42.6	21.7	Actuarial gains/losses arising from changes in financial assumptions	(72.4)	(36.9)
0.0	0.0	Other Actuarial Gains/Losses	0.0	0.0
0.0	0.0	Change in proportion allocated to City Fund	0.0	0.0
(0.5)	(0.3)	Past Service Cost, including curtailments	(0.2)	(0.1)
0.8	0.4	Liabilities extinguished on settlements	0.0	0.0
33.1	16.9	Benefits paid	38.0	19.4
(9.6)	(4.9)	Contributions from scheme participants	(10.2)	(5.2)
0.5	0.3	Unfunded Pension Payments	0.5	0.2
(1,493.3)	(761.5)	31 March	(1,578.0)	(804.7)

Liabilities are discounted to their value at current prices, using a discount rate of 2.40% (based on the annualised Merrill Lynch AA rated corporate bond yield curve where the spot curve is assumed to be flat beyond the 30 year point).

b. Reconciliation of fair value of the scheme assets

CITY OF LONDON CORPORATION	CITY FUND SHARE 51%		CITY OF LONDON CORPORATION	CITY FUND SHARE 51%
31 March 2018	31 March 2018		31 March 2019	31 March 2019
£m	£m		£m	£m
878.9	448.2	1 April	900.7	459.3
23.8	12.1	Interest on Assets	23.0	11.7
		Remeasurement gains/losses:		
(4.3)	(2.2)	Return on Assets less interest	45.4	23.1
0.0	0.0	Other actuarial gains/losses	0.0	0.0
0.0	0.0	Change in proportion allocated to City Fund	0.0	0.0
(0.7)	(0.4)	Administration expenses	(1.0)	(0.5)
27.5	14.0	Contributions by Employer	29.6	15.1
9.6	4.9	Contributions by Scheme Participants	10.2	5.2
(33.6)	(17.1)	Benefits Paid	(38.5)	(19.6)
(0.5)	(0.2)	Settlement Prices Received/(Paid)	0.0	0.0
900.7	459.3	31 March	969.4	494.3

Scheme assets consist of the following categories, by proportion of the total assets held:

31 March 2018		31 March 2019	
%		%	
65	Equity Investments	67	
1	Cash	1	
6	Infrastructure	6	
28	Absolute return portfolio	26	
100		100	

The analysis of investments held and valuations are included in the accompanying Pension Fund accounts.

c. Overall net deficit

CITY OF LONDON CORPORATION	CITY FUND SHARE 51%		CITY OF LONDON CORPORATION	CITY FUND SHARE 51%
31 March 2018	31 March 2018		31 March 2019	31 March 2019
£m	£m		£m	£m
(597.9)	(304.9)	1 April	(592.6)	(302.2)
(16.5)	(8.4)	change in liabilities	(84.7)	(43.2)
21.8	11.1	change in assets	68.7	35.0
(592.6)	(302.2)	31 March	(608.6)	(310.4)

Basis for Estimating Assets and Liabilities

The liabilities have been valued by the City of London's independent consulting actuaries (Barnett Waddingham LLP) using the projected unit method, based upon the latest full valuation of the scheme as at 31 March 2016 and updated to the balance sheet date. The main assumptions used in the calculations are as follows:

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2017-18		2018-19
	Mortality assumptions:	
	Life expectancy in years from age 65	
	Retiring today	
23.9	Men	23.2
25.2	Women	24.6
	Retiring in 20 years	
25.3	Men	24.5
26.7	Women	26.1
3.3%	Rate of Inflation - RPI	2.4%
2.3%	Rate of Inflation - CPI	1.4%
3.8%	Salary Increases	3.9%
2.3%	Pension Increases	2.4%
2.55%	Discount Rate	2.4%
50.0%	Take-up of option to convert annual pension into retirement lump sum	50.0%

Impact on defined benefit obligation from changes to actuarial assumptions

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out above. The following table, prepared on an actuarial projected unit basis, shows the impact on the defined benefit obligation from changes to various actuarial assumptions. The sensitivity analyses have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated.

Impact on the City Fund's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Corporation has agreed a deficit recovery period of 20 years from 2015-16 with the scheme's actuary. Funding levels are monitored on an annual basis.

The liabilities show the estimated underlying commitments that the City Fund has in the long run to pay post-employment (retirement) benefits. The net liability of £310.4m has a substantial impact on the net worth of the City Fund as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the City Fund remains sound. The deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

The total employer contributions expected to be made to the scheme for the City of London Corporation across all its funds in the year to 31 March 2020 are £28.4m (estimated City Fund Share £14.5m).

The scheme actuary has estimated that the weighted average duration of the defined benefit obligation for scheme members is 19 years.

Change in assumptions at 31 March 2019				
	CITY OF LONDON CORPORATION		CITY FUND	
	Increase	Decrease	Increase	Decrease
	£m	£m	£m	£m
0.1% change in rate for discounting scheme liabilities	(28.5)	29.0	(14.5)	14.8
0.1% change in rate of increase in salaries	3.1	(3.0)	1.6	(1.5)
0.1% change in rate of increase in pensions	25.9	(25.5)	13.2	(13.0)
One year change in rate of mortality assumption	59.2	(57.0)	30.2	(29.1)

24. The Police Pension Scheme

There are three Police Pension Schemes - the 1987 Scheme, the 2006 Scheme and the 2015 Scheme. Except where otherwise stated, the "Police Pension Scheme" is used generically to cover all the schemes. The Police Pension Scheme is defined benefit and unfunded. It is administered by the City of London in accordance with Home Office regulations and is not a multi-employer scheme.

The Scheme is funded on a pay as you go basis, with the employer contributing a percentage of police pay into the Pension Fund and the Home Office meeting the balance. At the year end the Police Pension Fund Account is balanced to nil by either receiving a contribution from the City Fund equal to the amount by which the amounts payable from the Pension Fund for the year exceed the amounts receivable or, by paying to the City Fund the amount by which sums receivable by the Fund for the year exceed the amounts payable.

Where the City Fund makes a transfer in to the Pension Fund, the Home Office will pay an equivalent top-up grant to the City Fund. Where the City Fund receives a transfer from the Pension Fund, the City Fund must pay the amount to the Home Office. The Police Pension Scheme 2015 came into effect from 1 April 2015 and any benefits accrued from that date will be based on career average revalued salaries, with exceptions for those members that have transitional protection in their existing scheme. These transitional protections are under legal challenge. A contingent liability has been recognised due to the ongoing case.

The last full valuation of the Police Pension Scheme was at 31 March 2012 by the Government Actuary's Department and set contributions for the period 1 April 2015 to 31 March 2019. A combined actuarial valuation as at 31 March 2016 has been undertaken and updated to the balance sheet date.

Liabilities in Relation to Retirement Benefits

As the scheme is unfunded, it has no assets.

Reconciliation of present value of the scheme liabilities

31 March 2018		31 March 2019
£m		£m
(912.9)	1 April	(955.8)
(15.9)	Current Service Cost	(16.1)
(24.3)	Interest Cost	(24.0)
	Remeasurement gains/losses:	
(17.9)	Actuarial Gains/losses arising from demographic assumptions	24.8
25.3	Actuarial gains/losses arising from changes in financial assumptions	(45.7)
(35.0)	Other Actuarial Gains/Losses	
28.1	Benefits paid	34.4
(3.8)	Contributions from scheme participants	(4.1)
0.6	Injury Benefits Paid	0.6
(955.8)	31 March	(985.9)

Impact on defined benefit obligation from changes to actuarial assumptions

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out above. The following table, prepared on an actuarial projected unit basis, shows the impact on the City Fund's defined benefit obligation from changes to various actuarial assumptions. The sensitivity analyses have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated.

Basis for Estimating Liabilities

The liabilities have been valued by the City of London's independent consulting actuaries (Barnett Waddingham LLP) using the projected unit method, based upon the last full valuation of the scheme updated to the balance sheet date. The main assumptions used in the calculations are as follows

2017-18	Mortality assumptions:	2018-19
	Life expectancy in years from age 65	
	Retiring today	
21.7	Men	21.1
24.0	Women	23.5
	Retiring in 20 years	
23.2	Men	22.5
25.6	Women	25.0
3.30%	Rate of Inflation - RPI	2.40%
2.30%	Rate of Inflation - CPI	1.40%
3.80%	Salary Increases	3.90%
2.30%	Pension Increases	2.40%
2.60%	Discount Rate	2.40%

Impact on defined benefit obligation from changes to actuarial assumptions

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out above. The following table, prepared on an actuarial projected unit basis, shows the impact on the City Fund's defined benefit obligation from changes to various actuarial assumptions. The sensitivity analyses have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated.

Change in Assumptions at 31 March 2019

Impact on the Defined Benefit Obligation in the Scheme		
	Increase	Decrease
	£m	£m
0.1% change in rate for discounting scheme liabilities	(18.9)	19.3
0.1% change in rate of increase in salaries	1.3	(1.3)
0.1% change in rate of increase in pensions	18.0	(17.6)
One year change in rate of mortality assumption	39.5	(37.9)

Impact on the City Fund's Cash Flows

The liabilities show the estimated underlying commitments that the City Fund has in the long run to pay post-employment (retirement) benefits. The net liability of £985.7m has a substantial impact on the net worth of the City Fund as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the City Fund remains sound. Future contributions are expected to be met by an annually assessed grant from the Home Office.

The total employer contributions for the combined position of the Police Pension Schemes 1987, 2006 and 2015 for the year to 31 March 2020 are expected to be £6.4m and the expected top up grant from the Government is £23.8m.

The scheme actuary has estimated that the weighted average combined duration of the defined benefit obligation for the schemes is 19 years.

25. Judges' Pension Scheme

The Judges Pension Scheme is defined benefit and unfunded. The scheme is subject to the provisions of the Judicial Pensions and Retirement Act 1993. The Treasury is responsible for payment of Judges' pensions and the City of London reimburses them in accordance with regulations made under the Act.

Liabilities in Relation to Retirement Benefits

As the scheme is unfunded, it has no assets.

Reconciliation of present value of the scheme liabilities

31 March 2018		31 March 2019
£m		£m
(2.5)	1 April	(2.6)
(0.2)	Current Service Cost	(0.2)
(0.1)	Interest Cost	(0.1)
	Remeasurement gains/losses:	
0.0	Actuarial Gains/losses arising from demographic assumptions	0.1
0.1	Actuarial gains/losses arising from changes in financial assumptions	(0.2)
0.1	Benefits paid	0.1
(2.6)	31 March	(2.9)

Basis for Estimating Liabilities

The liabilities have been valued by the City of London's independent consulting actuaries (Barnett Waddingham LLP) using the projected unit method, based upon the last full valuation of the scheme updated to the balance sheet date. The main assumptions used in the calculations are as follows:

2017-18	Mortality assumptions:	2018-19
	Life expectancy in years from age 65	
	Retiring today	
23.9	Men	23.2
25.2	Women	24.6
	Retiring in 20 years	
25.3	Men	24.5
26.7	Women	26.1
3.40%	Rate of Inflation - RPI	2.50%
2.40%	Rate of Inflation - CPI	1.50%
3.90%	Salary Increases	4.00%
2.40%	Pension Increases	2.50%
2.50%	Discount Rate	2.30%

Impact on defined benefit obligation from changes to actuarial assumptions

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out on the previous page. The following table, prepared on an actuarial projected unit basis, shows the impact on the City Fund's defined benefit obligation from changes to various actuarial assumptions. The sensitivity analyses have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated.

Change in Assumptions at 31 March 2019*Impact on the City Fund's Cash Flows*

Impact on the Defined Benefit Obligation in the Scheme		
	Increase	Decrease
	£m	£m
0.1% change in rate for discounting scheme liabilities	(0.04)	0.04
0.1% change in rate of increase in salaries	0.00	(0.00)
0.1% change in rate of increase in pensions	0.04	(0.04)
One year change in rate of mortality assumption	0.12	(0.11)

The liabilities show the estimated underlying commitments that the City Fund has in the long run to pay post-employment (retirement) benefits. The net liability of £2.9m has an impact on the net worth of the City Fund as recorded in the Balance Sheet. However, the City Fund has set aside funds in an earmarked reserve to assist with meeting its share of liabilities.

The scheme actuary has estimated that the weighted average combined duration of the defined benefit obligation for the scheme is 13 years.

26. Transactions Relating to Post-employment Benefits within the Financial Statements

The Teachers' Pension Scheme is accounted for as if it is a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pension Scheme in the year.

Retirement benefits from schemes accounted for on a defined benefit basis (City of London, Police and Judges) are recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge against council tax is based on cash payable in the year, so the real cost of retirement benefits is reversed out of the City Fund and Housing Revenue Account via the Movement in Reserves Statement.

The cumulative amount of actuarial gains and losses recognised in Other Comprehensive Income and Expenditure in the actuarial gains or losses on pensions assets and liabilities line was at 31 March 2019 a loss of £13.4m and at 31 March 2018 was a loss of £8m. The amount included in the Balance Sheet arising from the City Fund's estimated obligation in respect of the defined benefit plans is as follows:

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31 March 2018		31 March 2019
£m		£m
	Present Value of the defined benefit obligation	
(758.6)	City of London Pension Scheme - City Fund	(802.1)
(944.1)	Police Pension Schemes	(974.3)
(2.6)	Judges Pension Scheme	(2.9)
	Fair Value of plan assets	
459.3	City of London Pension Scheme - City Fund	494.4
	Present value of unfunded obligation	
(2.9)	City of London Pension Scheme - City Fund	(2.7)
(11.8)	Police Pension Schemes	(11.6)
(1,260.7)	Net liability on balance sheet	(1,299.2)

There are no outstanding or pre-paid employee contributions at the balance sheet date.

The table summarises the entries in the financial statements for the City of London, Police and Judges Schemes

2017-18					2018-19			
Police	Judges	City of London City Fund	Total		Police	Judges	City of London City Fund	Total
£m	£m	£m	£m		£m	£m	£m	£m
				Comprehensive Income & Expenditure Statement (CIES)				
				Cost of Services:				
15.9	0.2	22.1	38.2	Current service cost	16.1	0.2	22.7	39.0
0.0	0.0	0.3	0.3	Past service costs	0.0	0.0	0.1	0.1
0.0	0.0	(0.2)	(0.2)	(gain)/loss from settlements	0.0	0.0	0.0	0.0
			0.0	Other Operating Income				
0.0	0.0	0.4	0.4	Administration expenses	0.0	0.0	0.5	0.5
			0.0	Financing & Investment Income & Expenditure				
0.0	0.0	0.3	0.3	Current service cost	0.0	0.0	0.0	0.0
24.3	0.1	8.0	32.4	Interest cost	24.0	0.1	7.5	31.6
40.2	0.3	30.9	71.4	Total Retirement Benefit Charged to the Surplus or Deficit on the Provision of Services	40.1	0.3	30.8	71.2
				Other Comprehensive Income & Expenditure				
				Remeasurement of the net defined benefit liability:				
0.0	0.0	2.2	2.2	Return on plan assets	0.0	0.0	(23.1)	(23.1)
17.9	0.0	0.0	17.9	Actuarial (gains) & losses - changes in demographic assumptions	(24.8)	(0.1)	(21.4)	(46.3)
(25.3)	(0.1)	(21.7)	(47.1)	Actuarial (gains) & losses - changes in financial assumptions	45.7	0.2	36.9	82.8
35.0	0.0	0.0	35.0	Actuarial (gains) & losses - Other	0.0	0.0	0.0	0.0
27.6	(0.1)	(19.5)	8.0	Total Other Comprehensive Income & Expenditure	20.9	0.1	(7.6)	13.4
67.8	0.2	11.4	79.4	Total Retirement Benefit Charged/(Credited) to the CIES	61.0	0.4	23.2	84.6
				Movement in Reserves Statement				
(67.8)	(0.2)	(11.4)	(79.4)	Reversal of net charges/credits for retirement benefits in accordance with the Code	(61.0)	(0.4)	(23.2)	(84.6)
24.9	0.1	14.0	39.0	Actual amount charged against the City Fund and HRA Balances	30.9	0.1	15.1	46.1

27. Grants and Contributions Received in Advance

A number of grants and contributions have yet to be recognised as income as they have conditions attached to them which if they are not met will require the monies to be returned to the provider. The balances at the year-end total £108.9m from S106/S278 Capital Contributions.

28. Deferred Credits

Premiums received at the commencement of operating leases for investment properties are effectively rents received in advance and are released to revenue on a straight line basis over the lease term. This totals £166.3m.

29. Other Long-term Liabilities

At the 31 March 2019 the City Fund has long term liabilities of £38.2m which consists of £35.1m of outstanding London NNDR Pool SIP payment due to be released over the life span of agree projects and £3.1m (2017-18: £4.0m) of financial lease liabilities.

30. Leases

Finance Leases

City Fund as Lessee

Nine property agreements have been classified as finance leases – five relating to operational properties and four in respect of investment properties. In addition, as part of the City of London contract for its cleansing services, the vehicles owned by the contractor but which are used exclusively on the City of London contract have been classified as finance leases.

The assets acquired under these leases are carried as Property, Plant and Equipment and Investment Properties in the City Fund's Balance Sheet at the following net amounts:

The rental payments for most of the property leases are immaterial, the highest being £600 per annum. Consequently, no liabilities are recognised in the balance sheet for these leases and the rental payments are met in full from revenue over the terms of the leases rather than being apportioned between finance charges (interest) and reductions in the outstanding liabilities.

For two investment property leases and the vehicles the City Fund will make payments over the term of the leases to meet the costs of the long term liabilities and the finance costs payable.

The leases are carried under other long term liabilities on the balance sheet:

31 March 2018		31 March 2019
£m		£m
	Property, Plant and Equipment	
2.5	Other Land and Buildings	18.2
0.3	Vehicles, Plant and Equipment	0.1
46.7	Investment Properties	46.7
49.5		65.0

31 March 2018		31 March 2019
£m		£m
3.1	Investment Property	3.7
0.9	Cleansing Vehicles	0.1
4.0	Long Term Liabilities	3.8

The minimum lease payments in relation to the investment property are:

Total Future Minimum Lease Payments	Present Value of Future Lease Payments		Total Future Minimum Lease Payments	Present Value of Future Lease Payments
31 March 2018	31 March 2018		31 March 2019	31 March 2019
£m	£m		£m	£m
0.1	0.0	Not later than one year	0.1	0.0
0.5	0.0	Later than one year and not later than five years	0.5	0.0
13.4	3.7	Later than five years	13.3	3.7
14.0	3.7		13.9	3.7

There are no commitments in respect of finance leases entered into before the year end but whose term has yet to commence.

City Fund as Lessor

The gross investment is made up of the following amounts:

31 March 2018		31 March 2019
£m		£m
	Finance lease debtor (net present value of minimum lease payments)	
0.7	current	0.7
13.2	non-current	12.4
30.8	Unearned finance income	30.7
0.0	Unguaranteed residual value of property	0.0
44.7	Gross investment in the lease	43.8

The gross investment in the leases and the minimum lease payments receivable will be received over the following periods

Gross Investment in Lease	Net Present Value of Minimum Lease Payments		Gross Investment in Lease	Net Present Value of Minimum Lease Payments
31 March 2018	31 March 2018		31 March 2019	31 March 2019
£m	£m		£m	£m
1.0	0.6	Not later than one year	1.1	0.7
3.0	1.6	Later than one year and not later than five years	2.6	1.2
40.5	11.5	Later than five years	40.1	11.2
44.5	13.7		43.8	13.1

The minimum lease payments receivable are not contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. Income from investment properties is set out in note 17.

Operating Leases**City Fund as Lessee**

The future minimum lease payments due under non-cancellable leases in future years are

31 March 2018		31 March 2019
£m		£m
2.3	Not later than one year	2.3
6.1	Later than one year and not later than five years	4.1
11.0	Later than five years	10.7
19.4		17.1

City Fund as Lessor

The City of London has granted leases in respect of a number of City Fund properties, principally Investment Properties, which are treated as operating leases. The future minimum lease payments receivable under non-cancellable leases in future years are:

31 March 2018		31 March 2019
£m		£m
49.0	Not later than one year	53.0
183.0	Later than one year and not later than five years	197.0
2,901.0	Later than five years	2,969.0
3,133.0		3,219.0

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

31. Unusable Reserves

31 March 2018	Note	31 March 2019
£m		£m
(325.4)	Revaluation Reserve	(342.4)
(2,076.0)	Capital Adjustment Account	(2,145.7)
1,260.7	Pensions Reserve	1,299.2
(6.5)	Collection Fund Adjustment Account	(31.4)
2.8	Accumulated Absences Account	4.0
(13.7)	Deferred Capital Receipts Reserve	(13.1)
0.0	Financial Instrument Revaluation Reserve	0.2
0.0	Financial Instrument Adjustment Account	0.2
(1,158.1)	Total Unusable Reserves	(1,229.0)

A. Revaluation Reserve

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The Revaluation Reserve contains the gains arising from increases in the value of Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account (see note B).

2017-18		2018-19	
£m		£m	£m
(305.6)	Balance at 1 April		(325.5)
(39.0)	Upward revaluation of assets	(47.4)	
11.6	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	20.0	
(27.4)	Surplus on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		(27.4)
3.8	Difference between fair value depreciation and historical cost depreciation	5.0	
0.0	Assets reclassified as investments	1.3	
3.8	Accumulated gains on assets sold or scrapped	4.2	
7.6	Amount written off to the Capital Adjustment Account		10.5
(325.4)	Balance at 31 March		(342.4)

B. Capital Adjustment Account

The Capital Adjustment Account includes entries for the financing of capital expenditure and other capital transactions. The account contains the amount of capital expenditure financed from revenue, capital receipts and other sources. It is reduced by the amounts provided for depreciation and for the write-down of revenue expenditure funded from capital under statute and adjustments for disposals of long-term assets. The account contains accumulated gains and losses on Investment Properties. It also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

2017-18		2018-19	
£m		£m	£m
(1,994.5)	Balance at 1 April		(2,076.0)
	Reversal of items relating to capital expenditure debited or credited to the CIES:		
29.8	Charges for depreciation, impairment and revaluation losses of non-current assets	35.7	
0.0	Revaluation gains on Property, Plant and Equipment	(0.7)	
0.0	Amortisation of intangible assets	0.3	
8.2	Revenue expenditure funded from capital under statute	10.9	
5.6	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	6.5	
43.6	Total reversal of items relating to capital expenditure debited or credited to the CIES:		52.7
(7.6)	Adjusting amounts written out of the Revaluation Reserve	(10.5)	
36.0	Net written out amount of the cost of non-current assets consumed in the year		42.2
	Capital financing applied in the year:		
(16.3)	Use of the Capital Receipts Reserve to finance new capital expenditure	(14.6)	
(3.0)	Use of the Major Repairs Reserve to finance new capital expenditure	(5.8)	
(15.7)	Capital grants, contributions & donations credited to the CIES that have been applied to capital financing	(15.1)	
(1.5)	Application of grants to capital financing from the Capital Grants Unapplied Account	(0.7)	
(0.9)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(1.0)	
(8.1)	Capital expenditure charged against the City Fund & HRA balances	(41.8)	
(45.5)	Total Capital financing applied in the year:		(79.0)
(72.0)	Movements in the market value of Investment Properties debited or credited to the CIES	(32.9)	
(2,076.0)	Balance at 31 March		(2,145.7)

C. Pension Reserve

2017-18		2018-19
£m		£m
1,220.3	Balance at 1 April	1,260.7
8.0	Remeasurements of the net defined benefit liability	13.4
71.4	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	71.1
(39.0)	Employer's pension contributions less direct payments to pensioners payable in the year	(46.1)
1,260.7	Balance at 31 March	1,299.2

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. Post-employment benefits in the Comprehensive Income and Expenditure Statement are recognised as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as employer's contributions are paid to pension funds. The debit balance on the Pensions Reserve therefore shows a substantial shortfall between the benefits earned by past and current employees and the resources set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid. The negative pension reserve matches the estimated liabilities on the City of London (City Fund share), Police and Judges' Pension Schemes as determined by independent actuaries using the projected unit method and in accordance with IAS19 (see notes 23 to 26).

D. Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of national business rates and council tax income in the Comprehensive Income and Expenditure Statement as it falls due from business rate and council tax payers compared with the statutory arrangements for paying across amounts to the City Fund from the Collection Fund.

E. Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the City Fund unallocated reserve from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the City Fund unallocated reserve is neutralised by transfers to or from the Account.

F. Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, these gains are not treated as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve

G. Financial Instrument Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the authority arising from increases in the value of its investments that are measured at fair value through other comprehensive income.

H. Financial Instrument Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

Notes to the Cash Flow

32. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following item:

2017-18		2018-19
£m		£m
(29.8)	Depreciation, impairments and impairment reversal	(35.3)
0.0	Amortisation	0.0
(13.4)	Increase in creditors	(139.3)
16.6	Increase in debtors	73.2
(0.0)	Increase in inventories	(0.1)
(32.3)	Movement in pension liability	(25.1)
(5.6)	Carrying amount of non-current assets sold	(6.4)
72.0	Movement in investment property values	32.9
(14.9)	Deferred credits	1.0
24.5	(Increase)/Decrease in contributions to provisions	(14.7)
0.0	Other non-cash items charged to the net surplus or deficit on the provision of services	(0.2)
17.1	Total	(114.0)

The surplus/deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2017-18		2018-19
£m		£m
(4.2)	Interest received	(8.6)

The surplus on the provision of services has been adjusted for the following non-cash movements:

2017-18		2018-19
£m		£m
8.5	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	10.3
21.0	Capital grants credited to the net surplus or deficit on the provision of services	22.7
29.5	Total	33.0

33. Cash Flow Statement – Investing Activities

2017-18		2018-19
£m		£m
30.4	Purchase of property, plant and equipment, investment property and intangible assets	66.9
(11.0)	Movement in short-term and long-term investments	2.4
(21.0)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	0.7
(10.9)	Other receipts from investing activities	(35.9)
(12.5)	Net cash outflows/(inflows) from investing activities	34.1

34. Cash Flow Statement – Financing Activities

2017-18		2018-19
£m		£m
36.7	Billing Authorities - Council Tax and NNDR Adjustments	116.0
0.0	Income from Finance Leases	0.9
36.7	Net cash inflows from financing activities	116.9



Other Notes to the Accounts

35. Related Party Transactions

The City Fund is required to disclose information on material “related party transactions” with bodies or individuals that have the potential to control or influence the authority or be controlled or influenced by the authority.

Disclosure

Members are required to disclose their interests, and these can be viewed online at www.cityoflondon.gov.uk. Members and Chief Officers have been requested to disclose related party transactions of £10,000 or more in 2018-19 including instances where their close family has made transactions with the City of London. During 2018-19 the following transactions were disclosed;

Representatives of the City of London Corporation on other bodies

- The City Corporation nominates a Member to a London Councils Committee and another Member has declared his independent place on a number of Committees. London Councils were paid £273,811 for various subscriptions and fees;
- The City Corporation nominates a Member to Age UK London who a Member has also declared a interest in. The City Fund paid Age UK London £132,754 for services provided;
- A Member is nominated by the City Corporation to the Association of Police and Crime Commissioners, the Association were paid £21,950 from the City Fund for Membership fees;
- Four Members are nominated by the City Corporation to The Court of the City University. The City Fund received £981,374 for room hire and catering;
- The City Corporation nominates a Member to the East London NHS Foundation Trust who were paid £65,399 for reablement services. The City Fund received £141,259 for catering and hire;
- Three Members are nominated by the City Corporation to the Heart of the City London Ltd. The City Fund paid £36,421 and received £21,725 in support costs;
- A Member is nominated to Homerton University Hospital by the City Corporation. The University Hospital has provided IT enabler funding of £151,099 to the City Fund and received £48,891 for support and services;
- The City Corporation nominates two members to the Local Government Association – General Assembly who the City Fund has paid £12,202 to in subscription fees;

- A Member is nominated by the City Corporation to London and Partners who have received £74,937 from the City Fund for various letting, hire and storage needs;
- The City Corporation nominates a Member to the Partnership for Young London. The City Fund has received £11,400 for workshops and central support charges;
- A Member is nominated to Prior Weston Primary School and Children’s centre who have received £15,795 from the City Fund.

Members Related Parties Transactions

- A Member is an employee of Aberdeen Standard Investments Ltd, which has paid the City Fund £24,000 for Business membership;
- A Member is a Partner of PWC LLP who were paid £704,900 for consultancy services. £174,429 was received for room and technical hire;
- Two Members paid the City Fund a total sum of £35,022 for rent;
- A Member is an equity partner of DLA Piper UK LLP which was paid £11,275 for consultancy services. The City Fund received £27,742 for venue hire and other services;
- A member is a chairman of Askonas Holt Ltd who were paid £116,551 for fees and expenses. The City Fund also received £16,272 for payment of fees;
- A Member is the chief executive officer of Aon UK Ltd which paid the City Fund a contribution of £60,295 towards the Sculpture in the City exhibition;
- A Member is the director the Lord Mayor’s Show Ltd who paid the City Fund £23,500 in application fees and received £12,500 from City Fund for participation fees in the Lord Mayor's Show;

- A Member is the director the Lord Mayor's Show Ltd who paid the City Fund £23,500 in application fees and received £12,500 from City Fund for participation fees in the Lord Mayor's Show;
- Two Members have declared an interest in UBS. £37,495 was received from the company for membership and other services.
- A Member is an employee of Amazon who have paid the City Fund £47,424 for the provision of services;
- A Member is a consultant to Kingston Smith LLP, parent group of Kingston Smith Advisers Ltd. The City Fund paid the parent group £44,900 for fundraising and impact measurement services;
- A Member has declared an interest in Moore Stephens who paid the City Fund £24,763 for Catering, hire and other services;
- A Member is a Director of the International Dispute Resolution Centre Ltd who are a tenant of the City of London Corporation. The City Fund has received £785,220 for rent and service charges.

Related Party Transactions with the Museum of London

The Museum of London is financed by the City of London and the Greater London Authority with the latter being the major funder and is subject to common control by central government. The City of London's contribution in 2018-19 was £5.9m (2017-18: £5.3m) and the City Fund received £8.1m for rent, loan repayments and other services.

Half of the appointments to the Board are made by the City of London and a Member has declared an interest in the Museum. However, the City of London does not exercise control of the Museum.

Related Party Transactions with City's Cash and Bridge House Estates

During 2018-19 and 2017-18 there were no significant transactions between the City Fund and the other main funds of the City Corporation. There were no outstanding balances at year end.

Entities Controlled or Significantly Influenced

Barbican Theatre Productions Limited is a company limited by guarantee engaged with the production of theatre events on behalf of the Barbican Centre. All directors of the company are officers of the City Corporation based at the Barbican Centre. The company falls within the group boundary of the City Fund

on the grounds of control and significant influence. However, group accounts are not necessary as, due to the elimination of group transactions on consolidation, the interest is not deemed sufficiently material.

For 2018-19 the City Corporation did not make any payments to the company or receive any reimbursement from the company. In 2017-18 the City Corporation paid £0.9m to the company and received £1.2m reimbursement from the company.

Barbican Exhibitions Limited is a company limited by guarantee engaged with the production of music, gallery and touring events on behalf of the Barbican Centre. All directors of the company are officers of the City Corporation based at the Barbican Centre. The company falls within the group boundary of the City Fund on the grounds of control and significant influence. However, group accounts are not necessary as, due to the elimination of group transactions on consolidation, the interest is not deemed sufficiently material. For 2018-19 the City Corporation paid £2.7m to the company and received £2.3m reimbursement from the company.

Related Party Transactions Disclosed Elsewhere in the Accounts

The UK government has significant influence over the general operations of the City Fund. It is responsible for providing the statutory framework within which the City Fund operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the City Fund has with other parties (e.g. council tax bills, housing benefits). Grants from government departments are shown in Note 6. Amounts due to and from central government departments at 31 March 2019 are shown in notes respectively. Disclosures are made in respect of other public bodies which are subject to common control by central government in other parts of the accounts as follows:

- Precepts from other Authorities
- Pension Fund

Amounts paid to HM Revenues and Customs in respect of employer's national insurance contributions of £12.7m (2018: £11.6m).

Amounts paid to Kent County Council for the procurement of goods and services, primarily energy of £3.6m (2018: £6.5m).

During 2017-18 the following transactions were disclosed;

- the City Corporation nominates six Members to the various committees of London Councils and another Member declared that he has an independent place on a number of Committees. London Councils was paid £245,000 for various subscriptions and services and City Fund received £21,000 for funding of London Children in Care Council project;
- the City Corporation nominates a Member to the Local Government Association which was paid £14,000 for subscriptions, conference fees and services;
- the City Corporation nominates a Member to Homerton University Hospital. The City Fund paid £27,000 for the provision of services;
- the City Corporation nominates three Members to the City University London. £206,000 was received for the provision of services;
- five Members and two Chief Officers are Directors of the 'Lord Mayors Show Ltd'. The company paid the City Fund £10,000 for the provision of services. The City Fund paid the company £15,000 for artwork and participation fees;
- a Member declared an interest in PwC LLP which was paid £1,179,000 for consultancy services. £4,000 was received from the company for the hire of an event space;
- a Member is a Director/Shareholder of Keepmoat Regeneration Ltd which provided services to the City Fund at a cost of £2,232,000;
- a Member is a Director of London & Partners which paid £11,000 to the City Fund for the provision of services and received £78,000 for participation in exhibitions and partnership fees;
- a Member has declared an interest in Guildhall School of Music and Drama which has paid the City Fund £158,000 in rental income;
- a Member declared that a member of their family worked for Knight Frank which was paid £126,000 for services;

- a Member is a Board Member of the International Dispute Resolution Centre Ltd which paid £277,000 in lease charges to the City Fund;
- a Member has paid £19,000 for a lease at Barbican Estate;
- a Member is a Director of the Museum of London Archaeology Service which was paid £15,000 for services;
- a Member declared an interest in UBS. £40,000 was received from the company for the provision of services;
- a Member paid the City Fund £16,000 for rent;
- a Member has declared an interest in RSM UK Group LLP which was paid £34,000 for professional services;
- a Member is a Member of the Advisory Council of The New Entrepreneurs Foundation which was paid £20,000 for sponsoring the New Entrepreneurs Foundation;
- a Member is a partner at Deloitte LLP which paid City Fund £13,000 for the provision of services;
- a Member is a Governor of City of London Primary Academy Islington which paid £15,000 for services;
- a Member is a Director of Helical Ltd which paid City Fund £19,000 for the provision of services.

36.Members Allowances

Members do not receive any remuneration from the City of London for undertaking their duties. However, Members may claim travelling expenses in respect of activities outside the City and receive allowances in accordance with a scale when attending a conference or activity on behalf of the City Corporation. These costs, totalling £5,528 (2017-18: £5,246) across all of the City's activities, were met from the endowment funds of the City Corporation and not charged to the City Fund.

37.Contingent Liabilities

There is a disagreement with a contractor as to whether or not certain work is inside or outside the scope of a contract. It is not known what the outcome of this dispute will be, but costs could be in the region of £2.6m.

There is outstanding legal case with leaseholders of HRA property regarding recovery of major capital works costs. The outcome of the case is currently not known but the cost would in the region of £5.1m to the HRA.

In December 2018 the Court of Appeal ruled that transitional provisions which were put in place under reforms to both the Judges' and Firefighters' Pension Schemes discriminated against a group of members on the grounds of age. The Government intends to appeal this ruling. However, should it stand, the potential impact on public service pension schemes may result in an increase in liabilities. The ruling will be applicable to all public sector pension schemes in which City Fund employees participate (including the LGPS and the Judges', Police and Teachers' Pension Schemes). The Government Actuary's Department has estimated the size of such liabilities could amount to between 0.5% and 1% of total scheme liabilities although the timing of the final outcome is uncertain. This would equate to an increase in the City Fund pensions liability of between £9.0m and £17.9m.

38.Trust Funds

The City of London Corporation Combined Education Charity (charity registration number 312836)

Established in 2011 through the amalgamation of the Higher Education Research and Special Expenses Fund, the Archibald Dawnay Scholarships, the Robert Blair Fellowship and the Alan Partridge Smith Bequest, the objective of the Trust is to further the education of persons attending or proposing to attend secondary, further or higher educational institutions by the provision of grants or financial assistance. Also, to provide grants for staff at maintained schools & Academies in the boroughs of London to undertake studies to further their development as teachers. As at 31 March 2019 the Trust's net assets were £1.2m (2018: £1.2m).

The City Educational Trust Fund (charity registration 290840)

The City Educational Trust Fund was established under the City of London Various Powers Act 1967, section 25 (1) which states that the capital and interest shall be applied by the City of London Corporation as it thinks fit, for one or more of the following purposes as it may from time to time determine: 1) for the advancement of the objects of the City University constituted by Royal Charter granted on 23 May 1966, or for other educational purposes connected with, or related to the said university; and 2) for the advancement of education in science and technology, business management and commerce, biology and ecology and the cultural arts by the promotion of research, study, teaching and training in and of such subjects, or any of them. As at 31st March 2019, The Trust's net assets were £3.7m (2018: £3.9m).

39. Agency Transactions

The City Fund carries out certain work on an agency basis for this it is fully reimbursed. Revenue and capital works costing £1.0m (2017-18: £1.1m) were undertaken mainly on behalf of Transport for London. These sums were fully reimbursed.

The City Fund has acted as a Lead Authority for the 100% London Business Rate Pool Pilot which operated during 2018-19. This role includes acting as finance lead for the pool, involving aggregating business rate income from participating authorities and distributing funds on behalf of the pool. The City Corporation received £2,874.9m from participating authorities of which a £2,806.2m business rate tariff payment was made to central government on behalf of the pool. Outstanding debtors and creditors relating to pool activity are shown below. Please note this exclude London NNDR Pool SIP balances which are included in the City Fund CI&ES.

Business Rate Pool Balances		Balance as at 31 March 2019 £m
Short-Term Debtors		56.4
Cash & Cash Equivalents		7.3
Short-Term Creditors		(49.1)



Supplementary Accounts and Notes

Housing Revenue Account

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the HRA Statement.

Income and Expenditure Statement				
2017-18		Notes	2018-19	
£m			£m	£m
	Expenditure			
5.9	Repairs and maintenance		7.9	
9.0	Supervision and management		8.9	
4.2	Depreciation of non-current assets		3.2	
2.9	Revaluation (gain)/loss on HRA dwellings		8.3	
0.1	Movement in the allowance for bad debts	1	0.0	
22.1	Total Expenditure			28.3
	Income			
(10.3)	Dwelling rents		(10.0)	
(2.1)	Non-dwelling rents		(1.8)	
(3.2)	Charges for services and facilities		(3.5)	
(0.3)	Contributions towards expenditure		(0.8)	
(15.9)	Total Income			(16.1)
6.2	Net Expenditure/(Income) of HRA Services as included in the City Fund CIES cost of services			12.2
	HRA share of other income and expenditure included in the City Fund CIES			
(1.0)	Net Gain on Disposal of Fixed Assets			(1.2)
(0.1)	Interest and investment income			(0.1)
(0.9)	Investment property gain on revaluation			0.0
4.2	(Surplus)/deficit for the year on HRA Services			10.9

Movement on the HRA Statement				
2017-18		Notes	2018-19	
£m			£m	£m
(8.1)	Balance on the HRA at the end of the previous year			(4.5)
4.2	(Surplus)/deficit for the year on the HRA Income and Expenditure Statement		10.9	
(0.6)	Adjustments between accounting basis and funding basis under statute	2	(10.2)	
3.7	(Increase)/decrease in year on the HRA			0.7
(4.5)	Balance on the HRA at the end of the current year			3.8

1. Impairment Allowance for Bad and Doubtful Debts

2017-18		2018-19
£m		£m
0.21	Provision at 1 April	0.23
(0.03)	Bad Debts written off	(0.03)
0.05	Decrease in Provision	(0.03)
0.23	Provision at 31 March	0.17

2. Adjustments between Accounting Basis and Funding Basis under Statute

Note 11 to the City Fund Financial Statements provides further analysis of the adjustments between the accounting basis and funding basis under statute.

3. Housing Stock

As at 31 March 2019 the City Corporation's HRA rental stock was 1,926 dwellings. The HRA also includes costs and service charge income relating to properties sold on long leases of which there were 921 as at 31 March 2019 (2018: 917).

31 March 2018		31 March 2019
No.		No.
27	Houses and Bungalows	27
1,903	Flats	1,899
1,930	Total	1,926

31 March 2018		31 March 2019
No.		No.
1,937	Stock at 1 April	1,930
0	Demolished Property	0
(7)	Sales	(4)
0	Buy Back	0
0	New Build	0
1,930	Stock at 31 March	1,926

4. Arrears of Rent, Service and Other Charges

As at 31 March 2019 the total arrears for rent, service charges and other charges were £4.7m (31 March 2018: £3.7m) as follows

31 March 2018		31 March 2019
£m		£m
0.1	Former residential tenants	0.1
0.2	Current residential tenants	0.2
0.4	Commercial tenants	0.2
2.9	Service charges	4.1
0.1	Other charges	0.1
3.7	Total arrears	4.7

5. HRA Property, Plant and Equipment

2017-18				2018-19					
Council Dwellings	Other Land & Buildings	Assets under construction	Total	Movements on Balances		Council Dwellings	Other Land & Buildings	Assets under construction	Total
£m	£m	£m	£m			£m	£m	£m	£m
				Cost or valuation					
253.6	39.9	4.7	298.2	at 1 April 2017	at 1 April 2018	236.7	40.8	9.2	286.7
0.3	0.0	5.1	5.4	Additions		4.7	0.4	4.6	9.7
0.6	0.0	(0.6)	0.0	Transfers		6.4	0.8	(7.2)	0.0
(13.4)	0.9	0.0	(12.5)	Revaluation increases recognised in the Revaluation Reserve		(15.5)	0.0	0.0	(15.5)
(3.6)	(0.0)	0.0	(3.6)	Revaluation decreases recognised in the Surplus/Deficit on the Provision of Services		(8.6)	0.0	0.0	(8.6)
(0.8)	0.0	0.0	(0.8)	Derecognition - disposals		(0.5)	(0.2)	0.0	(0.7)
236.7	40.8	9.2	286.7	at 31 March 2018	at 31 March 2019	223.2	41.8	6.6	271.6
				Accumulated Depreciation and Impairment					
(0.1)	(0.1)	0.0	(0.2)	at 1 April 2017	at 1 April 2018	(0.1)	(0.1)	0.0	(0.2)
(3.9)	(0.3)	0.0	(4.2)	Depreciation Charge		(2.9)	(0.3)	0.0	(3.2)
3.2	0.3	0.0	3.5	Depreciation written out to the Revaluation Reserve		2.6	0.3	0.0	2.9
0.7	0.0	0.0	0.7	Depreciation written out to the Surplus/Deficit on the Provision of Services		0.3	0.0	0.0	0.3
0.0	0.0	0.0	0.0	Derecognition - disposals		0.0	0.0	0.0	0.0
(0.1)	(0.1)	0.0	(0.2)	at 31 March 2018	at 31 March 2019	(0.1)	(0.1)	0.0	(0.2)
				Net Book Value					
253.5	39.8	4.7	298.0	at 1 April 2017	at 1 April 2018	236.6	40.7	9.2	286.5
236.6	40.7	9.2	286.5	at 31 March 2018	at 31 March 2019	223.1	41.7	6.6	271.4

The value of council dwellings within the HRA does not include all council dwellings owned by the City Fund (see note 13) as some council dwellings are held outside of the HRA such as the Barbican Estate.

6. Housing Asset Valuation

Dwellings are valued at their 'existing use with vacant possession' and then reduced to reflect 'existing use for social housing'. The reduction is a measure of the economic cost of providing council housing at less than open market rents. Under Government guidance issued in 2016, the applicable social housing 'adjustment factor' is 75% +/- 5%. The estimated vacant possession value of HRA dwellings is £743.8m (2018: £788.8m) which has been reduced by 70% to £223.1m (2018: £236.6m) to reflect social housing use. Other land and buildings are assessed at existing use value

7. Investment Property

2017-18		2018-19
£m		£m
5.6	Balance at start of the year	4.7
	Revaluations:	
(0.9)	Net gains from fair value adjustments	0.0
4.7	Balance at end of the year	4.7

8. Major Repairs Reserve

2017-18		2018-19
£m		£m
(6.5)	Balance 1 April	(8.5)
	Transfer from HRA equal to depreciation	
(3.9)	dwellings	(2.9)
(0.3)	non dwellings	0.3
(0.8)	Additional contribution from HRA	2.7
3.0	Capital expenditure (dwellings)	5.8
(8.5)	Balance 31 March	(3.2)

The reserve is used to finance capital expenditure and the balance is included with other capital reserves in the City Fund Balance Sheet. The previous 2 year's contributions to MRR have been above the required value of dwelling and non-dwelling depreciation. These additional contributions totalled £2.7m. This amount has been transferred back to the HRA general reserve.

9. HRA Capital Expenditure

Expenditure for capital purposes and methods of financing are set out below.

2017-18		2018-19
£m		£m
	Expenditure in year	
	Fixed assets	
5.2	Assets under construction	4.6
0.3	Dwellings	4.7
0.0	Other	0.4
1.5	Revenue expenditure funded from capital under statute	1.2
7.0	Total Expenditure	10.9
	Methods of financing	
0.5	Capital Receipts	1.0
3.0	Major Repairs Reserve	5.8
3.5	Reimbursements and Donations	4.1
7.0	Total Financing	10.9

Collection Fund Account

Revenue Account

2017-18			Notes	2018-19		
Council Tax Restated	Business Rates	Total		Council Tax	Business Rates	Total
£m	£m	£m		£m	£m	£m
			INCOME			
(7.0)		(7.0)	Council Tax Receivable	(8.0)		(8.0)
(0.2)		(0.2)	Transfer from City Fund (Reliefs)	(0.2)		(0.2)
	(1,067.6)	(1,067.6)	National Business Rates	1	(1,124.7)	(1,124.7)
	(40.8)	(40.8)	GLA Business Rate Supplement		(41.7)	(41.7)
	(11.3)	(11.3)	City Fund Business Rate Premium		(11.6)	(11.6)
(7.2)	(1,119.7)	(1,126.9)	TOTAL INCOME	(8.2)	(1,178.0)	(1,186.2)
			EXPENDITURE			
			Council Tax Precepts and Demands			
6.1		6.1	City Fund	2	6.2	6.2
0.5		0.5	GLA		0.6	0.5
			National Business Rates Precepts and Demands	2		
	318.1	318.1	City Fund		727.5	727.5
	392.3	392.3	GLA		409.2	409.2
	349.9	349.9	Central Government		0.0	0.0
		0.0	National Business Rates transitional protection payments		0.0	0.0
	40.7	40.7	Business Rate Supplement collected on behalf of GLA		41.7	41.7

Revenue Account Continued

2017-18			Notes	2018-19		
Council Tax Restated	Business Rates	Total		Council Tax	Business Rates	Total
£m	£m	£m	Expenditure Continued	£m	£m	£m
	12.0	12.0	City Fund Business Rate Premium		12.2	12.2
	11.3	11.3	City Fund Offset	5	11.6	11.6
			Impairment of debts for Business Rates			
	0.8	0.8	National		2.9	2.9
	0.1	0.1	GLA		0.1	0.1
			Impairment of appeals for Business Rates			
	(79.2)	(79.2)	National		(76.1)	(76.1)
	(0.8)	(0.8)	Premium		(0.6)	(0.6)
			Cost of Collection Allowance			
	2.0	2.0	National Business Rates		2.0	2.0
	0.0	0.0	GLA Business Rate Supplement		0.0	0.0
			Contributions towards previous year's estimated Collection Fund Surplus			
0.6	15.9	16.5	City Fund	0.5	6.3	6.8
0.0	10.6	10.6	GLA	0.0	7.8	7.8
	26.5	26.5	Central Government		6.9	6.9
7.2	1,100.2	1,107.4	Total Expenditure	7.3	1,151.5	1,158.8
0.0	(19.5)	(19.5)	(Surplus)/Deficit for Year	(0.9)	(26.5)	(27.4)
(0.9)	0.5	(0.4)	Balance 1 April	(0.9)	(19.0)	(19.9)
(0.9)	(19.0)	(19.9)	Balance 31 March	(1.8)	(45.5)	(47.3)

1. Income from Business Rates

The Local Government Finance Act 1988 replaced the Locally Determined Non-Domestic Rate with a National Non-Domestic Rate (NNDR) set by the Government. In addition to the NNDR, there is a discounted rate for small businesses known as the Small Business Non-Domestic Rate (SBNDR). In 2018-19 the City of London set a non-domestic rating multiplier of 0.498 (49.8p in the £) and a small business non-domestic rating multiplier of 0.485 (48.5p in the £). This comprises the NNDR and SBNDR multipliers of 0.493 and 0.480 respectively, plus a premium of 0.5p in the £ to provide additional funding to enable the City Corporation to continue to support Police, security, resilience and contingency planning at an enhanced level.

In addition, for those business premises which have a rateable value of more than £70,000, the Greater London Authority (GLA) is levying a business rate supplement (BRS) multiplier of 2p in the £ for the 2018-19 financial year to finance the Crossrail project. The City Corporation collects the BRS on an agency basis on behalf of the GLA.

2017-18		2018-19
£m		£m
(1,134.6)	National Business Rates	(1,179.2)
43.4	Less: Voids	42.8
22.4	Mandatory and discretionary relief	20.9
1.2	Partly occupied allowance	2.3
(1,067.6)	Net income from national business rates	(1,113.2)

2. Calculation of Council Tax

The Local Government Finance Act 1992 introduced the Council Tax from 1 April 1993, replacing the Community Charge. The Act prescribes the detailed calculations that the City of London, as a billing authority, has to make to determine the Council Tax amounts. The City of London set a basic amount of £857.31 for a Band D property.

To this £857.31 is added £76.10 in respect of the precept from the Greater London Authority to arrive at the total Council Tax of £933.41 for a Band D property in 2018-19. Prescribed proportions are applied to this basic amount to determine the Council Tax amounts for each of the bands as follows:

BAND	Proportion	Council Tax
		£
A	6/9	622.27
B	7/9	725.99
C	8/9	829.69
D	9/9	933.41
E	11/9	1,140.83
F	13/9	1,348.26
G	15/9	1,555.68
H	18/9	1,866.82

3. Tax Bases 2018-19

The table below shows the number of chargeable dwellings in each valuation band converted to an equivalent number of Band D dwellings. The totals for each area are described as "aggregate relevant amounts" which reflects the number of dwellings adjusted for applicable discounts and exemptions. These amounts, multiplied by the collection rate of 95%, produce the tax base for each of the areas shown.

BAND	MIDDLE TEMPLE	INNER TEMPLE	CITY AREA EXCLUDING TEMPLES	TOTAL CITY AREA
A	0.00	0.00	2.33	2.33
B	0.00	0.00	130.33	130.33
C	0.00	0.00	407.79	407.79
D	0.00	0.00	809.96	809.96
E	8.25	1.22	2,684.62	2,694.09
F	38.28	25.28	1,488.14	1,551.70
G	25.83	59.58	1,579.38	1,664.79
H	0.00	4.00	325.50	329.50
AGGREGATE RELEVANT AMOUNTS	72.36	90.08	7,428.05	7,590.49
COLLECTION RATE	95%	95%	95%	
TAX BASES	68.74	85.58	7,056.65	7,210.97

4. City Fund Offset

To reflect the unique characteristics of the square mile, the Government allows the City Fund to retain an amount from the NNDR paid by City businesses. This totalled £11.6m in 2018-19 (2017-18: £11.3m)

5. Surplus for the year

The surplus for the year on Business Rates of £26.5m (2017-18: surplus of £19.5m) relates solely to National Business Rates.

Police Pension Fund

Police Pension Fund Account for the year ended 31 March 2019

2017-18		2018-19	
		£m	£m
	Contributions receivable		
	- from employer		
(6.0)	normal	(6.4)	
(0.2)	early retirements	0.0	
(3.8)	- from members	(4.1)	
(10.0)			(10.5)
(0.1)	Transfers in from other Police Authorities	(0.2)	(0.2)
	Benefits payable		
23.0	- pensions	24.3	
6.3	- commutations and lump sums	6.7	
29.3			31.0
	Payments to and on account of leavers		
0.0	- Transfers out to other Police Authorities	0.0	
	- Other	0.0	
0.0			0.0
19.2	Sub-total: Net amount payable for the year before transfer from Police Authority		20.3
(19.2)	Additional contribution from Police Authority		(19.4)
0.0	Net amount payable/receivable for the year		0.0

- i. The Police Pension Fund was established under the Police Pension Fund Regulations 2007 (SI 2007 No. 1932).
- ii. It is a defined benefits scheme, administered internally by the City of London and all City of London police officers are eligible for membership of the pension scheme.
- iii. The fund's financial statements have been prepared using the accounting policies adopted for the City Fund financial statements set out on pages 118 to 134. The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. Information on the long-term pension obligations can be found in the City Fund financial statements (see notes 23 to 26).
- iv. Under the rules of the scheme, members may elect to commute a proportion of their pension in favour of a lump sum. Where a member has taken a commutation option, these lump sums are accounted for on an accruals basis from the date the option is exercised.
- v. Transfer values represent the capital sums in respect of members' pension rights either received from or paid to other pension schemes in respect of members who have joined or left the service.
- vi. The scheme is unfunded and consequently has no investment assets. Benefits payable are funded by contributions from employers and employees and any difference between benefits payable and contributions receivable is met by a top-up grant from the Home Office.
- vii. Employees' and employer's contribution levels are based on percentages of pensionable pay set nationally by the Home Office and are subject to triennial revaluation by the Government Actuary's Department.
- viii. The account is prepared on an accruals basis and normal contributions, both from the members and the employer, are accounted for in the payroll month to which they relate.

City of London Pension Fund Account

Fund Account for the year ended 31 March 2019

2017-18	Notes	2018-19
£m		£m
	Contributions and benefits	
(39.2)	Contributions receivable	(41.8)
(8.7)	Individual transfers in	(5.8)
(0.3)	Pension strain contributions	(0.7)
(48.2)	Total Contributions	(48.3)
40.9	Benefits	46.1
2.1	Payments to and on account of leavers	1.7
43.0	Total Benefits Payable	47.8
(5.2)	Net deductions from dealing with members	(0.5)
8.5	Management expenses	8.0
3.3	Net deductions including fund management expenses	7.5
	Returns on investments	
(2.8)	Income from Investments	(1.4)
(22.1)	Change in market value of investment (realised and unrealised)	(80.9)
(24.9)	Net gain on investment excluding management expenses	(82.3)
(21.6)	Net (increase)/decrease in the fund during the year	(74.8)
(966.7)	Opening net assets of the scheme	(988.3)
(988.3)	Closing net assets of the scheme	(1,063.1)

Net Assets Statement as at 31 March 2019

2017-18	Notes	2018-19
£m		£m
(982.3)	Investment assets	(1,051.7)
(0.2)	Long term investments	(0.2)
	Current assets	19
(0.1)	Debtors	-
(6.7)	Cash and cash equivalents	(13.3)
	Current liabilities	20
1.0	Creditors	2.1
(988.3)	Net assets	(1,063.1)

1. Description of the City of London Pension Fund

The City of London Pension Fund is part of the LGPS and is administered by the City of London. The City of London is the reporting entity for this pension fund.

The City of London Pension Fund is a funded defined benefits scheme established in accordance with statute. With the exception of serving police officers, teachers and judges who have their own schemes, all City of London staff are eligible for membership of the Local Government Pension Scheme (LGPS).

Benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index.

The Fund is governed by the Public Service Pensions Act 2013 and the following secondary legislation:

- The LGPS Regulations 2013 (as amended)
- The LGPS (transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and The LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is administered internally by the City of London. The Fund's investments are managed externally by several fund managers with differing mandates determined and appointed by the City of London.

2. Membership of the Fund

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the City of London Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

The following table summarises the membership numbers of the scheme.

31 March 2018		31 March 2019			
Total		Current Contributors	Beneficiaries In Receipt of Pension	Deferred Benefits	Total
No.		No.	No.	No.	No.
	ADMINISTERING AUTHORITY				
11,909	City of London Corporation	4,328	3,830	4,063	12,221
	SCHEDULED BODIES:				
1,083	Museum of London	267	247	603	1,117
36	Magistrates Court	-	18	16	34
3	Multi Academy Trust*	3	-	-	3
1,122		270	265	619	1,154
	ADMITTED BODIES:				
17	Irish Society	4	11	2	17
1	City Arts Trust	-	1	-	1
12	Parking Committee for London	-	5	7	12
9	Guildhall Club	-	4	5	9
192	City Academy - Southwark	67	7	126	200
2	Sir John Cass (Brookwood)	-	1	1	2
14	AMEY (Enterprise)	5	6	3	14
1	Eville and Jones	-	-	1	1
17	London CIV	16	1	7	24
3	Westminster Drugs Project	1	-	2	3
25	Agilysis	9	4	12	25
3	Agilysis (police)	-	1	2	3
2	Bouygues (EDTE)	-	-	1	1
2	Cook & Butler	2	-	-	2
1	1SC Guarding Limited	-	-	1	1
301		104	41	170	315
13,332	GRAND TOTAL	4,702	4,136	4,852	13,690

3. Accounting Policies

- i. The pension fund statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 having regard to the Statement of Recommended Practice, Financial Reports of Pension Schemes (2015).
- ii. The pension fund accounts are accounted for on an accruals basis for income and expenditure, with the exception of transfer values in and out, which are accounted for on a cash basis.
- iii. The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.
- iv. Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the fund account.
- v. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 13). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).
- vi. Acquisition costs are included in the purchase costs of investments.
- vii. Assets and liabilities in overseas currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Transactions during the year are translated at rates applying at the transaction dates. Surpluses and deficits arising on conversion are dealt with as part of the change in market values of the investments.
- viii. The fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the fund on an accruals basis as follows:

Administration expenses	All staff costs of the pensions administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.
Oversight and governance	All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.
Investment management expenses	Investment management expenses are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments.

- ix. Income from investments is accounted for on an accruals basis. Investment income arising from the underlying investments of the Pooled Investment Vehicles is typically reinvested within the Pooled Investment Vehicles and reflected in the unit price.
- x. The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profit and losses realised on sales of investments and unrealised changes in market value.
- xi. Normal contributions, both from members and employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate. Additional contributions from employers are accounted for in accordance with the agreement under which they are paid, or in the absence of such agreement, when received.
- xii. Under the rules of the Scheme, members may receive a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement. Where a member can choose to take a greater retirement grant in return for a reduced pension these lump sums are accounted for on an accruals basis from the date the option is exercised.

- xiii. Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations 2013. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.
- xiv. Administration and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT.
- xv. Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the most recent available equivalent trailing reporting period is used for inclusion in the fund account

4. Critical Judgements in applying Accounting Policies

The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 18.

These actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

5. Assumptions made about the future and other major sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made considering historical experience, current trends and other relevant factors.

However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates. The items in the net assets statement at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 18)	Estimation of the net liability to pay pensions depend on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: <ul style="list-style-type: none"> a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £31m a 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £3m a one-year increase in assumed life expectancy would increase the liability by approximately £64m.
Private Equity Investments (Note 13)	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2015). These investments are not publicly listed and as such there is a degree of estimation involved in the valuation	Private equity investments are valued at £35m in the financial statements. There is a risk that this investment may be under or overstated significantly
Infrastructure investments (Note 13)	Infrastructure investments are valued using assumptions about the Fund's underlying equity and debt instruments cash flow forecasts and discount rates.	Infrastructure investments are valued at £59m in the financial statements. There is a risk that this investment may be under or overstated significantly.

6. Events after the reporting date

No adjusting or non-adjusting events have occurred after the reporting date

7. Contributions Receivable

2017-18		2018-19	
£m			£m
	<u>Employers:</u>		
(26.9)	Administering authority	City of London	(28.7)
(1.2)	Scheduled bodies	Museum of London	(1.4)
-		Multi-Academy Trust *	-
(0.1)	Admitted bodies	Agilysis	(0.1)
(0.3)		City Academy - Southwark	(0.3)
		London CIV	(0.2)
(0.3)		Other	(0.1)
(28.8)			(30.8)
	<u>Employees of:</u>		
(9.5)	Administering authority	City of London	(10.1)
(0.6)	Scheduled bodies	Museum of London	(0.6)
-		Multi-Academy Trust *	-
(0.1)	Admitted bodies	Agilysis	-
(0.1)		City Academy - Southwark	(0.1)
		London CIV	(0.1)
(0.1)		Other	(0.1)
(10.4)			(11.0)
(39.2)	Total contributions		(41.8)

8. Benefits Payable

2017-18		2018-19
£m	Total benefits paid	£m
	Retired employees	
31.6	pensions	33.6
4.9	Lump sums	7.7
1.1	Lump sum on death	1.4
3.2	Widows' or widowers' pensions	3.3
0.1	Children's pensions	0.1
40.9		46.1

2017-18		2018-19
£m	Benefits paid comprises	£m
38.1	Administering authority	42.4
2.5	Scheduled bodies	0.8
0.3	Admitted bodies	2.9
40.9		46.1

9. Payments to and on account of leavers

2017-18		2018-19
£m		£m
2.1	Individual transfers out	1.7

10. Management Expenses

2017-18		2018-19
£m		£m
0.7	Administration expenses	0.7
0.2	Oversight and governance*	0.2
7.6	Investment management expenses	7.1
8.5		8.0

*Includes audit fees of £21,000 that have been charged to the Pension Fund (2016-17: £21,000)

Investment Management Expenses

2017-18		2018-19
£m		£m
6.1	Management fees	6.4
1.5	Performance related fees	0.7
7.6		7.1

11. Income from Investments

2017-18		2018-19
£m		£m
-	Interest	(0.1)
(0.1)	Private equity	(0.2)
(2.7)	Infrastructure	(1.1)
(2.8)		(1.4)

The Pension Fund's investment policies are focussed on capital accumulation in pooled vehicles and private equity investments. Dividends and interest are typically retained at pool level. Where any shortfall of the Net deductions on Contributions and Benefits Paid was previously covered by investment income, it is intended that the Fund will sell holdings in the pooled vehicles, as necessary, to cover any shortfalls. There are no limitations imposed by the fund managers on the selling of these pooled vehicle funds.

12. Investment Assets

a. Reconciliation of movements in Investments

The table below shows the movement in Market Values by asset type

Market Value at 01-04-2017	Purchases at Cost	Sales Proceeds	Net (gain)/loss	Market Value at 31-03-2018		Market Value at 01-04-2018	Purchases at Cost	Sales Proceeds	Net (gain)/loss	Market Value at 31-03-2019
£m	£m	£m	£m	£m		£m	£m	£m	£m	£m
					<u>Managed Investments</u>					
					Pooled Units (quoted)					
(168.3)	-	1.0	(7.5)	(174.8)	UK	(174.8)	-	(1.3)	11.7	(164.4)
(726.9)	-	13.3	(6.8)	(720.4)	Global	(720.4)	179.3	(183.1)	56.2	(668.0)
(0.2)	-	-	-	(0.2)	Long Term Investments (unquoted)	(0.2)	-	-	-	(0.2)
(20.9)	(9.7)	4.2	(2.8)	(29.2)	Private Equity (unquoted)	(29.2)	6.0	(6.9)	6.3	(23.8)
(48.4)	(10.0)	5.5	(5.0)	(57.9)	Infrastructure (unquoted)	(57.9)	0.6	(6.1)	6.7	(56.7)
(964.7)	(19.7)	24.0	(22.1)	(982.5)	Total Managed Investments	(982.5)	185.9	(197.4)	80.9	(913.1)
(0.5)				(0.1)	Accrued Income	(0.1)				-
-				-	Investment Receivable	-				-
-				-	Investment Liability	-				-
(965.2)	(19.7)	24.0	(22.1)	(983.0)	Total Investment assets	(983.0)	185.9	(197.4)	80.9	(913.6)

b. Investments analysed by fund manager

	Value at 01-04-2018	Purchases at Cost	Sales Proceeds	Net (gain)/loss	Value at 31-03-2019
	£m	£m	£m	£m	£m
Managed Investments					
Equity Pooled Vehicles:					
Artemis	(91.8)	-	1.0	(4.2)	(95.0)
C Worldwide*	(119.1)	-	0.1	(16.0)	(135.0)
LCIV (Baillie Gifford) *	-	(112.0)	0.2	(7.4)	(119.2)
Harris*	(100.1)	-	0.8	(1.2)	(100.5)
Lindsell Train*	(42.7)	-	0.2	(5.8)	(48.3)
Majedie	(40.4)	-	0.1	(1.6)	(41.9)
Veritas*	(115.2)	-	0.7	(22.1)	(136.6)
Wellington	(108.7)	-	112.7	(4.0)	-
Multi-Asset Pooled Vehicles:					
LCIV (CQS) *	-	(67.3)	0.1	(1.1)	(68.3)
Pyrford*	(123.7)	-	0.5	(5.0)	(128.2)
Ruffer*	(85.2)	-	0.5	(0.2)	(84.9)
Standard Life	(68.3)	-	67.5	0.8	-
Long Term Investments					
London CIV	(0.2)	-	-	-	(0.2)
Private Equity Funds:					
Ares	(2.0)	(1.2)	0.1	(0.2)	(3.3)
Coller	(2.5)	(1.9)	0.3	(1.0)	(5.1)
Crestview	(1.8)	(1.1)	0.3	(0.6)	(3.2)
Environmental Technologies	(0.4)	-	-	0.1	(0.3)
Exponent	(3.7)	(0.3)	0.2	(0.5)	(4.3)
Frontier	(3.8)	(0.2)	1.2	(1.0)	(3.8)
New Mountain	(4.3)	(0.1)	1.2	(1.2)	(4.4)
Standard Life	(6.0)	-	1.8	(0.5)	(4.7)
Warburg Pincus	(3.1)	(1.2)	0.5	(1.0)	(4.8)
Yorkshire Managers	(1.6)	-	1.3	(0.5)	(0.8)
Infrastructure Funds:					
DIF	(22.6)	(0.6)	2.6	(0.5)	(21.1)
IFM	(35.3)	-	3.5	(6.2)	(38.0)
Total Investments	(982.5)	(185.9)	197.4	(80.9)	(1,051.9)

*These investments each singularly represent over 5% of the net assets of the fund

13. Fair Value- Basis for Valuation

Item	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key Sensitivities affecting the valuations provided
Pooled investments - equity funds (UK and Global)	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Pooled investments – multi-asset Funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Private equity	Level 3	Comparable valuation of similar companies in accordance with international private equity valuation guidelines.	Latest available audited NAV	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Infrastructure funds	Level 3	Discounted cashflows applied to equity and debt instruments. The Funds determine fair value for these securities by engaging external valuation services.	Latest available audited NAV	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

a. Fair Value Hierarchy

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 must be traded in active markets, this includes quoted equities, quoted fixed securities, quoted index linked securities and exchange traded unit trusts.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value. Products classified as level 2 comprise open ended pooled investment vehicles which are not exchange traded, unquoted bonds and repurchase agreements.

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include private equity investments and infrastructure funds which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity and infrastructure funds are based on valuations provided by the general partners to the private equity funds in which City of London Pension Fund has invested.

These valuations are prepared in accordance with the international private equity and venture capital valuation guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are typically undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

Guidance released by the Pensions Research Accountants Group (PRAG) in 2016 provides further clarification on the classification of pooled investment vehicles as level 1, 2 and 3. Pooled funds that are not quoted on an exchange are classed as level 2, as these do not meet the definition of level 1 investment: *The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.*

As at 31 March 2018					As at 31 March 2019			
Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total		Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
£m	£m	£m	£m		£m	£m	£m	£m
				<u>Financial Assets</u>				
-	(895.2)	(87.3)	(982.5)	Fair value through profit and loss	-	(958.0)	(93.9)	(1,051.9)
(0.1)	-	-	(0.1)	Amortised Cost	-	-	-	-
(0.1)	(895.2)	(87.3)	(982.6)	Net Financial Assets	-	(958.0)	(93.9)	(1,051.9)

b. Reconciliation of Fair Value Measurements within Level 3

The table below shows the movements in level 3 disclosures for 2018-19

Disclosures for Level 3	Market Value at 01-04-2018	Transfers into Level 3	Transfers out of Level 3	Purchases at Cost	Sales	Unrealised (Gains)/Losses	realised (Gains)/Losses	Market Value at 31-3-2019
	£m	£m	£m	£m	£m	£m	£m	£m
Private Equity	(29.2)	-	-	(6.0)	6.9	(5.4)	(0.9)	(34.6)
Infrastructure	(57.9)	-	-	(0.6)	6.1	(3.7)	(3.0)	(59.1)
Long-Term Investment	(0.2)	-	-	-	-	-	-	(0.2)
Total Level 3	(87.3)	0.0	0.0	(6.6)	13.0	(9.1)	(3.9)	(93.9)

14. Financial Instruments

a. Classification of financial instruments

at 31 March 2018			at 31 March 2019			
£m				£m		
Fair Value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Financial Assets	Fair Value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
				-	-	
			Managed Investments			
(895.2)	-	-	Pooled Investments	(958.0)	-	-
-	(0.2)	-	Long Term Investments	-	(0.2)	-
(29.2)	-	-	Private Equity	(34.6)	-	-
(57.9)	-	-	Infrastructure	(59.1)	-	-
-	(6.7)	-	Cash	-	(13.3)	-
-	-	-	Other Investment Balances	-	-	-
-	(0.1)	-	Debtors	-	-	-
(982.3)	(7.0)	0.0		(1,051.7)	(13.5)	0.0
			Financial Liabilities			
-	-	1.0	Creditors	-	-	(2.1)
-	-	1.0		-	-	(2.1)
(982.3)	(7.0)	1.0	Total	(1,051.7)	(13.5)	(2.1)
(988.3)			Grand Total	(1,063.1)		

b. Net (Gains) and Losses on Financial Instruments

at 31 March 2018		at 31 March 2019
£m		£m
	Financial Assets	
(22.1)	Fair value through profit and loss	(80.9)
(22.1))		(80.9)

15. Risk and Risk Management

The Pension Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio.

The fund's investments are actively managed by ten main external fund managers who are charged with the responsibility to increase asset values, whilst maintaining market risk to acceptable levels. They achieve this mainly through diversification of stock portfolios across several geographical locations, various industrial sectors and asset classes. The managers' investing practices are controlled by pre-defined levels of tolerance.

Concentration risk is also controlled and monitored with a maximum proportion cap over the levels held in individual stocks as a set percentage of each manager's overall portfolio of stocks.

As part of each of the external fund managers' investing there is also a strict adherence to the principles of liquidity risk management in order to ensure cash flow requirements are met as and when they fall due.

All of the investing policies and practices are reviewed regularly after thorough consideration of economic and market conditions, and overall care is taken to identify, manage and control exposure to the price movements of several categories of investments.

16. Market risks

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, Mercer Ltd, the City of London Corporation has determined that the movements in market price risk set out in the table below are reasonably possible for the 2018-19 reporting period. The potential price changes disclosed below is consistent with a multi-year one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisor's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Potential Market Movements (% Change)

Asset Type	at 31 March 2018	at 31 March 2019
Developed market global equities	16.70%	17.10%
Emerging market global equities	28.50%	28.60%
Hedge funds (proxy for Multi-asset funds)	7.50%	7.60%
Private Equity	24.20%	24.50%
Unlisted infrastructure	14.80%	14.80%

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown on the next page).

Price Risk

as at 31 March 2018				as at 31 March 2019				
Value	Change	Value on Increase	Value on Decrease	Asset Type	Value	Change	Value on Increase	Value on Decrease
£m	%	£m	£m		£m	%	£m	£m
589.5	16.70%	687.9	491.1	Developed market global equities	650.6	17.10%	761.9	539.3
28.7	28.50%	36.9	20.5	Emerging market global equities	26.1	28.60%	33.9	18.6
277.2	7.50%	298	256.4	Hedge funds (proxy for Multi-asset funds)	281.5	7.60%	302.9	260.1
29.2	24.20%	36.3	22.1	Private equity	34.6	24.50%	43.1	26.1
57.9	14.80%	66.5	49.3	Unlisted infrastructure	59.1	14.80%	67.8	50.4
982.5		1125.6	839.4	Total Assets	1051.9		1209.6	894.5

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors, asset classes and individual securities. To mitigate market risk, the pension fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. The pooled multi-asset investments are indirectly subject to interest rate risks, as underlying holdings include fixed income instruments, and this represent the risk that the fair value of these financial instruments will fluctuate because of changes in market interest rates. Fund managers have the discretion to manage interest risk exposure through the use of derivatives.

The fund's indirect exposure to interest rate movements as at 31 March 2019 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value. Bonds and cash balances are exposed to interest rate risk. The table below demonstrates the change in value of these assets had the interest rate increased or decreased by 1%.

as at 31 March 2018					as at 31 March 2019			
Value	Change	Value on Increase	Value on Decrease	Assets exposed to interest rate risk	Value	Change	Value on Increase	Value on Decrease
£m	%	£m	£m		£m	%	£m	£m
6.7		6.7	6.7	Cash and Cash equivalents	13.3			13.3
129.5	1.00%	130.8	128.2	Bonds	188.3	1.00%	183.8	192.7
136.2		137.5	134.9	Total	201.6		183.8	206.0

Credit Risk

Credit risk represents the risk that the counterparty to a financial transaction will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities. The selection of high-quality counterparts, brokers and financial institutions minimises credit risk that may occur through the failure of third parties to settle transactions in a timely manner.

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments owned directly or through a pooled structure, that are denominated in any currency other than the functional currency of the fund (UK sterling). The following table summarises the position as at 31 March 2019. Following analysis of historical data, the fund custodian BNY Mellon have provided the currency exposure and volatility data included in the table below

The table analyses shows a comparison of the sensitivities as at 31 March 2019.

Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. Officers monitor cash flows and takes steps to ensure that there are adequate cash resources to meet the fund's commitments. The fund has immediate access to its cash holdings.

Liquid assets are those that can be converted to cash within three months, subject to normal market conditions. As at 31 March 2019, liquid assets were £958.0m representing 90% of total fund assets (£895.2m at 31 March 2018 representing 91% of the Fund at that date). These investments can in fact be liquidated within a matter of days.

As at 31 March 2018				Currency	As at 31 March 2019			
Value	Change	Value on increase	Value on decrease		Value	Change	Value on increase	Value on decrease
£m	%	£m	£m		£m	%	£m	£m
7.1	3.50%	7.3	6.9	Australian Dollar	6.8	3.46%	7.0	6.6
1.7	5.82%	1.8	1.6	Brazilian Real	2.5	5.48%	2.6	2.4
1.1	2.82%	1.1	1.1	Canadian Dollar	3.5	2.75%	3.6	3.4
0.4	4.78%	0.4	0.4	Columbian Peso	-	-	-	-
0.3	2.62%	0.3	0.3	Czech Koruna	-	-	-	-
6.1	2.78%	6.3	5.9	Danish Krona	5.2	2.38%	5.3	5.1
98.1	2.78%	100.8	95.4	Euros	104.9	2.38%	107.4	102.4
14.8	2.80%	15.2	14.4	Hong Kong Dollar	22.8	2.69%	23.4	22.2
13.6	3.03%	14.0	13.2	Indian Rupee	12.0	3.16%	12.4	11.6
0.6	2.61%	0.6	0.6	Israeli Shekel	0.4	2.57%	0.4	0.4
36.0	4.71%	37.7	34.3	Japanese Yen	29.7	4.22%	31.0	28.4
3.4	3.88%	3.5	3.3	Malaysian Ringgit	1.5	2.97%	1.5	1.5
4.2	3.86%	4.4	4.0	Mexican Peso	5.1	4.15%	5.3	4.9
0.8	3.31%	0.8	0.8	Norwegian Krona	2.4	2.96%	2.5	2.3
-	-	-	-	Peruvian Sol	0.3	2.97%	0.3	0.3
1.2	3.17%	1.2	1.2	Polish Zloty	0.6	2.99%	0.6	0.6
0.4	6.80%	0.4	0.4	Russian Ruble	-	-	-	-
2.9	2.83%	3.0	2.8	Singapore Dollar	3.1	2.68%	3.2	3.0
2.2	5.10%	2.3	2.1	South African Rand	10.0	5.84%	10.6	9.4
(5.5)	3.18%	(5.7)	(5.3)	South Korean Won	-	-	-	-
13.9	2.74%	14.3	13.5	Swedish Krona	6.7	2.86%	6.9	6.5
15.7	3.86%	16.3	15.1	Swiss Franc	20.4	3.01%	21.0	19.8
7.0	2.77%	7.2	6.8	Taiwanese Dollar	2.8	2.67%	2.9	2.7
0.4	3.06%	0.4	0.4	Thai Baht	-	-	-	-
322.7	2.80%	331.7	313.7	United States Dollar	356.8	2.67%	366.3	347.3
549.1		565.3	532.9	Overseas sub-total	597.5		614.2	580.8
1.7				Other overseas	3.4			
550.8				Overseas total	600.9			
431.7				UK investments	451.0			
982.5				Overall	1,051.9			

17. Funding Arrangements

In accordance with statutory regulations a triennial valuation of the Pension Fund was completed by the City Corporation's independent consulting actuaries, Barnett Waddingham LLP, as at 31 March 2016 using the projected unit method and the resulting employers' contribution were implemented for the three financial years commencing 1 April 2017.

The main funding assumptions which follow were incorporated into the funding model used in the 2016 valuation (Consumer Price Inflation has been used as basis to reflect the actuarial assumption in real terms):

	March 2016 % p.a.	Real % p.a.
Financial Assumptions		
Discount Rate	5.7	3.3
Retail Price Inflation	3.3	0.9
Consumer Price Inflation	2.4	-
Pension Increases	2.4	-
Pay Increases (Short Term)	*	
Pay Increases (Long Term)	3.9	1.5

* CPI for the period 31-03-2016 to 31-03-2020. The discount rate reflects the asset allocation embedded in fund's long-term strategy, the below table outlines how these assumptions translate into an overall discount rate assumption

Future assumed returns at 2016	Percentage of Fund	Return Assumption	Real (relative to CPI)
	%	%	%
Gilts	-	2.4	-
Cash	-	1.8	(0.6)
Bonds	-	3.3	0.9
Equities	55	7.4	5.0
Property	10	5.9	3.5
Absolute return find - inflation plus 3.7%	15	6.1	3.7
Absolute return find - LIBOR plus 4.5%	20	6.3	3.9
Expenses (deduction)		(0.2)	
Neutral estimate of discount rate based on long-term investment strategy		6.7	4.3
Prudence Allowance		(1.0)	
Discount Rate		5.7	3.3

Demographic assumptions

The demographic assumptions used are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2016. The post retirement mortality tables adopted are the S2PA tables with a multiplier of 80%, for males and 85% for females. These base tables are then projected using the CMI 2015 Model, allowing for a long-term rate of improvement of 1.5% p.a.

Life expectancy from age 65		31 March 2016
Retiring today	Males	24.3
	Females	25.8
Retiring in 20 years	Males	26.5
	Females	28.1

Commutation assumption

As part of the 2016 valuation the actuary performed an analysis of retirement patterns using the new universal data extract. This analysis revealed that members on average exchanged pension to get approximately 50% of the maximum available cash on retirement

Funding Position at Valuation date

The valuations at 31 March 2016 revealed that the relationship between the values placed on the assets held by the fund and the liabilities accrued in respect of pensionable service at that date were as follows:

March 2016	
Past Service Liabilities	£m
Active Members	308.9
Deferred pensioners	185.1
Pensioners	451.6
Total	945.6
Assets	(796.3)
Deficit	149.3
Funding Liabilities	84%

Based on the above data the derivation of the basic rate of employer's contribution is set out below

March 2016	
	Contribution rate %
Future service funding rate	12.8
Past service adjustment	8.2
Total contribution rate	21.0

50:50 membership

The actuary has assumed that existing members will continue to participate in their current section.

The past service adjustment assumes that the deficit is recovered over a 17 year period in the March 2016 valuation.

Having considered the basic rate of employer's contributions above, the City of London Corporation set contribution rates applicable to its employees of 21.0% for each of the financial years 2017-18 to 2019-20. Exceptions are City Academy who pay 17.1% p.a. and Museum of London which has certified stepped contributions of 15.1% in 2017-18, 15.7% in 2018-19 and 16.1% in 2019-20.

Of the employers' contributions receivable in 2018-19, amounting to £30.80m, the amounts attributable to "deficit funding" are as follows

	Future Funding £m	Past-service Deficit Funding £m	Total Contributions £m
Administering Authority			
City of London	17.64	11.08	28.72
Scheduled Bodies			
Museum of London	0.92	0.43	1.35
Multi-Academy Trust	0.02	0.01	0.03
Admitted Bodies			
Agilisys	0.08	0.04	0.12
City Academy -Southwark	0.23	0.08	0.31
Enterprise	0.03	0.01	0.04
Irish Society	0.02	0.01	0.03
London CIV	0.1	0.08	0.18
Other	0.01	0.01	0.02
	19.05	11.75	30.80

18. Funded Obligation of the Overall Pension Fund

31 March 2018		31 March 2019
£m		£m
1,627.0	Present Value of the defined benefit obligation*	1,720.6
(988.2)	Fair Value of Fund Assets (bid value)	(1,063.1)
638.8	Net Liability	657.5

*The present value of the funded obligation consists of £1,669.4m in respect of vested obligations and £51.2m in respect of non-vested obligations (2017-18: £1,572.8m and £54.2m respectively).

The above figures show the total net liability of the Fund as at 31 March 2019 and have been prepared by the fund actuary (Barnett Waddingham LLP) in accordance with IAS26. In calculating the disclosed numbers, the value of Fund's liabilities calculated for the funding valuation as at 31 March 2016 have been rolled forward, using financial assumptions that comply with IAS19.

at 31 March 2018		Assumptions	at 31 March 2019	
% pa	Real % pa		% pa	Real % pa
3.6	1.3	RPI increase	3.4	1.0
2.6	-	CPI increase	2.4	-
4.1	1.5	Salary increase	3.9	1.5
2.6	-	Pension increase	2.4	-
2.7	0.1	Discount Rate	2.4	-

* Consumer Price Inflation has been used as basis to reflect the actuarial assumption in real terms.

Life expectancy from age 65		31 March 2018	31 March 2019
Retiring today	Males	23.9	23.2
	Females	25.2	24.6
Retiring in 20 years	Males	25.3	24.5
	Females	26.7	26.1

Guaranteed Minimum Pension (GMP) Equalisation

On 22 January 2018, the Government published the outcome of its *Indexation and equalisation of GMP in public service pension schemes* consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching State Pension Age (SPA) before 6 April 2021. The present value of the defined benefit obligation assumes that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, the calculation assumes that the Fund will be required to pay the entire inflationary increase.

19. Current assets

Current assets include cash balances of £13.3m at 31 March 2019 (£6.7m at 31 March 2018)

20. Current liabilities

Current liabilities represent accruals for investment management expenses, custodian fees and pension payroll transactions.

21. Additional Voluntary Contributions

Market Value 31 March 2018		Market Value 31 March 2019
£m		£m
1.6	Prudential	1.7
0.5	Standard life Investments	0.5
0.3	Equitable Life	0.2
2.4		2.4

Additional voluntary contributions (AVCs) are managed externally and independently from the rest of the Pension Fund. They are paid by members to the Corporation and transferred directly to the relevant fund managers – Prudential, Standard Life Investments and Equitable Life. AVCs of £0.46m were paid in 2018-19 (2017-18: £0.43m).

In accordance with Regulation 4(1) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016, the contributions paid, and the assets of these investments are not included in the Fund's accounts.

22. Related Party Transactions

The City of London Pension Fund is administered by the City of London Corporation. Consequently, there is a strong relationship between the local authority and the Pension Fund.

During the reporting period, administration expenses which were charged to the Fund amounted to £0.7m (2017-18: £0.7m). This includes £0.5m (2017-18: £0.5m) of City of London Corporation staff salaries.

The Corporation is also the single largest employer of members of the Pension Fund and the employer contributions paid by it was £28.7m in 2018-19 (2017-18: £26.9m)

23. Key Management Personnel

The key management personnel of the Fund are the Chamberlain, Deputy Chamberlain, Corporate Treasurer, Pensions Manager (Administration) and Group Accountant for Pensions and Treasury Management. Total remuneration payable to key management personnel is set out below

31 March 2018		31 March 2019
£m		£m
0.2	Short-term benefits	0.2
0.2		0.2

24. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2019 totalled £10.4m (31 March 2018: £8.8m). These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment. The Fund also has outstanding capital commitments totalling £90.0m to unquoted property unit trusts.



Accounting Policies

1. Accounting Policies

The accounting policies set out the specific principles, bases, conventions, rules and practices applied in preparing and presenting the financial statements.

1.1. General Principles

The Statement of Accounts summarises the City Fund transactions for the 2018-19 financial year and its position at the year end of 31 March 2019. The City Corporation is required to prepare the City Fund annual Statement of Accounts in accordance with proper accounting practices by the Accounts and Audit Regulations 2015. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.2. Accruals of Expenditure and Income

The accounts of the City Fund are maintained on an accruals basis. Consequently, activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for service or the provision of good, is recognised when (or as) the good or services are transferred to the service recipient in accordance with the performance obligations in the contract;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; and
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is subsequently identified that debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

1.3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours less cheques and BACS payments issued but not presented. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

1.4. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the City Fund's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period and are disclosed in the notes.

1.5. Charges to Revenue for Non-current Assets

Services are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service.

The City Fund is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, if it had a borrowing requirement it would be required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount, the Minimum Revenue Provision (MRP), calculated on a prudent basis determined in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation would then be replaced by the MRP by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves.

1.6. Employee Benefits

(a) Short-term employee benefits

Short-term benefits are those due to be settled within 12 months of the year end. They include such benefits as salaries, wages, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service.

The cost of leave earned but not taken by employees at the end of the period is recognised within the Surplus or Deficit on the Provision of Services to the extent that employees are permitted to carry forward leave into the following period. However, statutory regulations require this cost to be reversed out of the accounts and this is achieved by crediting the revenue account for 'adjustments between accounting basis and funding basis under regulations' within the Movement in Reserves and debiting the 'statutory adjustments account' on the balance sheet.

(b) Termination benefits

Termination benefits are amounts payable as a result of a decision to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring. Where termination benefits involve the enhancement of pensions, statutory provisions require the City Fund Balance to be charged with the amount payable by the employer to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

(c) Retirement benefit costs

(i) Pension Costs – City of London Staff

With the exception of serving police officers and teachers, City of London staff are eligible to contribute to the City of London Pension Fund, which is a funded defined benefits scheme. The estimated net deficit on the Fund is the responsibility of the City of London Corporation as a whole, as one employer, rather than the specific responsibility of any of its three funds (City Fund, City's Cash and Bridge House Estates). The Corporation and its three funds have a policy in place to share the net defined benefit cost of the pension fund across the three funds. As such the City Fund recognises the net defined benefit cost along with a share of scheme assets and scheme liabilities. The total net defined benefit cost is apportioned across the Corporation's three funds based on the proportion of pensionable payroll of each fund.

- The liabilities attributable to the City Fund are included on the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions including mortality rates, employee turnover rates and projections of earning for current employee

- Liabilities are discounted to their value at current prices
- The assets attributable to the City Fund are included in the balance sheet at their fair value using estimated bid values where necessary

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
 - current service cost, the increase in liabilities as a result of years of service earned this year, allocated in the comprehensive income and expenditure statement to the services for which the employees worked
 - past service cost, the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement as part of non-distributed costs
 - net interest on the net defined benefit liability is charged to the financing and investment income and expenditure line of the comprehensive income and expenditure statement. The interest is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments
- Remeasurements comprising:
 - the return on plan assets, excluding amounts included in the net interest on the net defined benefit liability, charged to the pensions reserve as other comprehensive income and expenditure
 - actuarial gains and losses, changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, charged to the pensions reserve as other comprehensive income and expenditure
- Contributions paid to the Pension Fund, cash paid as employer's contributions to the pension fund in settlement of liabilities, not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the City Fund unallocated reserve to be charged with the amount payable to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, this means that there are transfers to and from the pension reserve to remove the notional debits and credits for retirement benefits and replace them with debits for cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the pension reserve thereby measures the beneficial impact to the

City Fund unallocated reserve of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

(ii) Pension Costs – Police Officers and Judges

The Police Pension Scheme is unfunded. Prior to 1 April 2006 each police authority was responsible for paying the pensions of its own former employees on a “pay as you go” basis. Under the current arrangements the City Fund no longer meets pension costs directly; instead it contributes a percentage of police pay into the Police Pension Fund. At the year end the Police Pension Fund is balanced to zero by either receiving a contribution from the City Fund equal to the amount by which the amounts payable from the Pension Fund for the year exceed the amounts receivable or, by paying to the City Fund the amount by which sums receivable by the Pension Fund for the year exceed the amounts payable. Where the City Fund makes a transfer to the Pension Fund, the Home Office will pay an equivalent top-up grant to the City Fund. Where a transfer is made out of the Pension Fund, the City Fund must pay the amount to the Home Office.

The payment of pensions to former judges is the responsibility of the Treasury with the City of London reimbursing the Treasury for the City Fund’s share of the liability. The City Fund’s estimated liability has been determined by independent actuaries in accordance with IAS19.

The accounting treatment for the estimated liabilities on the Police and Judges schemes are similar to that outlined above for the City of London Pension Scheme.

(iii) Pension Costs - Teachers

The payment of pensions to former teachers under the Teachers’ Pension Scheme is administered by Capita Teachers’ Pensions on behalf of the Department for Education (DfE). The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority. However, the arrangements for the teachers’ scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it was a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Community and Children’s Services line in the Comprehensive Income and Expenditure Statement is charged with the employer’s contributions payable to Teachers’ Pensions in the year.

1.7. Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

(a) Adjusting Events

Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.

(b) Non-adjusting Events

Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but, where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.8. Financial Instruments**(a) Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

(b) Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

(i) Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the

Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

(ii) Expected Credit Loss Model

The authority recognises expected credit losses on all of its financial assets (excluding statutory amounts such as council tax and NNDR) held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

The City Corporate currently has finance lease debtors for ground rents due on leases properties. Due to the low value of these rents compared to the investment lessees have made in these properties it is highly unlikely that default will occur and therefore no expected credit loss has been applied to these amounts.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

(iii) Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

(iv) Financial Assets Measured at Fair Value through Other Comprehensive Income (designated equity instruments)

The authority has designated an equity investment in the Municipal Bonds Agency as a financial asset measured at FVOCI on the basis that it is not held for trading and is held for strategic purposes. Fair Value gains and losses are recognised through other comprehensive income and expenditure. Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The City Fund is not party to any material finance guarantees and therefore no adjustment to the accounts has been made.

1.9. Interest Income

Interest is credited to the City Fund and Housing Revenue Account based upon average balances held by the Chamberlain, and invested by him in the London Money Markets.

1.10. Government Grants and Other Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received.

Where a grant or contribution has been received but the conditions of entitlement have not been satisfied, the grant or contribution is treated as a receipt in advance.

(a) Revenue

Specific, ring-fenced, revenue grants are credited to the appropriate service revenue accounts. Non ring-fenced grants to finance the general activities of a local authority (e.g. Revenue Support Grant) are disclosed in the Comprehensive Income and Expenditure Account within taxation and non-specific grant income.

(b) Capital

Where a capital grant or contribution has been recognised as income in the Comprehensive Income and Expenditure Statement, and the expenditure to be financed from the grant or contribution has been incurred at the Balance Sheet date, the grant or contribution is transferred from revenue to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure. This transfer is reported in the Movement in Reserves Statement.

Where a capital grant or contribution has been recognised as income in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed from that grant or contribution has not been incurred at the Balance Sheet date, the grant or contribution is transferred to the Capital

Grants Unapplied Account within the usable reserves section of the balance sheet reflecting its status as a capital resource available to finance expenditure. This transfer is reported in the Movement in Reserves Statement.

When, at a future date, the expenditure to be financed from the grant or contribution is incurred, the grant or contribution is transferred from the Capital Grants Unapplied Account to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure. This transfer is reported in the Movement in Reserves Statement.

1.11. Business Improvement Districts

A Business Improvement District (BID) scheme applies across an area of the City (Cheapside). The scheme is funded by a BID levy paid by non-domestic ratepayers. The Authority acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

1.12. Community Infrastructure Levy

The City Corporation has elected to charge a Community Infrastructure Levy (CIL). The levy is charged on new builds (chargeable developments for the Authority) with appropriate planning consent. The City Corporation charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects to support the development of the area. CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges may be used to fund revenue expenditure.

1.13. Heritage Assets

Heritage assets are those assets intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Where the cost or value of heritage assets cannot be obtained at a cost which is commensurate with the benefits to the users of the financial statements, such assets will not be recognised in the Balance Sheet. The City Corporation does not consider the expense of obtaining information on cost or values to be justified and therefore recognises on the City Fund balance sheet only those heritage assets for which information on costs is readily available. The City Corporation considers that heritage assets will have indeterminate lives and high residual values; hence the City Corporation does not consider it appropriate to charge the City Fund depreciation for these assets (see note 14 for details of these assets).

1.14. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the Unallocated Reserve. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the Unallocated Reserve. The gains and losses are therefore reversed out of the Unallocated Reserve in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

1.15. Contingent Assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the City Fund. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the debtor (or cash where consideration has been received) and the related revenue are recognised in the financial statements of the period in which the change in circumstances occurs. Where an inflow of economic benefits or service potential is probable (rather than virtually certain) and can be reliably measured, contingent assets are disclosed as notes to the accounts.

1.16. Contingent Liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the City Fund. Contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits or service potential has become probable. If it becomes probable that an outflow of future economic benefits or service potential will be required for an item previously dealt with as a note to the accounts, a provision is recognised in the financial statements for the period in which the change in probability occurs (except in circumstances where no reliable estimate can be made). Where a contingent liability exists, but a reliable estimate cannot be made, a note is disclosed in the accounts unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

1.17. Provisions

Provisions are made where an event has taken place that gives the City Fund a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the City Fund

may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation from the City Fund. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the City Fund becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the City Fund settles the obligation.

1.18. Leases

Leases are classified as finance leases when substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Freehold land has an indefinite life and the land within the lease is recorded as an operating lease unless it is an immaterial part of the lease.

(a) Finance Leases

(i) City Fund as Lessee

The City of London recognises property, plant and equipment held under finance leases as assets at the commencement of the lease at amounts equal to its fair value and, where material, liabilities at the lower of the present value of the minimum lease payments or the fair value of the property. The asset recognised is matched by a liability for the obligation to pay the lessor. Minimum lease payments are apportioned between a finance charge (interest) and a reduction of the outstanding liability. The finance charge element is allocated to revenue and is calculated so as to produce a constant periodic rate of interest on the remaining balance of the liability. Where liabilities are immaterial, a liability is not recognised and the full rental is charged to revenue over the term of the lease.

(ii) City Fund as Lessor

Amounts due from lessees under finance leases are recorded in the Balance Sheet as a debtor at the amount of the net investment in the lease. The lease payments receivable is apportioned between repayment of the debtor and finance income. The finance income is credited to revenue and calculated so as to give a constant periodic rate of return from the net investment. The asset is written out of the balance sheet as a disposal. A gain, representing the net investment in the lease is credited to income and the difference shown as a gain or loss on disposal. Where the lessee acquires the asset through payment of a premium at the commencement of the lease, this is included as a capital receipt and there is no remaining finance lease asset.

(b) Operating Leases**(i) City Fund as Lessee**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

(ii) City Fund as Lessor

Assets subject to operating leases are included in the Balance Sheet according to the nature of the assets. Rental income from operating leases is credited to the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the period of the lease, even if the payments are not received on this basis (e.g. there is a premium paid at the commencement of the lease).

1.19. Overheads

The costs of support service overheads are generally apportioned between all services on the basis of employee time spent or other resources consumed on behalf of user services. Similarly, with the exception of vacant properties, the costs of support service buildings (including capital charges) are apportioned on the basis of the office area utilised by each service.

1.20. Property, Plant and Equipment

Property, plant and equipment comprises the following classes of tangible long-term assets; council dwellings, other land and buildings, leasehold improvements, vehicles plant and equipment, infrastructure assets, community assets, assets under construction and surplus assets.

(a) Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised provided that the expenditure is material (generally in excess of £50,000) and the asset yields benefits to the City Fund, and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of property, plant and equipment which is charged directly within service costs.

(b) Valuation

Property, plant and equipment are measured initially at cost, representing the cost directly attributable to acquiring or constructing the asset so that it is capable of operating in the manner intended. Assets are then carried in the Balance Sheet using the following measurement bases:

- Properties regarded as operational - current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), or where this cannot be assessed because there is no market for the subject asset, the depreciated replacement cost, based on modern equivalent assets, as an estimate of current value.
- Council dwellings – current value, determined using the basis of existing use value for social housing
- Non-operational assets under construction – historic cost
- Infrastructure, community and heritage assets - historic cost, net of depreciation, where appropriate

- Vehicles, plant and equipment - cost, net of depreciation, as a proxy for current value.
- Surplus assets – fair value, estimating highest and best use

All properties included on the balance sheet at current or fair value are revalued at least once within a five year period as part of a rolling programme with subsequent additions being included in the accounts at their cost of acquisition until the asset is next revalued. Revaluations are carried out sufficiently regularly to ensure that their carrying value is not materially different from their value at the year end.

(c) Revaluations

An increase arising on revaluation is taken to the revaluation reserve unless the increase is reversing a previous impairment loss charged to Surplus or Deficit on the Provision of Services on the same asset or reversing a previous revaluation decrease charged to Surplus or Deficit on the Provision of Services on the same asset, in which case it is credited to expenditure to the extent of the loss or decrease previously charged there.

Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation, i.e. a significant decline in an asset's carrying amount during the period that is not specific to the asset (as opposed to impairment – see below), the decrease is recognised in the Revaluation Reserve to the extent that there is a balance on the reserve for the asset and, thereafter, against the Surplus or Deficit on the Provision of Services.

Legislation prescribes that revaluation gains or losses charged to Surplus or Deficit on the Provision of Services are not proper charges to the City Fund. Such amounts are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal inception following implementation from the 2007 Statement of Recommended Practice. Gains arising before that date have been consolidated in the Capital Adjustment Account.

(d) Impairments

An impairment loss arises if the carrying amount of an asset exceeds its recoverable amount. This could be caused by such factors as a significant decline in an asset's value during the period (i.e. more than expected as a result of the passage of time, normal use or general revaluation), evidence of obsolescence or physical damage of an asset, a commitment by the authority to undertake a significant reorganisation, or a significant adverse change in the statutory or other regulatory environment in which the authority operates.

An annual assessment takes place as to whether there is any indication that an asset may be impaired. An impairment loss is recognised in the Revaluation Reserve to the extent that there is a balance on that reserve relating to the specific asset and thereafter to the Surplus or Deficit on the Provision of Services.

The reversal of an impairment loss previously recognised in Surplus or Deficit on the Provision of Services will not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Any excess above this carrying amount is treated as a revaluation gain and charged to the Revaluation Reserve.

Legislation prescribes that impairment losses and reversal of impairment losses charged to Surplus or Deficit on the Provision of Services are not proper charges to the City Fund. Such amounts are transferred to the Capital Adjustment Account and reported in the Movement of Reserves Statement.

(e) De-recognition

The carrying amount of an item of property, plant and equipment is derecognised:

- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal

The gain or loss arising from de-recognition of an asset is the difference between the net disposal proceeds, if any, and the carrying amount of the asset. The gain or loss arising from de-recognition of an asset is included in Surplus or Deficit on the Provision of Services under other operating expenditure.

Legislation prescribes that the gain or loss is not a proper charge to the City Fund or Housing Revenue Account. As a result, the City Fund or Housing Revenue Account is debited (in the case of a gain) or credited (in the case of a loss) with an amount equal to the gain or loss on disposal with the consequent entry being:

- an increase in the Capital Receipts Reserve of an amount equal to the disposal proceeds
- a charge to the Capital Adjustment Account of an amount equal to the carrying amount of the asset

If the asset derecognised was carried at a re-valued amount, an additional entry is required; the balance on the Revaluation Reserve is written off to the Capital Adjustment Account and reported in the Movement in Reserves Statement. The Capital Receipts Reserve can only be used for new capital investment or set aside to reduce any underlying need to borrow (the capital financing requirement). A proportion of receipts relating to Housing Revenue Account disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government.

(f) Depreciation

Depreciation is provided for on all property, plant and equipment with a finite useful life, other than freehold land. The depreciation charge is calculated by allocating the Balance Sheet value of the asset, less its residual value, to the periods expected to benefit from its use; generally the straight-line method has been adopted.

The costs of services include charges for depreciation for all property, plant and equipment used in the delivery of services based on the value of assets at the start of the year. Where the effects of major additions or disposals occurring during the year are material, these are also reflected in capital charges to service revenue accounts. Freehold land, certain community assets and assets under construction are not directly used in the delivery of services and therefore do not attract a charge for capital.

(g) Components**Assets other than Housing Revenue Account (HRA) Dwellings**

Large assets, for example a building, are reviewed to ascertain whether differences in the useful lives of components would have a material impact on the level of depreciation and/or carrying value of the overall assets. These reviews are undertaken:

- when an asset is acquired
- when an asset is enhanced
- when an asset is revalued

Where there is a material impact on depreciation and/or the carrying value, the components are treated as separate assets and depreciated over their own useful economic lives.

HRA Dwellings

The components of HRA dwellings are reviewed at the same stages as indicated above. However, upon review, all the main components in HRA dwellings (e.g. roofs, windows, central heating, lifts and electrics) are treated as separate assets and depreciated over their own useful economic lives. This facilitates the use of the Major Repairs Reserve which is classified by Government as 'capital' funding.

1.21. Fair value measurement

The authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability; or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability

1.22. Reserves

Specific amounts have been set aside as reserves for future policy purposes or to cover contingencies. Details of the City Fund's earmarked reserves are set out in note 12. Certain reserves are required by the Code to manage the accounting process for long-term assets and retirement benefits and do not represent usable resources. Details of these unusable reserves are set out in note 31.

1.23. Revenue expenditure funded from capital under statute

Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a long-term asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to revenue and impact on that year's council tax. These items are generally grants and expenditure on property not owned by the authority and amounts directed under statute.

Such expenditure is charged to Surplus or Deficit on the Provision of Services in accordance with the general provisions of the Code. Any statutory provision that allows capital resources to meet the expenditure is accounted for by debiting the Capital Adjustment Account and crediting the City Fund unallocated reserve and inclusion as a reconciling item in the Movement in Reserves Statement.

1.24. Value Added Tax

Income and expenditure excludes any amounts related to VAT as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from it.

1.25. Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements. Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the authority as if they were the transactions, cash flows and balances of the authority.

1.26. Accounting for Council Tax and National Non Domestic Rates

The council tax and National Non Domestic Rates (NNDR) income included in the Comprehensive Income and Expenditure Statement is the City Fund's share of accrued income for the year. However, regulations determine the amount of council tax and NNDR that must be included in the City Fund.

Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the City Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the City Fund's share of the end of year balances in respect of council tax and NNDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

1.27. Accounting for the 100% London Business Rates Pool Pilot

In 2018-19 the City of London undertook the role of Lead Authority for the 100% London Business Rates Pool Pilot which brought together the business rates generated across the 32 London Boroughs, the City Corporation and the GLA. In its role as Lead Authority, the City Corporation has received funds and made payments on behalf of the pool and retaining funds for distribution to pool members in the future. The City Corporation has treated these transactions as an agent on behalf of the pool members and therefore has not accounted for these transactions in its CIES. Any outstanding transaction to or from the pool are shown as a debtor or creditor balances on the City Corporation balance sheet.

2. Accounting Standard issued but not yet adopted

1.1. At the balance sheet date the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

- Amendments to IAS 40 Investment Property: Transfers of Investment Property (issued December 2016).
- Annual Improvements to IFRS Standards 2014-2016 Cycle (December 2016). The amendments that may apply to local authorities include:
 - IFRS 12 Disclosure of Interests in Other Entities: Clarification of the Scope of the Standard
 - IAS 28 Investments in Associates and Joint Ventures: Measuring an Associate or Joint Venture at Fair Value
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued December 2016).
- IFRIC 23 Uncertainty over Income Tax Treatments (issued June 2017).
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation (issued October 2017).



Annual Governance Statement

Scope of Responsibility

1. The City of London Corporation is the governing body of the Square Mile dedicated to a vibrant and thriving City, supporting a diverse and sustainable London within a globally-successful UK. It aims to contribute to a flourishing society, support a thriving economy and shape outstanding environments by strengthening the character, capacity and connections of the City, London and the UK for the benefit of people who live, learn, work and visit here. Its unique franchise arrangements support the achievement of these aims.
2. Although this statement has been prepared to reflect the City of London Corporation in its capacity as a local authority and a police authority, which are paid for through the City Fund, the governance arrangements are applied equally to its other funds – City’s Cash and Bridge House Estates.
3. The City of London Corporation (“the City Corporation”) is responsible for ensuring that its business is conducted in accordance with the law and proper standards of governance; that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively; and that arrangements are made to secure continuous improvement in the way its functions are operated.
4. In discharging this overall responsibility, the City Corporation is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
5. The City Corporation has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE ²Framework *Delivering Good Governance in Local Government*. A copy of the code is on the City Corporation’s website, www.cityoflondon.gov.uk. This statement explains how the City Corporation has complied with the code and also meets the requirements of regulation 6(1) of the Accounts and Audit (England) Regulations 2015, which requires all relevant bodies to prepare an annual governance statement.

The Purpose of the Governance Framework

6. The governance framework comprises the systems and processes by which the City Corporation is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the City to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
7. The system of internal control is a significant part of that framework and is designed to manage all risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable rather than absolute assurance of effectiveness. The City Corporation’s system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of its policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them economically, efficiently and effectively.

² CIPFA is the Chartered Institute of Public Finance and Accountancy
SOLACE is the Society of Local Authority Chief Executives

8. The governance framework has been in place at the City Corporation for the year ended 31st March 2019 and up to the date of approval of the statement of accounts.

Key Elements of the Governance Framework

Code of Corporate Governance

9. The principles of good governance are embedded within a comprehensive published Code of Corporate Governance. This code covers both the local authority and police authority roles, and links together a framework of policies and procedures, including:
- Standing Orders, which govern the conduct of the City Corporation's affairs, particularly the operation of Committees and the relationship between Members and officers;
 - Financial Regulations, which lay down rules that aim to ensure the proper management and safeguarding of the City Corporation's financial and other resources;
 - Terms of reference for each Committee;
 - A Scheme of Delegations, which defines the responsibility for decision-making and the exercise of authority;
 - A Members' Code of Conduct, which defines standards of personal behaviour;
 - A Standards Committee whose role is to promote high standards of Member behaviour and to deal with complaints made against Members, and oversight of the register of interests, gifts and hospitality;
 - A Code of Conduct for employees;
 - The Corporate Plan 2018-23;
 - A corporate complaints procedure, operated through the Town Clerk's Department, with a separate procedure in the Department of Community and Children's Services to comply with the relevant regulations, and a separate complaints process in respect of complaints about the City of London Police;
 - A corporate Project Toolkit and other detailed guidance for officers, including procedures and manuals for business-critical systems;
 - An anti-fraud and corruption strategy, including: anti-bribery arrangements; a social housing tenancy fraud, anti-fraud and prosecution policy; and a whistleblowing policy;
 - A Risk Management Strategy;
 - Job and person specifications for senior elected Members and the Court of Aldermen; and
 - A protocol for Member/officer relations.
10. The City Corporation's main decision-making body is the Court of Common Council, which brings together all of its elected members. Members sit on a variety of committees which manage the organisation's different functions, and report to the Court of Common Council on progress and issues as appropriate. The Town Clerk and Chief Executive is the City Corporation's statutory head of paid service, and chairs the Chief Officers Group, and the Summit Group, which is the primary officer decision-making body. In 2015-16 a new officer governance framework was introduced, comprising four Chief Officer Strategic Steering Groups, reporting to the Summit Group, although, following the substantive development of the new Corporate Plan 2018-23, three of these groups have ceased to meet. The Comptroller and City Solicitor discharges the role of monitoring officer under the Local Government and Housing Act 1989.

11. The Court of Common Council is defined as the police authority for the City of London Police area in accordance with the provisions of the City of London Police Act 1839 and the Police Act 1996.
12. The role of the police authority is to ensure that the City of London Police runs an effective and efficient service by holding the Commissioner to account; to ensure value for money in the way the police is run; and set policing priorities taking into account the views of the community. These, and other key duties, are specifically delegated to the Police Authority Board. The Police Authority Board has the following Sub Committees and Boards to provide enhanced oversight in specific areas of police work:
 - The Professional Standards and Integrity Sub Committee has responsibility for providing detailed oversight over professional standards and integrity within the Force, and examines the casework of every single complaint recorded by the Force;
 - The Performance and Resource Management Sub Committee monitors performance against the Policing Plan and oversees management of risk, human and financial resources;
 - The Economic Crime Board considers matters relating to the Force's national responsibilities for economic crime and fraud investigation; and
 - The Police Pensions Board is responsible for securing compliance with police pension scheme regulations and other legislation relating to the governance and administration of the scheme.
13. Under the Localism Act 2011, the City Corporation is under a duty to promote and maintain high standards of conduct by Members and co-opted Members. In particular, the Court of Common Council must adopt and publicise a code dealing with the conduct that is expected of Members when they are acting in that capacity and have in place a mechanism for the making and investigation of complaints. The Court approved a revised Code of Conduct in March 2018, following a review by the Standards Working Party.
14. The City Corporation has appropriate arrangements in place under which written allegations of a breach of the Member Code of Conduct can be investigated and decisions on those allegations taken. A Complaints Procedure is in place and following a review a revised model came into force in the 2018-19 municipal year. A Dispensations Sub Committee exists for the purposes of considering requests from Members for a dispensation to speak or vote on certain matters (where they have a disclosable pecuniary interest and are otherwise prevented from participation) being considered at Committee meetings. A new dispensations policy was approved by the Court of Common Council in March 2019 following a review by the Dispensations (Standards) Working Party, which was established by the Town Clerk in July 2018 to review the dispensations policy and associated issues. Elected and co-opted Members are invited to review and update their Member Declarations on an annual basis (although there is no statutory requirement to do so).
15. Under Section 28 of the Localism Act, the City Corporation is required to appoint at least one Independent Person to support the standards arrangements. The Court of Common Council has made three appointments to the position of Independent Person.
16. The Localism Act also requires the City Corporation to prepare and publish a Pay Policy Statement each year, setting out its approach to pay for the most senior and junior members of staff. The Pay Policy Statement for 2018-19 was agreed by the Court of Common Council in March 2018 and published on the City Corporation's website.

17. To assist in meeting the City Corporation's obligations under the Bribery Act 2010, officers with decision-making powers in relation to higher risk activities are required to make an annual declaration to confirm that they have met the requirements relating to potential conflicts of interest, as set out in the Employee Code of Conduct, and to confirm that they have not engaged in any conduct which might give rise to an offence under the Act.
18. As a result of the Protection of Freedoms Act 2011-12, revisions were agreed to the City Corporation's policy and procedures in respect of the Regulation of Investigatory Powers Act 2000 (RIPA), which regulates surveillance carried out by public authorities in the conduct of their business. A report was made in September 2017 to the Policy and Resources Committee on the City Corporation's use of RIPA powers. In November 2018, the Office of the Surveillance Commissioners conducted an inspection of the City Corporation's arrangements. The inspector concluded that the City Corporation is keen to set and maintain standards and has a sound RIPA structure, with good policies and procedures

Standards Committee

19. The Standards Committee oversees the conduct of Members in all areas of the City of London Corporation's activities be it local authority, police authority or non-local authority functions. Its main responsibility is to promote and maintain high standards of conduct by elected Members and Members co-opted on to City of London Committees.
20. Its functions include:
 - monitoring and regularly reviewing the operation of the Code of Conduct for Members and related procedures;
 - considering any alleged breaches of the Code;
 - monitoring Members' declarations to ensure compliance with both the statutory and local registration requirements;
 - regularly reviewing the complaints procedure and dispensations arrangements; and
 - submitting an annual report to the Court of Common Council.
21. During 2016-17, the Standards Committee commissioned an independent, broadly-based review of the arrangements in place for addressing matters connected with the conduct of Members (including co-opted Members) under the Localism Act 2011, with particular focus on the Complaints Procedure (relating to alleged breaches of the Members' Code of Conduct). A Member Working Party was formed to review the resulting report and how the recommendations in the report might be progressed and implemented. The Working Party's recommendations were considered by the Court of Common Council on 8th March 2018, with a revised Code of Conduct and Guidance on the Code of Conduct adopted a new Complaints Procedure was also approved, which came into force on 19th July 2018, once the Members of the Standards Committee and the newly created Standards Appeal Committee had been trained in the new arrangements.
22. The Committee undertakes an annual review of the Protocol on Member/Officer Relations. Four allegations of breaches of the Members' Code of Conduct were made to the Committee during 2018-19.
23. A comprehensive package of learning and development was offered to all new and returning Members and included briefing sessions on corporate planning, the Member Code of Conduct and the Member/Officer Protocol, as well as other aspects of the governance framework i.e. how decisions are taken, Standing Orders and financial regulations.

Electoral arrangements

24. The City Corporation administers electoral registration and elections in the City of London and maintains an accurate database of organisations and individuals in the City of London who are eligible to register to vote. For these purposes, three separate registers are maintained: the Common Hall Register of Liverymen, the Ward Lists and the Electoral Register.
25. Common Hall is a meeting of the Liverymen of the City of London Livery Companies, held at Guildhall twice a year, to elect municipal officers including the Sheriffs and the Lord Mayor. The Lord Mayor is elected annually at Michaelmas, on 29 September, and the City's Sheriffs are elected after Midsummer day on 24 June. The main role of the Sheriffs is to support the Lord Mayor in their official duties undertaken on behalf of the City Corporation.
26. Throughout the year, all premises in the City of London are visited to identify eligible organisations for the purpose of registration on the City of London Ward Lists. The Ward Lists, which are updated annually and published every February, are used for elections for Aldermen and Members of the Court of Common Council. At national and London-wide elections, the Electoral Register is used, which is updated annually alongside the Ward Lists.
27. The City Corporation also provides advice to Members, candidates and election agents on a wide range of electoral matters, and guidance to those wishing to serve.

28. Five by-elections were held in 2018-19 and returned a total of four Aldermen and one new Member of the Court of Common Council. Three further Aldermen were returned in 2018-19 following uncontested elections.

Business Strategy and Planning Process

29. The City Corporation has a clear hierarchy of plans, setting out its ambitions and priorities:

- The Corporate Plan 2018-23 is the strategic framework for all the City Corporation's work between 2018 and 2023. It includes a statement of the City Corporation's vision, aims, responsibilities, capabilities and commitments. It was approved by Court of Common Council on 8th March 2018 and introduced on 1st April 2018.
- The City of London Police Corporate Plan 2018-23 sets out the ambitions and high-level commitments for the Force. Its Policing Plan details the policing priorities and shows how these will be delivered over the coming year. It also contains all the measures and targets against which the Police Committee hold the City of London Police to account

30. Plans and strategies are informed by a range of consultation arrangements, such as City-wide residents' meetings, representative user groups and surveys of stakeholders. The City Corporation has a unique franchise, giving businesses (a key constituency) a direct say in the running of the City, and a range of engagement activities, including through the Lord Mayor, Chair of Policy and Resources Committee and the Economic Development Office. An annual consultation meeting is held for business rates and council tax payers.



31. The Health and Social Care Act 2012 transferred responsibility for health improvement of local populations to local authorities in England, with effect from 1st April 2013. The new duties included the establishment of a Health and Wellbeing Board, which provides collective leadership to improve health and wellbeing for the local area.

Information Management Strategy

32. The Information Management Strategy (originally approved in October 2009) sets out the headline approach to information management in the City Corporation. It summarises the current position, gives a vision of where we want to be and proposes a set of actions to start us on the path to that vision. The Strategy defines our approach to the other key elements for information management, in particular data security and data sharing. The Information Management Strategy has been updated and refreshed. It was approved by Summit Group in March 2019.
33. Overall responsibility for Information Management Governance and cyber-security is vested in the Digital Services Sub Committee. The Information Management Governance Steering Group reports to the Strategic Resources Group and Summit Group. The Comptroller and City Solicitor is the Senior Information Risk Owner (SIRO) and work continues to identify Information Asset Owners (IAO) within departments and build an information asset register.
34. The City Corporation has undertaken a thorough review and updated its policies and procedures in following the implementation of the General Data Protection Regulation (GDPR) on 25th May 2018, together with a programme of training for officers and members across departments and institutions.

Financial Management Arrangements

35. The Chamberlain of London is the officer with statutory responsibility for the proper administration of the City's financial affairs. In 2010 CIPFA issued a "*Statement on the Role of the Chief Financial Officer in Local Government*"³ which defines the key responsibilities of this role and sets out how the requirements of legislation and professional standards should be met. The City's financial management arrangements conform to the governance requirements of the Statement. The Chamberlain also fulfils the role of Treasurer of the Police Authority.
36. The system of internal control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, a system of delegation and accountability, and independent scrutiny. In particular the system includes:
- a rolling in-depth survey of the City Corporation's forecast position over a five-year period;
 - comprehensive budget setting processes;
 - monthly, quarterly and annual financial reports that indicate performance against budgets and forecasts;
 - access by all departmental and central finance staff to systems providing a suite of enquiries and reports to facilitate effective financial management on an ongoing basis;
 - ongoing contact and communication between central finance officers and departmental finance officers;

³ Updated in 2016

- clearly defined capital expenditure guidelines;
 - formal project management disciplines;
 - the provision of high quality advice across the organisation;
 - an internal audit service combining in-house staff with external knowledge and expertise;
 - insuring against specific risks;
 - scrutiny by Members, OFSTED, CQC, HMICFRS, other inspectorates, External Audit and other stakeholders; and
 - requests for Members and Chief Officers to disclose related party transactions including instances where their close family have completed transactions with the City Corporation.
37. The City Corporation has a long-standing and in-built culture of maximising returns from its resources and seeking value for money. It assesses the scope for improvements in efficiency /value for money at a corporate and service level by a variety of means, including improvement priorities set by the Policy and Resources Committee through the annual resource allocation process, and internal examination and review by the Efficiency and Performance Sub Committee.
38. The Efficiency and Performance Sub Committee also has responsibility for monitoring and oversight of the delivery of the service based review savings and increased income, and the cross-cutting efficiency reviews, and continues to challenge the achievement of value for money, helping to embed further a value for money culture within the City Corporation's business and planning processes.
39. Following approval by the Court of Common Council in October 2016, an Efficiency and Sustainability Plan for the City Corporation was submitted to and accepted by the Department for Communities and Local Government (now the Ministry for Housing, Communities and Local Government). This provided a degree of certainty over central government funding for the period from 2016-17 to 2019-20. It also established a framework for continuous efficiency improvement beyond 2017-18 when the current service based review programme was completed. A 2% per annum budget reduction target to deliver sufficient efficiencies across the City Corporation's funds continued during 2018-19. This was established to sustain these budgets over the medium term and allow for planned investment in services through the Priorities Investment Pot.
40. Chief Officer Peer Reviews were piloted in 2017-18. The focus of these sessions was to discuss how each Chief Officer can make their departments more innovative, collaborative and agile whilst delivering the required 2% per annual budget reductions. These sessions led to the production of Economy, Efficiency and Effectiveness (EEE) Health Checks by each department, a number of which were provided to the Efficiency and Performance Sub Committee during 2018-19 after officer scrutiny through Summit Group.
41. The EEE Health Checks are designed to achieve better alignment of business plans to the Corporate Plan, the delivery of the 2% year-on-year efficiency and sustainability plan in local risk budgets, and to enable the Efficiency and Performance Sub-Committee to fulfil its duty to review periodically the performance of each Chief Officer in order to promote efficiency and value for money.
42. During 2018-19, the Procurement Sub Committee was established. This Sub Committee is responsible for scrutinising and ensuring value for money is obtained on all City Corporation and City of London Police procurement contracts with of value of over £2m at key stages, including initial tender strategy to final contract award sign off. The Sub Committee also ensure compliance with the UK Public Contract Regulations and the Corporation's Procurement Code.

43. For non-Police services, the local government settlement in autumn 2018 was challenging but fell within the prudent assumptions included with the City's financial forecast. Subject to there being no significant adverse changes in financial planning assumptions across the period, forecasts indicate a surplus in 2019-20, although from 2020-21, the inclusion of funding for the Museum of London and Combined Courts relocation projects will move the fund into a deficit position.
44. The economic outlook and public finances remain uncertain following the EU Referendum and there is no guarantee that government funding will be not be revised further downwards in later years. The Ministry of Housing, Communities and Local Government is currently consulting on a Fair Funding Review that will recalculate the baseline grant for City Fund from 2020-21. This will coincide with a move to greater business rates retention nationally, currently under consultation for implementation by 2020-21. The position is being monitored on an ongoing basis.
45. The City Corporation will continue to participate in a pilot scheme for business rate devolution during 2019-20 with all 32 London Boroughs and the Greater London Authority, involving the establishment of a business rates pool. The original proposal was approved in December 2017. The scheme has a financially neutral starting point but enables any year-on-year growth in rates revenue to be retained within London. Some of this has been used to establish a strategic investment fund and the rest will continue to be shared among participating authorities.
46. The City of London Police manages its budget on a ring-fenced basis. The Court of Common Council approved the allocation of additional funds from the business rates premium following the revaluation of business rates (£2.2m) and from a further increase in the Business Rates Premium from April 2019 (£2.0m) being allocated to cover emerging cost pressures relating to security. This will result in a further £4.2m being available for Police activity. Nevertheless, the underlying financial position remains challenging with deficits forecast across the period and reserves being exhausted during 2018-19.
47. The City of London Police has a forecast deficit in subsequent years arising from increasing demand and the changing nature of policing. The Police is in the process of implementing recommendations through its Transform programme. Additional support is being provided by the City Corporation for capital investment priorities over the period between 2017-18 and 2022-23 totalling £17.5m plus some further IT and pension costs. The Police and the City Corporation are also investigating areas for greater collaboration, including the further development of a Joint Contact and Control Room as part of the Secure City programme.
48. The Police Performance and Resource Management Sub Committee's responsibilities include overseeing the Police's resource management in order to maximise the economic, efficient and effective use of resources to deliver its strategic priorities; monitoring government and other external agencies' policies and actions relating to police performance; overseeing the Police's risk management arrangements; ensuring continuous improvement in the Police's finance function and financial accounting systems; and ensuring that the Police delivers value for money. The Sub Committee also receives regular updates on the work of internal audit in relation to the Police and inspection reports from HMICFRS.
49. The Policy and Resources Committee determines the level of the City Corporation's own resources to be made available to finance capital projects on the basis of a recommendation from the Resource Allocation Sub Committee. Ordinarily, such projects are financed from capital rather than revenue resources, and major projects from provisions set aside in financial forecasts.
50. The City Corporation has a number of procedures in place to ensure that its policies and the principles that underpin them are implemented economically, efficiently and effectively. This framework includes:

- Financial Strategy - This provides a common base for guiding the City Corporation's approach to managing financial resources and includes the pursuit of budget policies that seek to achieve a sustainable level of revenue spending and create headroom for capital investment and policy initiatives;
- Budget policy - The key policy is to balance current expenditure and current income over the medium term. Both blanket pressure and targeted reviews are applied to encourage Chief Officers to continuously seek improved efficiency;
- Annual resource allocation process - This is the framework within which the City Corporation makes judgements on adjustments to resource levels and ensures that these are properly implemented;
- Corporate Property Asset Management Strategy - This aims to ensure that the City Corporation's operational assets are managed effectively, efficiently and sustainably, in support of the organisation's strategic priorities and business needs;
- Capital project evaluation, management and monitoring - The City Corporation has a comprehensive system of controls covering the entire life cycle of capital and major revenue projects; and
- Treasury Management and Investment Strategies - Setting out the arrangements for the management of the City Corporation's investments, borrowing, cash flows, banking and money market transactions; the effective control of risks associated with those activities; and the pursuit of optimum performance consistent with those risks

51. Consideration is given to efficiency during the development and approval stages of all major projects, with expected efficiency gains quantified within reports to Members.
52. The performance of the City Corporation's financial and property investments is monitored and benchmarked regularly, both in-house and independently, through experts in the field.
53. The City Corporation's project management and procurement arrangements provide a consistent approach to project management and co-ordination of the portfolio of projects across the organisation. The Projects Sub Committee meets monthly to ensure that projects align with corporate objectives and strategy and provide value for money.

Risk Management

54. In May 2014, the Audit and Risk Management Committee approved a Risk Management Strategy that set out a new policy statement and a revised framework, which aligns with the key principles of ISO 31000: Risk Management Principles and Guidelines, and BS 31100: Risk Management Code of Practice, and defines clearly the roles and responsibilities of officers, senior management and Members. The Strategy emphasises risk management as a key element within the City's systems of corporate governance and establishes a clear system for the evaluation of risk and escalation of emerging issues to the appropriate scrutiny level. The Strategy assists in ensuring that risk management continues to be integrated by Chief Officers within their business and service planning and aligned to departmental objectives. A review of the strategy will be undertaken in 2019-20.
55. Strategic decisions on risk management are made by the Summit Group on a quarterly basis. Summit Group also receives quarterly risk update reports and is responsible for determining new corporate risks. The Chief Officer Risk Management Group (CORMG), acting on behalf of Summit Group, meets quarterly to undertake a more in-depth review of the corporate and top departmental-level red risks. CORMG also makes recommendations to Summit Group for new corporate risks

56. Oversight of the City Corporation's risk management is provided by the Audit and Risk Management Committee. In addition to receiving quarterly risk update reports, the Audit and Risk Management Committee has adopted a cycle of regular departmental risk challenge sessions, with Chief Officers and their respective Committee Chairmen, which take place prior to their meetings. During 2018-19, the Committee has undertaken 11 deep-dive reports, including the General Data Protection Regulation, police funding, road safety and Brexit. There have also been six informal risk challenges, where the Committee discusses with respective Chief Officers a department's risk management arrangements, current and future risks
57. The Committee has also introduced the regular reporting of top departmental risks to every Service Committee.
58. The corporate risk register contains thirteen risks, including three new risks that have been added during the last year

Health & Safety and Wellbeing

59. The Health & Safety at Work etc. Act 1974 requires the City as an employer to ensure that it implements systems for the protection of its staff and others affected by its activities. The City Corporation health and safety management system is aligned to HSG65, the Health and Safety Executive's guidance document on the essential philosophy of good health and safety. The City Corporation systems will remain aligned with this guidance, to ensure that safety becomes part of normal business by applying a practical, sensible and common-sense approach.
60. Corporate Risk 09 concerns the City's Health and Safety Management System and its application. Effective health and safety management enables innovation, growth and enhances productivity, as well as helping the City Corporation to achieve its strategic objectives.
61. Training and development for senior management in larger organisations is one of the most important parts of any safety programme, to ensure it carries weight and to understand how good safety practice contributes directly to service delivery. Senior managers need to understand their own role and accountabilities in 'making safety happen' (particularly in light of the Corporate Manslaughter legislation). At the end of 2018-19, the majority of high and medium risk profile departments have completed interactive senior leadership health and safety briefings for Chief Officers and their reports.
62. There is an established annual inspection and audit programme for property and people health and safety - for example audit, inspections and compliance checks have focused on water hygiene (legionella), fire safety, asbestos management, bulk fuel storage, workplace transport and lone working/preventing violence. These are currently considered to be the City Corporation's areas of higher risk profile
63. Corporate Policies on Control of Contractors, Fire Safety and Control of Asbestos were updated and revised during 2018-19 and new Corporate Policies on Working at Heights and Pool Water Quality were also produced.
64. The Pentana Risk Management Information System is used to manage significant health and safety risks. Pentana enables departments to highlight their safety risks as a 'Top X' risk, emphasising any activities with considerable implications that are un-mitigated, or where there is a lack of clarity. Significant fire safety support has been provided to several departments, including the Barbican Centre, Guildhall School of Music and Drama, the Department for Community and Children's Services and Mansion House/Central Criminal Court
65. In 2018-19 there has been no health and safety enforcement action by the HSE. Several non-statutory deficiency notices were issued by the Fire and Rescue service. A joint (fire) enforcement notice on the Barbican Centre and tenant was issued, and this was complied with. There were no prosecutions by the Fire and Rescue Service.

66. The City Corporation has reviewed its processes and procedures relating to fire safety in its residential blocks, with particular emphasis on:
- Fire Risk Assessments (FRAs);
 - Communication with residents;
 - Fire safety maintenance and improvement works; and
 - Potential future improvement works.
67. As a result, a number of steps have been taken to further enhance the safety of the City Corporation's residential portfolio and its residents, including:
- Commissioning and completing new, more detailed and intrusive, Type 3 FRAs for all residential blocks to provide a greater level of assurance in relation to fire safety. An action plan has been implemented to deal with the recommendations arising from the Type 3 FRAs;
 - Developing and implementing a Fire Safety Communications Plan;
 - A detailed assessment of the various fire safety maintenance and improvement works that could help further enhance the safety of residents; and
 - Implementing a door replacement programme to ensure that the front entrance doors and frames to all City Corporation social housing flats provide up to 60 minutes fire resistance.
68. The City Corporation will also, subject to any planning restrictions, retro-fit automatic water fire suppression systems (sprinklers) to the five social housing high-rise tower blocks in its portfolio. It has also commenced a programme of one-hour visits to all tenanted properties, which will include a risk assessment on the dwelling, the provision of fire safety advice to householders and identification of any support needs.
69. The top (and persistent) reason for reported sickness absence at the City Corporation is *anxiety/stress/depression/other psychiatric illnesses*. Grounded in a growing body of evidence, including awareness of best practice, and following a report to Establishment Committee in xxx 2018, the "CityWell" (employee wellbeing) programme has been re-focused on mental health as the top priority, supported by a wider health promotion / wellness programme. There is a mental health and wellbeing action plan which will be refreshed during 2019-20.
70. The CityWell wellbeing strategy is a strong employee brand and has helped embed the wellbeing programme at the City Corporation. The CityWell programme has been re-focused on mental health as the top priority with mandatory training for managers supported by a wider health promotion and wellness programme.
71. The City Corporation has established key performance indicators for health and safety including accident/incident reporting and investigation. The health and safety professionals have supported departments with their more challenging and/or significant health and safety investigations. This has helped to ensure that lessons are learned and are fed back into the development of the health and safety management system.

Business Continuity

72. The Civil Contingencies Act 2004 requires the City Corporation, as a Category 1 responder, to maintain plans to ensure that it can continue to exercise its functions in the event of an emergency. The City Corporation is required to train its staff responsible for business continuity, to exercise and test its plans, and to review these plans on a regular basis. The Emergency Planning College, which is a Cabinet Office approved training provider, were contracted recently to carry out an Independent Assurance Review of the City Corporation Business Continuity Management System (BCMS). This included masterclass workshops for

departmental business continuity representatives to skill them in the fundamentals of business continuity. These workshops took place in October 2018 and February 2019. Key actions identified from the review are now being taken forward by the Resilience Team with assistance of business continuity representatives across City Corporation departments.

73. The City Corporation has an overarching Business Continuity Strategy and Framework and each department has their own business continuity arrangements. Both corporate and departmental arrangements are regularly reviewed to ensure they align with the relevant risk registers and business objectives. Officers from the different departments share best practice and validate their arrangements through the Emergency Planning and Business Continuity Steering Group. A forum has now been established based on recommendations from October's Independence Assurance Review. This group has been set up to work on the actions highlighted from this review and to maintain a closer overview of current and future business continuity strategy across City Corporation departments. It is also intended to maintain current arrangements and advance a more focused workstream with regards to business continuity work. This forum will now sit following the already established Resilience Steering Group, which sits on a quarterly basis.
74. Business Continuity testing is undertaken periodically by departments, with the intention of testing their ability to cope under pressure. Testing scenarios are based on adverse effects and 'worst case' events which aim to limit 'Business as Usual' operations, and are derived from departmental emergency management and business continuity plans, national and local risk register documentation, previous lessons learned and horizon scanning events. Testing is undertaken in formats including live play exercise, table top / workshop, and seminar/discussion exercises, and is based on objectives which aim to be specific, measurable, achievable, realistic and targeted towards departmental functions. Information is captured throughout testing and fed back to the departments being exercised. Reports are produced and any lessons learned are sought to be implemented.
75. Programme management of the City Corporation's business continuity management system (BCMS) lies with the Resilience Planning Team, and all departments play a role in it. Minimum standards for London were previously set for London local authorities in relation to resilience and business continuity planning. These standards are currently being replaced by a London-wide Independent Assurance Process and new 2020 Resilience Standard for London Governance, which will apply to all London local authorities. The Resilience Team is currently ensuring that City Corporation arrangements align with these new standards.
76. The Resilience Team continues its on-going work with the IT service provider Agilisys to ensure robust business continuity plans dovetail between IT functions and critical services.
77. Due to its location as an international financial and business hub. The City (Square Mile) remains an attractive location for protest groups to demonstrate attempting to maximize publicity both nationally and globally. The City has previously experienced an array of protests and demonstrations; however, by working with business and emergency service partners to ensure robust Business Continuity and emergency response plans are in place, the City Corporation has maintained 'business as usual' during these disruptions, and thus enhancing its reputation of working with and supporting business and local communities within the City

Role of Internal Audit

78. Internal Audit plays a central role in providing the required assurance on internal controls through its comprehensive risk-based audit programme, with key risk areas being reviewed annually. This is reinforced by consultation with Chief Officers and departmental heads on perceived risk and by a rigorous follow-up audit regime.

79. The internal audit process is supported, monitored and managed by the Audit and Risk Management Committee in accordance with the Public Sector Internal Audit Standards. An Audit Charter established in 2013 was updated and agreed by the Audit and Risk Management Committee in March 2018. This defines the role of internal audit, and sets out accountability, reporting lines and relationships that internal audit has with the Audit and Risk Management Committee, Town Clerk and Chief Executive, Chamberlain and Chief Officers.
80. The Internal Audit Section operates under the requirements of the Public Sector Internal Audit Standards (PSIAS). The City of London's internal audit function was subject to an External Quality Assessment by Mazars LLP in February 2017 and assessed as "generally conforms" to the new standard. Most of the recommendations identified during the review have been addressed to ensure that the Internal Audit section fully conforms to the new standards.
81. The anti-fraud and investigation function continues to be effective in identifying and investigating allegations of fraud and corruption, with mature processes in place to tackle fraud across the City Corporation's social housing estates; along with conducting a wide range of risk based anti-fraud and awareness activities. The Audit and Risk Management Committee is provided with six-monthly anti-fraud and investigation update reports which detail the anti-fraud and investigation activity undertaken by the Anti-Fraud Team and provides progress against the strategic pro-active anti-fraud plan.

Performance Management

82. The corporate business planning framework sets out the planning cycle with clear linkages between the different levels of policy, strategy, target setting, planning and action (the "Golden Thread").
- All departments are required to produce annual departmental business plans for approval by the relevant service committee(s). These are all clearly linked to the overall Corporate Plan and show key objectives aligned with financial and staffing resources
 - All departmental business plans are reviewed for compliance with the corporate business planning framework, and regular meetings are held between the Corporate Strategy and Performance Team and business planners.
 - All departments are required to report regularly to their service committees with progress against their business plan objectives and with financial monitoring information. In 2018-19, this was supplemented with enhanced Member scrutiny of 'clusters' of business plans, to identify strategic links between them and progress towards the Corporate Plan aims.
 - Performance and Development Appraisals are carried out for all staff, using a standard set of core behaviours. The appraisals are used to set individual objectives and targets and to identify learning and development needs that are linked to business needs. Pay progression is linked to performance assessments under the appraisal process.
83. Performance is communicated to Council Tax and Business Rate payers through the City-wide residents' meetings, the annual business ratepayers' consultation meeting and regular electronic and written publications, including an annual overview of the accounts.
84. In tandem with the development of the new Corporate Plan 2018-23, a new corporate performance management framework is in development. This will be supported by a new appraisals process to be rolled out in 2019-20

Audit and Risk Management Committee

85. The Audit and Risk Management Committee is an enhanced source of scrutiny and assurance over the City Corporation's governance arrangements. It considers and approves internal and external audit plans, receives reports from the Head of Audit and Risk Management, external audit and other relevant external inspectorates, including HMICFRS, as to the extent that the City Corporation can rely on its system of internal control. The Committee reviews the financial statements of the City Corporation prior to recommending approval by the Finance Committee and considers the formal reports, letters and recommendations of the City Corporation's external auditors. The Committee also monitors and oversees the City Corporation's Risk Management Strategy. The Committee undertakes a systematic programme of detailed reviews of each of the risks on the City Corporation's Corporate Risk Register.
86. During 2018-19, the Committee continued its schedule of departmental risk challenge sessions. The Committee reviews the risks and risk management process for each department, on a rota basis, with one department being invited to each meeting. These reviews are attended by the relevant Chairman and Chief Officer, with support and challenge applied so that risks are fully understood, and clear mitigation plans are in place. The Committee has also actively promoted a process for the regular reporting of top departmental risks to Service Committees, to encourage all Members to engage with the management of risk.
87. The Committee has strongly supported the internal audit function by setting clear performance expectations for Chief Officers in the timely implementation of audit recommendations, as well as ensuring internal audit's independence is fully recognised. It has reviewed the outcome of the Service Based Review of the internal audit function and is overseeing the adoption of a more efficient approach to the targeting of internal audit resources.
88. The Committee has a link to the Police Performance and Resource Management Sub Committee through the appointment of two of its members to this Sub Committee.
89. The Committee has supported the management of the Information Security corporate risk, highlighting the mandatory awareness training for all staff, resulting in a significant increase in the percentage of staff fully completing this training.
90. The Committee has taken a keen interest in cyber-security risks and remains committed to supporting the continuous development of cyber security across the City Corporation, including the incorporation into the City Corporation's controls of lessons learned from good practice elsewhere in the private and public sectors.

Review of Effectiveness

91. The City Corporation has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the internal auditors and managers within the authority who have responsibility for the development and maintenance of the governance environment and also by comments made by the external auditors and other review agencies and inspectorates.
92. Processes that have applied in maintaining and reviewing the effectiveness of the governance framework include scrutiny primarily by the Policy and Resources, Finance, Police, Audit and Risk Management, Investment, and Standards Committees; and the Resource Allocation, Police Performance and Resource Management, and Efficiency and Performance Sub Committees.
93. This review of the main elements of the City Corporation's governance framework has not identified any significant issues for reporting to senior management.

Head of Internal Audit's Opinion

94. The Public Sector Internal Audit Standards require the Head of Internal Audit to deliver an annual internal audit opinion and report that can be used by the City Corporation to inform its Annual Governance Statement. The Head of Internal Audit is satisfied that sufficient quantity and coverage of internal audit work and other independent assurance work has been undertaken to allow them to draw a reasonable conclusion as to the adequacy and effectiveness of the City's risk management, control and governance processes. In their opinion, the City Corporation has adequate and effective systems of internal control in place to manage the achievement of its objectives. In giving this opinion they have noted that assurance can never be absolute and, therefore, only reasonable assurance can be provided that there are no major weaknesses in these processes.
95. Notwithstanding this overall opinion, internal audit's work identified a number of opportunities for improving controls and procedures, which are documented in each individual audit report. Ten areas reviewed in 2018-19 resulted in 'red' (limited) assurance opinions. Of note is that four of the six audits finalised in respect of the City of London Police have been assessed as Limited assurance reports, with nine red and 31 amber priority recommendations. There will be an ongoing focus on key risk areas within the City of London Police by internal audit, working closely with the Police Authority.
96. There remain a significant percentage of recommendations (52%) which are only partially implemented, or had not been implemented or evidence had not been provided to demonstrate implementation by the due date agreed with management. The quality of status updates from some departments falls short of expectations, resulting in additional work for internal audit staff. This issue has been raised with the departments concerned and will be kept under review. These should continue to be focuses for challenge to officers by the Audit & Risk Management Committee.
97. Internal audit work continues to identify improvement areas for management; albeit, the overall opinion provided on the City's internal control environment is that it remains adequate and effective. There is a high level of acceptance of recommendations

Future Work Programme

98. The governance framework is constantly evolving due to service and regulatory developments and assessments. Improvement plans have been compiled in response to the reports and assessments summarised above. Controls to manage principal risks are constantly monitored, in particular for services with statutory responsibilities for the safety of vulnerable people. The City Corporation proposes over the coming year to take the following steps to maintain, develop and strengthen the existing governance framework:
- Review the City Corporation's governance arrangements against the requirements of the CIPFA/Solace framework *Delivering Good Governance in Local Government 2016* and, subject to agreement, following the fundamental review.
 - Begin collecting data against a set of outcome-based measures for the whole City Corporation, that demonstrate impact and progress towards delivering the Corporate Plan 2018-23.
 - Undertake an annual update for the registration and publication of declarations of interest by the City Corporation's Members and Co-opted Members.
 - Provide training events and briefing sessions for Members as part of the Member Development Programme to ensure that they are aware of current and emerging issues, how the City Corporation is delivering its services and responding to changing priorities; and the role of decision-makers. Forthcoming sessions will focus on Cyber-Security, Chairing skills and Rough Sleeping & Homelessness.
 - Deliver the benefits from the programme of cross-cutting efficiency and effectiveness reviews resulting from the fundamental review and the 2% budget efficiency target.

- Deliver the priority outcomes from the updated and refreshed IM Strategy:
- Business Intelligence infrastructure, new reports and analytics developed across the organisation.
- Communication and training on using IM for new ways of working across the organisation.
- Implement good IM practices including protective marking and classification.
- Implement the new risk appetite framework for the City Corporation, which reflects its capacity to manage risk and willingness to take risk in order to meet the strategic objectives.
- Review the City Corporation's risk management strategy and corporate risk register.
- Review programme governance arrangements, to improve the handling of corporate and departmental projects, including reviewing the terms of reference of relevant governance groups and a process for escalating risks to the appropriate levels.
- Investigate ISO22301 accreditation for our business continuity services.
- Deliver the extended remit of the Audit & Risk Management Committee to undertake periodic reviews of the risk management procedures, financial capabilities, controls, and safeguarding procedures of the City of London School, the City of London School for Girls, the City of London Freeman's School, the City of London Academies Trust (including its embedded academies) and the City Academies that are free-standing entities.

This annual governance statement was approved by the City Corporation's Audit and Risk Management Committee on 7th May 2019.



John Barradell

Town Clerk and Chief Executive

Date: 20th May 2019



Catherine McGuinness

Chairman, Policy and Resources Committee

Date: 20th May 2019



Further Information

City's Cash	The existence of City's Cash can be traced back to the fifteenth century and it has built up from a combination of properties, lands, bequests and transfers under statute since that time. It is accounted for separately and does not form part of the City Fund statements, although references are made to City's Cash in certain parts of the statements. The fund is now used to finance activities mainly for the benefit of London as a whole but also of relevance nationwide. These services include the work of the Lord Mayor in promoting UK trade overseas, numerous green spaces and work in surrounding boroughs supporting education, training and employment opportunities.
Creditors	Individuals or organisations to which the City Fund owes money at the end of the financial year.
Collection Fund	Statutory account showing transactions in relation to the collection of Council Tax, payments to the Greater London Authority and the administration of the National Non-Domestic Rate.
Community assets	Assets that the City of London intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and gardens or historic buildings.
Current asset	An asset which will be consumed or cease to have value within the next accounting period; examples are stock and debtors.
Current liability	An amount which will become payable or could be called in within the next accounting period; examples are creditors and cash overdrawn.
Current service cost (pensions)	The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.
Curtailment (pensions)	For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include: <ul style="list-style-type: none"> • termination of employees' services earlier than expected, for example as a result of discontinuing an activity, and • termination of, or amendment to, the terms of a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.
Debtors	Individuals or organisations that owe the City Fund money at the end of the financial year.
Deferred capital receipts	These result mainly from loans to the Museum of London plus outstanding loans in respect of past sales of council dwellings to tenants who were unable to obtain a building society loan or other external means of financing. Their indebtedness is reflected in the balance sheet under long term debtors. This account shows the amount to be paid on deferred terms and is reduced each year by repayments made.

Defined benefit scheme	A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme define the benefits independently of the contributions payable, and the benefits are not directly related to investments of the scheme. The scheme may be funded or unfunded.
Defined contribution scheme	A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and has no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.
Depreciation	The loss in value of an asset due to age, wear and tear, deterioration or obsolescence.
Direct revenue financing	Expenditure on the provision or improvement of capital assets met directly from revenue account.
Donated assets	Assets transferred at nil value or acquired at less than fair value.
Expected rate of return on pensions assets	For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.
Experience gains or losses	In pensions accounting, the element of actuarial gains and losses that relates to differences between the actual events as they have turned out and the assumptions that were made as at the date of the earlier actuarial valuation.
Fair value	Fair value is generally defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.
Heritage assets	A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.
Impairment	A reduction in the value of an asset below its carrying amount on the balance sheet.
Infrastructure assets	Long-term assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples are highways, footpaths, bridges and sewers.

Intangible assets	A non-physical item where access to future economic benefits is controlled by the local authority. An example is computer software.
Pensions interest cost	For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.
Investment properties	Interest in land or buildings that are held for investment potential.
Levies	These are charges incurred by the City of London to meet London-wide services. They include payments to the London Boroughs Grants Committee, the Environment Agency and the London Planning Advisory Committee.
National Non-Domestic Rate (NNDR)	A flat rate in the pound set by the Government and levied on businesses who occupy offices and buildings within the City. The income is collected by the City of London and is passed on to Central Government and the Greater London Authority (GLA).
Net current replacement cost	The cost of replacing a particular asset in its existing condition and in its existing use.
Net realisable value	The open market value of an asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.
Non-operational assets	Long-term assets held but not directly occupied, used or consumed in the delivery of service. Examples are investment properties.
Past service cost (pensions)	For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.
Projected unit method	<p>An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:</p> <ul style="list-style-type: none"> the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and the accrued benefits for members in service on the valuation date. The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

Provision	<p>An amount set aside in the accounts for liabilities of uncertain timing or amount that have been incurred. Provisions are made when:</p> <ul style="list-style-type: none"> • the City of London has a present obligation (legal or constructive) as a result of a past event; • it is probable that a transfer of economic benefits will be required to settle the obligation; and • a reliable estimate can be made of the amount of the obligation.
Reserves	<p>Reserves are reported in two categories in the Balance Sheet of local authorities:</p> <ul style="list-style-type: none"> • Usable reserves - surpluses of income over expenditure and amounts set aside outside the definition of a provision and which can be applied to the provision of services. Certain reserves are allocated for specific purposes and are described as earmarked reserves. • Unusable reserves - those that cannot be used to provide services. This category of reserves include adjustment accounts which deal with situations where statutory requirements result in income and expenditure being recognised against the City Fund or HRA balance on a different basis from that expected by accounting standards.
Revaluation Reserve	<p>Represents increases in valuations of assets since 1 April less amounts written off due to the 'additional depreciation' (including impairment due to consumption of economic benefit) arising because property, plant and equipment are carried at a revalued amount rather than historic cost. It can also include reductions in values to investment properties where the reductions are not considered to be permanent.</p>
Revenue expenditure	<p>The day to day running costs relating to the accounting period irrespective of whether or not the amounts due have been paid. Examples are salaries, wages, repairs, maintenance and supplies.</p>
Revenue expenditure funded from capital under statute	<p>Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a long-term asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to revenue and impact on council tax. These items are generally grant payments and expenditure on property not owned by the authority.</p>
Scheme liabilities	<p>The liabilities of a defined benefits pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.</p>

AVC	Additional Voluntary Contributions
BCMS	Business Continuity Management System
BRS	Business Rate Supplement
CFR	Capital Financing Requirement
CIPFA	Chartered Institute of Public Finance & Accounting
CIL	Community Infrastructure Levy
CPI	Consumer Price Index
DSG	Dedicated Schools Grant
DfE	Department for Education
EUV.....	Existing Use value
FTE	Full Term Equivalent
GAAP	Generally Accepted Accounting Practice
GLA	Greater London Authority
HRA	Housing Revenue Account
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
ISB.....	Individual Schools Budget
LASAAC	Local Authority (Scotland) Accounts Advisory Committee
LIBOR	London Interbank Offered Rate
LGPS	Local Government Pension Scheme
MRP	Minimum Revenue Provision
NNDR	National Non-Domestic Rate
OFSTED	Office for Standards in Education, Children's Services and Skills
RPI	Retail Price Index
SeRCOP	Service Reporting Code of Practice
SOLACE	Society of Local Authority Chief Executives
SBNDR	Small Business Non-Domestic Rate
SI.....	Statutory Instruments
SETS	Stock Exchange Electronic Trading Service
SIP.....	Strategic Investment Pot
VOA	Valuation Office Agency
VAT	Value-Added Tax

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Report to the Audit and Risk Management Committee

CITY OF LONDON CORPORATION CITY FUND

Audit Completion Report: Year ended 31 March 2019

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WELCOME

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We have pleasure in presenting our Audit Completion Report to the Audit and Risk Management Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2019, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Risk Management Committee. At the completion stage of the audit it is essential that we engage with the Audit and Risk Management Committee on the results of our audit of the financial statements and use of resources comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We will issue a final Audit Completion Report once any outstanding work has been completed. We look forward to discussing these matters with you at the Audit and Risk Management Committee meeting and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

This report contains matters which should properly be considered by the Corporation as a whole. We expect that the Audit and Risk Management Committee will refer such matters to the Court of Common Council, together with any recommendations, as it considers appropriate.

We would also like to take this opportunity to thank the management and staff of the Corporation for the co-operation and assistance provided during the audit.

Leigh Lloyd-Thomas

10 July 2019

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. This report has been prepared solely for the use of the Audit and Risk Management Committee and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.



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This summary provides an overview of the audit matters that we believe are important to the Audit and Risk Management Committee in reviewing the results of the audit of the financial statements and use of resources of the Corporation's City Fund for the year ended 31 March 2019.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.



Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters, we anticipate issuing our opinion on the financial statements and use of resources for the year ended 31 March 2019 in line with the agreed timetable. However this requires us to find no issues with any of the remaining work. If any issues are found these will present a risk to the timetable as it currently stands.

Outstanding matters are listed in the appendices.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

Audit report

We anticipate issuing an unmodified audit opinion on the financial statements and use of resources.

As in previous years, we are unable to sign the audit certificate until we have completed our work on the Whole of Government accounts return. This is due to be submitted by 13 September.

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Final overall materiality

Final materiality was determined based on a benchmark of 1% of income generating assets using the combined values of long term assets, managed investments and cash resources as a suitable value for materiality.

This was revised upwards from £32 million reported in the audit plan to £32.7 million based on the draft financial statements.

Specific materiality

Specific materiality for the Comprehensive Income and Expenditure Account was based on 1.5% of gross expenditure. We consider that a misstatement at a lower level through revenue expenditure would be material where this may impact on setting future council tax or HRA rent levels.

This was revised upwards from £6.3 million reported in the audit plan to £7.2 million, mainly as a result of the accounting treatment for the NDR Strategic Investment Fund which the Corporation hosts.

Material misstatements

The Strategic Investment Fund included in the London NDR pooling arrangement was amended from a net recognition basis (where the Corporation acted as an agent for this revenue) to a gross basis (acting as principal), increasing income by £59.6 million and expenditure by £46.8 million.

The financial statements were also amended to eliminate internal recharges between Committees of £11.5 million.

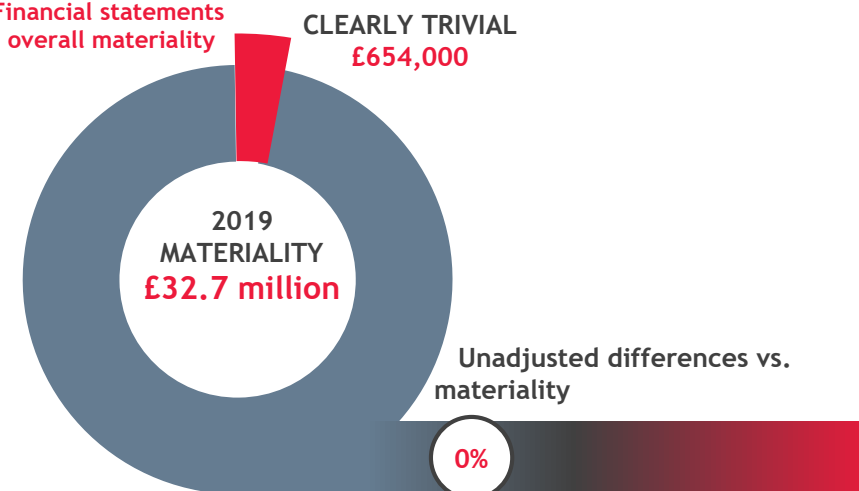
This has increased the surplus on provision of services by £12.8 million to £53.3 million.

Unadjusted audit differences

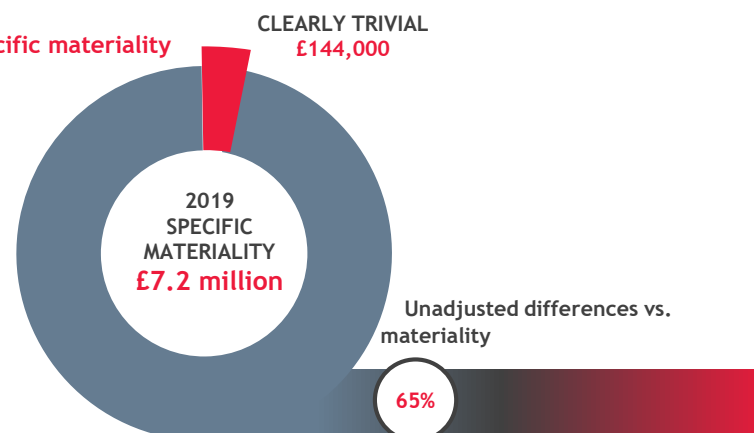
We identified current year audit adjustments that, if posted, would decrease the surplus on the provision of services by £191,000.

The underlying surplus for the year, adjusting for current year and brought forward errors impacting on the CIES, would reduce the 2018/19 reported surplus by £4.7 million to £35.8 million.

Financial statements overall materiality



CIES specific materiality



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Financial reporting

- We have not identified any non-compliance with accounting policies or the CIPFA Code.
- No significant accounting policy changes have been identified impacting the current year. IFRS 9 financial instruments and IFRS 15 revenue from contracts with customers has not had a material impact.
- Going concern disclosures are deemed sufficient
- The Narrative Report and other information included in the Statement of Accounts with the financial statements is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.
- We will complete our review of the Whole of Government Accounts Data Collection Tool (DCT) after we have completed our audit of the financial statements. We plan to issue our opinion on the consistency of the DCT return with the audited financial statements before the National Audit Office's deadline of 13 September 2019.

Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Corporation in accordance with the Financial Reporting Council's Ethical Standard.



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AUDIT RISKS OVERVIEW

As identified in our Audit Plan dated 28 February 2019 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant management estimates or judgement	Use of experts required	Error identified	Significant control findings	Discussion points / Letter of representation
Management override of controls	Significant	No	No	No	No	No
Revenue recognition	Significant	No	No	Our work is still ongoing in this area		
Property, plant & equipment and Investment property valuations	Significant	Yes	Yes	Our work is still ongoing in this area		
Pension liability valuation	Significant	Yes	Yes	Yes, to be adjusted ^[1]	No	Impact of McCloud liability to be provided by actuary and financial statements corrected
Classification and measurement of financial instruments (IFRS 9)	Normal	No	No	No	No	No
Accounting for leases	Normal	No	No	Our work is still ongoing in this area		

Areas requiring your attention

^[1]Amendment arises as a result of the Government being refused leave to appeal and therefore this issue needs to be considered by an Employment Tribunal. This confirms the constructive obligation arising from the decision of the High Court in January 2019.

AUDIT RISKS OVERVIEW 2

Audit Risk	Risk Rating	Significant management estimates or judgement	Use of experts required	Error identified	Significant control findings	Discussion points / Letter of representation
Revenue from Contracts with Customers (IFRS 15)	Normal	No	No	Our work is still ongoing in this area		
Non-collection allowances for receivables and arrears	Normal	No	No	Our work is still ongoing in this area		
Related party transactions disclosure	Normal	No	No	Yes, adjusted	No	No
Pension contributions	Normal	Yes	Yes	No	No	No
NNDR Appeals provision	Normal	Yes	Yes	No	No	No
NNDR Pooling arrangements	Normal	Yes	Yes	Our work is still ongoing in this area		

 Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

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ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.	
Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.

Under auditing standards there is a presumed significant risk of management override of the system of internal controls.

Work performed

We carried out the following planned audit procedures:

- Reviewed and verified large and unusual journal entries made in the year, agreeing the journals to supporting documentation. We determined key risk characteristics to filter the population of journals. We used our IT team to assist with the journal extraction;
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

Results

Our audit work on journals and estimates did not identify any issues.

We have not found any indication of management bias in accounting estimates. Our views on significant management estimates are set out in this report.

We have identified no significant or unusual transactions to date which we consider to be indicative of fraud in relation to management override of controls.

REVENUE RECOGNITION

Under auditing standards there is a presumption that income recognition presents a fraud risk.

Risk description

Under auditing standards there is a presumption that there is a risk of fraud in revenue recognition. For the City Fund, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance conditions before these may be recognised as revenue in the Comprehensive Income and Expenditure statement (CIES).

Work performed

We carried out the following planned audit procedures in response to the fraudulent revenue recognition risk:

- Tested a sample of grants included in income to documentation from grant paying bodies and check whether recognition criteria have been met.

We also tested for errors in revenue recognition:

- Tested a sample of fees and charges from material income streams and cut off testing to ensure income is recognised in the correct period; and
- Tested a sample of property rental income amounts and agreed to lease or rent agreements.

Results

Testing to date has not identified any issues.

Our work is still ongoing and we will provide an update to the Committee upon completion of this work.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

PPE AND INVESTMENT PROPERTY

There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on significant assumptions.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
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Risk description

Land, buildings and dwellings are reported at fair value / carrying value. Operational assets are valued at current value and surplus assets, assets held for sale and investment properties at fair value at the balance sheet date. The Corporation applies an annual revaluation process for investment properties and higher value operational assets to provide assurance that carrying values are not materially misstated; with the remainder of the non material value assets being revalued every five years. The Corporation has appointed three different valuers for City Fund for investment property and other operational land and buildings. Internal valuers also carry out some valuations.

Due to the significant value of the land, buildings, dwellings and investment properties and the high degree of estimation uncertainty, there is a risk over the valuation of these assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.

Work performed

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuers and reviewed the valuers' skills and expertise in order to determine if we can rely on the management expert;
- Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage;
- Reviewed the accuracy and completeness of asset information provided to the valuers such as rental agreements and land plot / building sizes;
- Reviewed assumptions used by the valuers and movements against relevant indices for similar classes of assets and followed up valuation movements that appear unusual; and
- Discussed with our Real Estate Team the reasonableness of assumptions on benchmark and yields range for investment properties.

Results

Our review of instructions to the valuer including the valuer's skills and expertise did not identify any issues. We also confirmed basis of valuation for assets valued in year is appropriate and in line with Code.

Our work on the accuracy and completeness of asset information used as the basis of valuation is still on going and we will update the Committee upon completion of this work.

The results of our review of the assumptions and estimates used by the valuers for classes of assets is reported on the following pages.

PPE AND INVESTMENT PROPERTY 2

Significant estimate - Dwellings

Dwellings (£309.9 million)

< lower valuation

> Higher valuation

Dwellings are held either within the General Fund or the HRA. HRA Dwellings are valued at open market value and adjusted to 30% of this valuation to reflect the discounted social rents charged to tenants. The adjustment reflects information provided by DCLG in 2016 for regional (London) differences between market rents and social rents. Other dwellings not within the HRA do not have this adjustment applied

Dwellings decreased in value by £22.4 million (-6.89%) in 2018/19. Dwellings were subject to valuation based on allocation of properties into relevant Beacons (for similar types of properties) and valued by reference to recent sales data for similar properties. Our benchmark report for house prices suggests an overall reduction in value for London properties of 1.9%. The City Surveyor has provided City of London price data suggesting an overall market reduction for house sales of 5.9% based on the Nationwide Index London Regional House Sales.

The commentary provided in relation to the HRA dwellings valuation provides details of the sales data used. Where possible, the City Surveyor has used other sales on City Fund Estates to support the valuations. Where there haven't been equivalent sales in the year, the City Surveyor has used other similar properties in the area or other City of London Estates.

Our work is still ongoing to verify the data for sales of equivalent dwellings and we will provide an update to the Committee upon completion of this work.

We note that the useful economic lives (UEL) of dwellings has been set at 125 years based on the usual term for leases granted. This is significantly longer than the UELs used by other local authorities where the main structure of a dwelling tends to range from 60 to 80 years.

The City Surveyor has stated that this is due to the robust structure and ongoing repairs, maintenance and cyclical replacement works programmes in place for these properties.

We consider this to be at the optimistic end for UELs but this would not result in a material difference in the annual depreciation charge had a UEL of 80 year been applied.

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PPE AND INVESTMENT PROPERTY 3

Significant estimate - Other land and buildings

Other land and buildings (£499.4 million)

< lower valuation



> Higher valuation

Land and buildings have been valued using an appropriate basis of valuation (such as existing use, depreciated replacement cost or market value) depending on the nature of the asset.

Other land and buildings increased in value by £28.8 million (+6.11%) in 2018/19.

For depreciated replacement cost valuations, our benchmark report for rebuild costs from the national BCIS Tender Price Index suggests an increase in value for depreciated replacement cost (DRC) valuations of +3.6%, although this is subject to a higher degree of volatility and estimation from regional costs and other factors.

Our work is still ongoing to review the rebuild cost indices applied and we will provide an update to the Committee upon completion of this work.

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PPE AND INVESTMENT PROPERTY 4

Significant estimate - Investment property

Investment property (£1,586.2 million)

< lower valuation

> Higher valuation

Investment properties are valued by reference to highest and best use market value.

Investment properties increased in value by £32.9 million (+2.16%) in 2018/19.

Our benchmark report for City office space suggests an increase in value of 2.3% (MSCI capital index) and +1.1% for City / Mid Town retail space.

To support the valuations, we agreed a sample of rental amounts used in the valuation to the lease or rent agreements and reviewed the data for a sample of properties where the movement in value appeared unusual compared to the general index movement.

Our work is still ongoing to review the explanations for movements outside of our general index expectations and we will provide an update to the Committee upon completion of this work.

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There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Note: The teachers pension scheme is accounted for on a defined contribution basis as employers are unable to identify their own share of the assets and liabilities.

Risk description

The City Fund net pension liability comprises 51% of the Corporation’s overall net liability and includes its share of the market value of assets held in the pension fund and the estimated future liability to pay pensions. An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate is based on the roll forward of membership data from the 2016 triennial valuation exercise, updated at 31 March 2019 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

The City Fund also reports the pension liability for the City Police pension scheme, based on a roll forward of the membership data from the 2017 valuation exercise.

There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

Work performed

We carried out the following planned audit procedures:

- Assessed the qualifications and competence of the actuary;
- Reviewed the controls for providing accurate membership data to the actuary;
- Checked whether any significant changes in membership data have been communicated to the actuary;
- Reviewed the disclosures in City Fund relating to the basis of apportioning the net pension liability; and
- Reviewed the reasonableness of the assumptions used in the calculation against other actuaries and other observable data.

Results

We have agreed the disclosures to the information provided by the actuary and identified no issues.

Our review of the controls to ensure data provided to the actuary for the roll forward valuation at 31 March 2019 is complete and accurate did not identify any issues. We have identified differences in the cash flow information sent to the actuary as at month 10 plus two months estimates to the actual final figures for the year. We did not consider these to be significant differences.

Management confirmed there has been no significant changes in the membership data.

The allocation of the Corporation’s share of LGPS assets and liabilities as 51% to City Fund, 47% City’s Cash and 2% Bridge House Estates is reasonable based on the proportion of payroll costs for each Fund.

PENSION LIABILITY VALUATION 2

Significant estimate - LGPS pension liabilities

City fund pension liabilities (£805 million)

< lower valuation

> Higher valuation

The City Fund's share of the LGPS pension liability has increased from £761.7 million to £804.8 million and it's share of the scheme assets increased from £459.3 million to £494.4 million. The net deficit increased by £8.2 million to £310.4 million. The increased liability includes £36.9 million arising from changes to financial assumptions including annual salaries increases of 3.9% (previously 3.8%), annual pension increases of 2.4% (previously 2.3%), and a change in the rate of discounting scheme liabilities to 2.4% (previously 2.55%). It also includes a gain on demographic assumptions of £21.3 million arising from reduced mortality assumptions of approximately 0.6 years as increases in life expectancy have stalled in recent years.

We have compared the key financial and demographic assumptions used to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO.

	Actual used	Acceptable range	Comments
Financials:			
- RPI increase	3.4%	3.40 - 3.45%	Reasonable
- CPI increase	2.4%	2.40 - 2.45%	Reasonable
- Salary increase	3.9%	3.10 - 4.35%	Reasonable (CPI +0% to 2020 and then CPI +1.5%)
- Pension increase	2.4%	2.40 - 2.45%	Reasonable
- Discount rate	2.4%	2.35- 2.45%	Reasonable
Commutation:	50%	50%	Reasonable
Mortality:			
- Male current	24.5 years	22.4 - 25.0	Reasonable
- Female current	26.1 years	25.0 - 26.6	Reasonable
- Male retired	23.2 years	20.6 - 23.4	Reasonable
- Female retired	24.6 years	23.2 - 24.8	Reasonable
Mortality gains	CMI 2018 (+1.25% improvement rate)		Reasonable

We consider that the assumptions and methodology used by the actuary are appropriate, and will result in an estimate of the net pension liability which falls within a reasonable range.

We note that the consulting actuary has stated that the assumptions used by Barnett Waddingham do tend to produce slightly lower LGPS liabilities calculations than the other actuaries, and the relative strength of assumptions compared to the average used by others could result in a liability being at 98.2% based on average of the assumptions used by all actuaries.

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PENSION LIABILITY VALUATION 3

Significant estimate - Police pension liabilities

Police pension liabilities (£986 million)

< lower valuation

> Higher valuation

The police pension liability has increased from £955.9 million to £985.8 million. The increased liability includes £45.7 million arising from changes to financial assumptions including annual salaries increases of 3.9% (previously 3.8%), annual pension increases of 2.4% (previously 2.3%), and a change in the rate of discounting scheme liabilities to 2.4% (previously 2.55%). It also includes a gain on demographic assumptions of £24.9 million arising from reduced mortality assumptions of approximately 0.6 years as increases in life expectancy have stalled in recent years.

We have compared the key financial and demographic assumptions used to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO.

	Actual used	Acceptable range	Comments
Financials:			
- RPI increase	3.4%	3.40 - 3.45%	Reasonable
- CPI increase	2.4%	2.40 - 2.45%	Reasonable
- Salary increase	3.9%	3.90 - 4.65%	Reasonable (CPI +0% to 2020 and then CPI +1.5% to 2.2%)
- Pension increase	2.4%	2.40 - 2.45%	Reasonable
- Discount rate	2.4%	2.35 - 2.45%	Reasonable
Commutation:	50%	50 - 60%	Reasonable (60% 1987 old scheme, 60% 2006 new scheme, 60% 2015 scheme)
Mortality:			
- Male current	22.5 years	22.4 - 25.0	Reasonable
- Female current	25.0 years	25.0 - 26.6	Reasonable
- Male retired	21.1 years	20.6 - 23.4	Reasonable
- Female retired	23.5 years	23.2 - 24.8	Reasonable
Mortality gains	CMI 2018 (+1.25% improvement rate)		Reasonable

We consider that the assumptions and methodology used by the actuary are appropriate, and will result in an estimate of the pension liability which falls within a reasonable range.

We note that the consulting actuary has stated that the assumptions used by Barnett Waddingham do tend to produce slightly lower police pension liabilities calculations than the other actuaries, and the relative strength of assumptions compared to the average used by others could result in a liability being at 98.6% based on average of the assumptions used by all actuaries.

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PENSION LIABILITY VALUATION 4

Significant estimate - McCloud impact

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McCloud age discrimination

Following the ruling on age discrimination in the McCloud case, where members approaching retirement age received protected benefits moving to the career average relevant earnings scheme from the final salary scheme but employees more than 10 years from retirement did not receive this underpin of benefits, Government will have to remedy the discrimination in the LGPS and police pension schemes.

For the LGPS, the Government Actuary Department has undertaken an LGPS-wide impact assessment and a worse case scenario suggests that the liability could increase by up to 3.2% for active members where the remedy would be for all staff to receive the underpin, and using a model with an average member age of 46 and salaries increasing at +1.5% above CPI.

For the police pension scheme, the Government Actuary Department has undertaken a review for a number of police pension schemes and a worse case scenario suggests that the liability could increase by up to 5.4% of the total liability where the remedy would be for all police to receive the underpin, and using a model with an average member age of 41 and salaries increasing at +2.0% above CPI.

The Corporation has requested an updated valuation of the LGPS whole fund liability (for disclosure in the pension fund accounts), along with the impact on the Corporation's accounts as a scheme employer, to take account of the impact of this ruling. It has also requested an update valuation of the police pension liabilities.

These updated valuations have not yet been provided by the actuary.

We will review the actuary's assumptions and calculation of the best estimate of potential additional costs and scheme liabilities arising from the McCloud judgement once the actuary's reports are received.

We will provide an update to the Committee upon completion of this work.

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FINANCIAL INSTRUMENTS

There is a risk that financial instruments are not classified and measured in accordance with the new financial reporting standard IFRS 9.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

IFRS 9 financial instruments has been implemented for 2018/19 and requires all relevant financial instrument assets (principally investments and loans provided to others) and liabilities (principally borrowing) to be categorised under new criteria based on their business model and contractual cash flows that will determine their classification and basis of valuation.

CIPFA has published guidance to assist with the required review and any restatement required where the classification needs to be amended. City Fund will need to undertake a review of all relevant assets and liabilities to determine the appropriate classification in the financial statements.

Work performed

We carried out the following planned audit procedures:

- Reviewed the work performed by the Corporation, to assess the new classification of financial instruments in accordance with the guidance; and
- Reviewed the disclosures required relating to the adoption of the new accounting standard.

Results

City Fund has reclassified its financial assets at 1 April 2018:

- £471.5 million held as loans and receivables, including fixed term deposits, call account and notice accounts, have been classified at held at amortised cost (31 March 2019 £383.9 million);
- Financial assets held as available for sale £214.5 million, comprising money market funds, are classified have been classified as fair value through profit and loss (31 March 2019 £304.6 million); and
- The unquoted equity instrument of £0.2 million for the investment in Municipal Bonds Agency plc has been designated as fair value through other comprehensive income (disposed of by 31 March 2019).

We have reviewed the classification of these financial assets agree with the classification determined by management.

We have reviewed the disclosures relating to financial instruments and consider that they are appropriate subject to a minor amendment which is being made to the revised accounts.

ACCOUNTING FOR LEASES

There is a risk leases may not be correctly accounted for.

Risk description

City Fund has a significant number of leases where it is a lessor and has received lease premiums in recent years. The premiums and rents are apportioned between the land element, which will ordinarily be an operating lease recognised as revenue, and the building element which is likely to be a finance lease and recorded as a capital disposal. The element of the premium relating to the land is treated as deferred income and released to revenue over the term of the lease.

There is also likely to be complex calculations relating to the recognition of rental income, rent free calculations, lease extension/ lease premiums, dilapidations and the relevant disclosures

Work performed

We carried out the following planned audit procedures:

- We tested a sample of lease and rent income, obtained the relevant agreements, calculated the expected income and agreed this to the accounts, including any amounts of deferred income, rent free calculations, lease extension/ lease premiums, dilapidations and the relevant disclosures; and
- Checked the disclosures to ensure that these are in line with the relevant accounting standard.

Results

City Fund has not entered into any new lease premium arrangements this year.

Our testing of lease and rent income on commercial / investment properties found no issues.

The disclosures remain consistent with the prior year.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

REVENUE FROM CONTRACTS

There is a risk that revenue from contracts with customers is not measured in accordance with the new financial reporting standard IFRS 15.

Risk description

IFRS 15 revenue from contracts with customers has been implemented for 2018/19 and requires all relevant revenue streams to be reviewed under a new '5-step model' to determine the appropriate point at which revenue can be recognised. CIPFA has published guidance to assist with the required review including what revenue falls within IFRS 15 or IPSAS 23 revenue from non-exchange transactions, and the process for determining the correct recognition points and amounts for revenue.

City Fund will need to undertake a review of all relevant revenue streams to determine the appropriate recognition date and amounts in the financial statements.

Work performed

We carried out the following planned audit procedures:

- Reviewed the work performed by the City Fund, to assess the impact of the new '5-step model' on revenue streams for the City Fund; and
- Reviewed the disclosures required relating to the adoption of the new accounting standard.

Results

Management's review found that there are no revenue streams where the revenue recognition point would change under the new financial reporting standard.

We reviewed the work performed by management and we found no revenue streams where we believe IFRS 15 would require restatement or change to the required accounting for revenue.

We reviewed the disclosures made in the accounts and consider that these comply with the new accounting standard.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
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NON-COLLECTION ALLOWANCES

There is a risk over the valuation of the allowance for the non-collection of arrears and debt.

Risk description

The City Fund recognises an allowance for the non-collection of receivables primarily in respect of council tax, NDR, housing benefit overpayments, housing rents and parking charges. Management assesses each type of receivable separately in determining how much to allow for non-collection.

There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate methodology is applied. The implementation of IFRS 9 financial instruments has also changed the basis for estimating losses for non-collection of receivables and debt from an incurred loss model to an expected credit loss model that takes in account assumptions about the future credit losses.

However, this includes only receivables and debt deemed to be financial instruments and excludes receivables under statute such as council tax, NDR and parking charges that CIPFA has stated will continue to be accounted for on an incurred loss model.

Work performed

We carried out the following planned audit procedures:

- Reviewed the provision model for significant income streams and receivables and debt balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears;
- Checked that information has been accurately extracted from systems to support the modelling of collection rates by age; and
- Confirmed that City Fund has applied an expected credit loss model for receivables classified as financial instruments.

Results

Work on this area is still ongoing and we will provide an update to the Committee upon completion of this work.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

RELATED PARTY TRANSACTIONS

There is a risk that related party disclosures are not complete and accurate.

Risk description

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management and the Audit and Risk Management Committee.

There is a risk that related party disclosures are not complete, accurate or properly disclosed.

Work performed

We carried out the following planned audit procedures:

- Reviewed management processes and controls to identify and disclose related party transactions;
- Reviewed relevant information concerning any such identified transactions;
- Discussed with management and reviewed members' and management declarations to ensure that there are no potential related party transactions which have not been disclosed; and
- Undertook Companies House searches for potential undisclosed interests.

Results

Six minor issues found with the related parties disclosure and these have been amended in the revised accounts. It was noted that the Corporation includes directors in common within the note but these are not considered to be a related party as per IAS 24.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
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There is a risk that the Corporation or other admitted and scheduled employers may not be calculating contributions correctly or paying over the full amount due to the pension fund.

Significant risk
Normal risk
Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
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Risk description

Employers are required to deduct amounts from employee pay based on tiered pay rates and to make employer contributions in accordance with rates agreed with the actuary. Additional contributions are also required against pension strain for early retirements.

There is a risk that the Corporation or other admitted and scheduled employers may not be calculating contributions correctly or paying over the full amount due to the pension fund.

Work performed

We carried out the following planned audit procedures:

- Tested amount payable by employers / receivable by the pension fund for normal contributions including checking to employer payroll records;
- Confirmed that income is recognised in the correct accounting period where the employer is making payments in the following month;
- Tested pension strain contributions due from employers;
- Agreed total contributions payable by the Corporation (as employer) to the amounts received in the pension fund; and
- Reviewed contributions income in accordance with the Actuary's Rates and Adjustments Certificate, including specified increased rates to cover the minimum contributions to be paid as set out in the Certificate.

Results

Our testing has not identified any issues with the calculation of normal contributions payable by the Corporation. We identified in the prior year that pension strain costs payable for unreduced pension benefits for early retirement of employees was accounted for on a cash basis. Management has confirmed that this is now accounted for on an accrual basis when the capital cost is due.

NDR APPEALS PROVISION

There is a risk in relation to the estimation of the provision due to potential incomplete data and assumptions used in calculating the likely success rate of appeals.

Risk description

City Fund as a billing authority is required to estimate the value of potential refund of business rates arising from rate appeals, including backdated appeals. The Valuation Office Agency (VOA) provides information regarding the appeals currently being assessed and settled.

Management use this information to calculate a success rate for specific business types for settled appeals, and applies an appropriate rate to each type of business appeal still outstanding at year end

Work performed

We carried out the following planned audit procedures:

- Reviewed of the accuracy of the appeals data to confirm that it is complete based on the VOA list, and that settled appeals are removed; and
- Reviewed of the assumptions used in the preparation of the estimate including the historic success rates to confirm if the rates applied are appropriate.

Results

Our audit work found that the methodology for calculation of the appeals provision was satisfactory and was based on accurate information provided by the VOA.

Our review of the reasonableness of assumptions used to estimate the likely success of appeals and expected refunds is noted on the following page.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
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NDR APPEALS PROVISION 2

Significant estimate - Rateable value appeals provision to refund business rates

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NDR appeals provision 2010 rating list (£39.7 million collection fund and £24.1 million City Fund share)

< lower valuation

> Higher valuation

Management has applied appeal success rates to different types of appeals on the 2010 rating list based on the amounts repaid on appeal in recent years. This takes into account both the success of a rateable value reduction appeal and for the number of years the appeal is backdated.

Success rates for the 2010 valuations range from 0.0% for appeals with where the has been an omission in the list to 55% for appeals where the property should be shown as one or more difference assessments.

These assumptions are reasonable based on historic settlements and refunds for the 2010 rating list appeals for estimating the provision for the future refunds from successful appeal.

NDR appeals provision 2017 rating list (£73.1 million collection fund and £48.1 million City Fund share)

< lower valuation

> Higher valuation

The basis of appealing business rates and rateable values changed with the introduction of the 2017 rating list and now has a three stage process: Check - Challenge - Appeal. Government provided an analysis last year of the total national loss of business rates from appeals over the period of the 2010 rating list and reported that the total loss was 4.7%. Given the nature of backdating appeals to the first year of a new rating list, this results in higher refunds and losses towards the end of the period of the rating list compared to the initial years where fewer years are subject to backdating. In the absence of better information, local authorities were advised to make an appeals provision each year of 4.7% of NDR billed.

We have found that the number of appeals nationally under the 2017 rating list is significantly lower than in the early years of the 2010 rating list and it may be that many more rateable value adjustments are now processed through the Check - Challenge - Appeal process through revision to the list by the VAO. There are still no settled appeals for the 2017 rating list for the Corporation and management has continued to apply the suggested 4.7% of billed amounts each year in the absence of better information.

We consider that this is an acceptable basis given the lack of settled appeals on which to base an estimate. However, some commentators have expressed a view that after two years with many fewer appeals, that the application of the total losses under the 2010 rating list may have overstated the expected appeals losses under the 2017 rating list.

Overall we consider that the approach taken to the calculation of NDR provision is reasonable, although may tend towards potentially overstating the amount of business rate income that may be appealed.

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There is a risk that the arrangements put in place for the London-wide NDR Pooling and Strategic Investment Fund are not appropriately disclosed.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

City Fund acts as host (as an agent) for the London-wide NDR Pool and is responsible for calculating how much of the total NDR raised in London should be retained by each authority and how much is due to the GLA. City Fund is also responsible for the Strategic Investment Fund which pays out a part of the fund surplus to various projects within London. There is a risk that the amounts to be paid to other bodies or retained by each billing authority may be incorrect due to the complexity of the aggregation of the 33 NDR submissions across London.

There is a risk that the presentation and disclosure of the Strategic Investment Fund in the City Fund financial statements may not appropriately reflect the arrangement where it is not clear whether it acts as a principal or agent for these amounts.

Work performed

We carried out the following planned audit procedures:

- Reviewed the arrangements for calculating the appropriate share of retained NDR surplus for each London billing authority and what assurances and controls are put in place to confirm that the information provided by each is complete and accurate; and
- Reviewed the appropriate presentation for the retained Strategic Investment Fund monies, where City Fund act as host and GLA provide cash management, to reflect the nature of the arrangement either as principal or agent.

Results

Due to the complexity of the model used to calculate the NDR pooling figures across the 33 billing authorities and the distributions to each member of the pool, we have requested that the BDO modelling team undertake a review of this model to provide assurance that the calculations and formula are operating as intended.

This review is on progress and we will provide an update to the Committee upon completion of this work.

From discussions with management and review of the accounting considerations for the Strategic investment Fund, management has amended its accounting treatment from recognising this as an agent, where it recorded both the income and grants paid to approved projects in the balance sheet, to being the principal for this income and expenditure. This is on the basis that the Corporation has overall control over the awarding of grant funding and monitoring this expenditure. This has resulted in an amendment to the financial statements to recognise additional income of £59.6 million and expenditure of £46.8 million in the CIES. The excess of funds not yet awarded is held in an earmarked reserve.

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Fraud

Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Plan on 12 March 2019.

Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

Internal audit

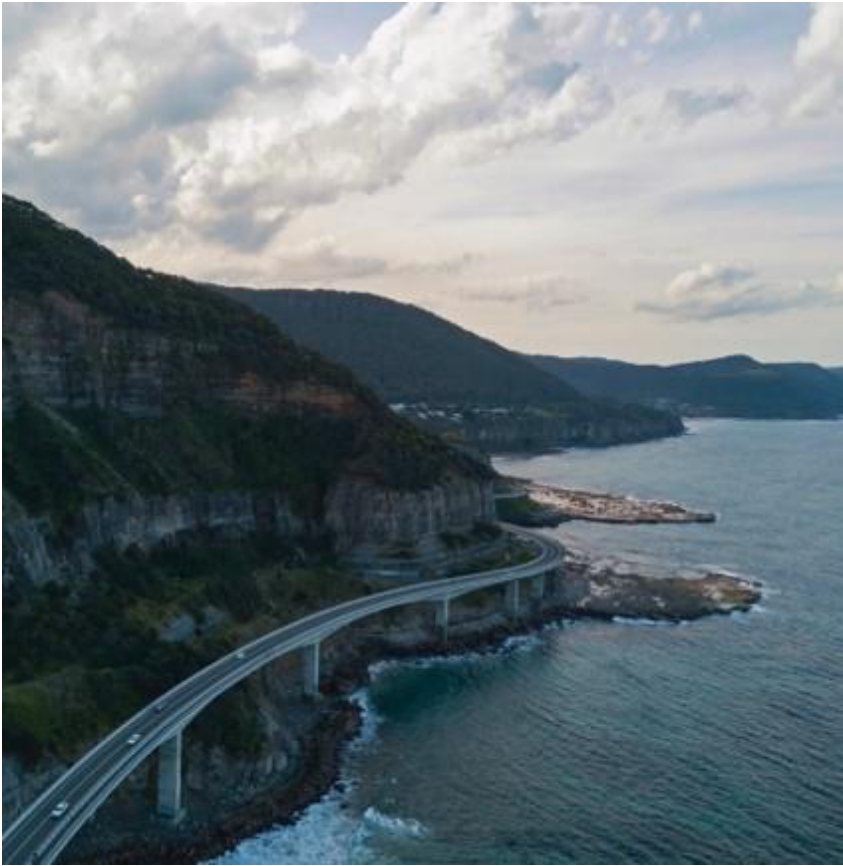
We reviewed the audit work of the Corporation's internal audit function to assist our risk scoping at the planning stage.



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UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year



We are required to bring to your attention unadjusted differences and we request that you correct them.

There is one unadjusted audit difference in the current year identified by our audit work which would decrease the surplus on the provision of services (and the City Fund balance) and decrease net assets by £0.190 million if adjusted.

You consider the differences to be immaterial in the context of the financial statements as a whole.

The underlying surplus for the year, adjusting for current year and brought forward errors impacting on the CIES, would reduce the 2018/19 reported surplus by £4.7 million to £35.8 million.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

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	Income and expenditure			Statement of Financial Position	
	NET DR/(CR) £m	DR £m	(CR) £m	DR £m	(CR) £m
Unadjusted audit differences					
Surplus on the provision of services before unadjusted audit differences	(40.500)				
1: Impact of brought forward unadjusted errors - expenditure overstated in 2017/18					
DR Expenditure	3.310	3.310			
CR General fund reserve					(3.310)
2: Impact of brought forward unadjusted errors - NDR appeals overstated					
DR NNDR appeals provision costs	1.160	1.160			
CR NNDR appeals provision					(1.160)
Impact on brought forward errors on current year surplus on the provision of services	4.470				
3: Balancing item in NDR Income					
DR Business Rates Premium income	0.190	0.190			
CR Receipts in advance					(0.190)
Total current year unadjusted audit differences	0.190				
Total unadjusted audit differences	4.660				
Surplus on the provision of services if above errors adjusted	(35.840)				

UNADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Audit and Risk Management Committee is required to consider.

We have no matters to bring to your attention

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ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year



There are 2 audit differences identified by our audit work to date that were adjusted by management.

This increased draft surplus on the provision of services and increased net assets by £12.8.

There was no impact on the general fund balance.

The grossing up of recharges does not impact on the surplus in the provision of services.

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Statement of Financial Position	
	NET DR/(CR) £m	DR £m	(CR) £m	DR £m	(CR) £m
Adjusted audit differences					
Surplus on the provision of services before adjustments	(40.5)				
1: Change in SIP from net to gross accounting					
DR Expenditure		46.8			
DR Earmarked reserve				12.8	
CR Income			(59.6)		
2: Adjustment for recharges incorrectly accounted for					
DR Income		11.5			
CR Expenditure			(11.5)		
Total adjusted audit differences	(12.8)				
Adjusted surplus on the provision of services	(53.3)			12.8	

ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Audit and Risk Management Committee is required to consider.

The following adjusted disclosure matters were noted:

- A number of minor narrative amendments have been made to the disclosures within the accounts, however these are not considered to be significant.

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REPORTING ON OTHER INFORMATION

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are satisfied that the other information in the Narrative Report is consistent with the financial statements and our knowledge
We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Corporation’s review of effectiveness and our knowledge of the Corporation.	We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.

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Matter

For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Corporation for use by the Ministry for Housing, Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level.

This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.

Comment

Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 28 June 2019. The Corporation did not meet this deadline.

We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the Corporation's financial statements.

We are planning to issue our opinion on the consistency of the DCT return with the audited financial statements before the National Audit Office's 13 September 2019 deadline.

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AUDIT RISKS OVERVIEW

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

As identified in our Audit Plan we assessed the following matters as being the most significant risks regarding use of resources.

There are three sub criteria that we consider as part of our overall risk assessment:

- Sustainable resource deployment
- Informed decision making
- Working with partners and other third parties.

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
Police financial management	Sustainable resource deployment	Significant	Work is still ongoing
Sustainable finances	Sustainable resource deployment	Normal	Work is still ongoing

Areas requiring your attention

POLICE FINANCIAL MANAGEMENT

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There is a need for City Police to develop an MTFS with significant savings to ensure that it can continue to deliver the level of policing required in the City.

Significant risk
Normal risk
Sustainable resource deployment
Informed decision making
Working with partners and other third parties
Significant control findings

Risk description

City of London Police has been under financial pressure for a number of years with a recurrent underlying budget deficit between £4 million to £5 million a year. In 2017/18 it initially reported a surplus of £3.5 million that was later found to be cost slippage and not a surplus. Issues with budget monitoring have been identified in 2018/19 and at Month 9 forecast an overspend of £2.3 million. This included £5.8 million increase in pay costs compared to the original budget as a result of the budget significantly underestimating the costs of employing the planned workforce numbers, combined with spend on overtime and ‘agency’ resourcing. The increase has been largely masked until recently by an erroneous double inclusion of £4.5 million National & International City Grant in income as well as funding when loading the 2018/19 budget onto the system.

Work performed

We carried out the following planned audit procedures:

- Reviewed the assumptions used in the Medium Term Financial Strategy and assess the reasonableness of the cost pressures, the amount of Government grant reductions applied and increases in the business premium;
- Reviewed the delivery of the budgeted savings in 2018/19, plans to reduce costs from 2019/20, and updated strategies and transformation programmes to close the budget gap after 2019/20;
- Reviewed work undertaken by the Her Majesty’s Inspectorate of Constabulary; and
- Reviewed work undertaken by internal audit relating to the financial management.

Results

City Police have reported a breakeven position for 2018/19 against an expected deficit budget. This has been achieved by the use of tactical mitigations, additional business rates premium income being allocated and the use of reserves to balance the budget. A balanced budget has been set for 2019/20 that has been achieved by increasing the City Business Premium and receiving additional Home Office Grant. For 2020/21 there is currently a £6.5 million budget gap to be addressed through a refreshed MTFS.

HMIC has carried out a PEEL review for 2018/19 and have stated that “the extent to which the force operates efficiently and sustainably is good.” HMIC have also stated that further work is “needed to address the budget gap over the rest of the medium-term financial plan”.

We have a meeting arranged with the Police Chief Finance Officer to discuss the MTFS and plans to close the funding gap. **We will provide an update to the Committee upon completion of this work.**

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The Corporation will need to deliver planned savings to maintain financial sustainability in the medium term and there is a risk that these savings may not be delivered.

Significant risk

Normal risk

Sustainable resource deployment

Informed decision making

Working with partners and other third parties

Significant control findings

Risk description

The City Fund has not been subject to the same level of financial pressures compared to other authorities. However, at Month 9 there is a forecast overspend of £2.5 million mainly relating to the deficit on the Police budget. For 2019/20 City Fund is budgeting a £20 million surplus and this is being seen as a holding year. From 2020/21 the financial pressures are expected to increase and currently the City Fund is expecting to budget for a deficit position.

In response to this the Corporation is planning to undertake a fundamental review of income and expenditure to inform its future planning.

Work performed

We carried out the following planned audit procedures:

- Reviewed the assumptions used in the Medium Term Financial Strategy and assess the reasonableness of the cost pressures, the level of Government grant reductions applied and increases in business rates and council tax;
- Reviewed the delivery of the budgeted savings in 2018/19 and the plans to reduce costs from 2019/20; and
- Reviewed the strategies and any transformation programmes to close any budget gap after 2020/21.

Results

City Fund has achieved an surplus on the provision of services this year of £53.3 million, before funding £47.6 million capital expenditure from revenue reserves. As noted in the previous section police have achieved a breakeven position.

City Fund are in the process of starting a fundamental review to address the budget gap from 2020/21 onwards and the first paper is due to go to the Resources and Policy committee at the end of July. At the time of drafting this report this has not yet been published.

The finances of the City Fund remain healthy and management has revisited its strategy to fund a significant element of the capital programme from revenue balances, and to fund this from borrowing over the medium term, to maintain these healthy levels of reserves and balances.

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SIGNIFICANT DEFICIENCIES

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit and Risk Management Committee.

As the purpose of the audit is for us to express an opinion on the Corporation's financial statements and use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We do not have any such deficiencies to report to you at this time, although our audit work is still ongoing.

FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
NNDR Appeals provision 2017 valuation	The provision on the 2017 valuation appeals received to date has been made at 100% due to the Authority not having any settled claims on the 2017 valuation.	The Corporation should review any settlement data available to ensure that the provision is based on expected settlements rather than a worse-case scenario.	In 2018/19, the provision for 2017 rating list is based on 4.7% of loss income and a management estimate. Going forward to 2019/20, the Corporation will be using Inform, a specialist in business rate retention scheme, to calculate its provision for appeal.	This area will continue to be reviewed utilising the latest information available and external support via Inform to validated the City Corporation's approach to the 2017 appeals provision calculation.
City Police financial planning	Internal audit and the Chamberlain's Department have identified weaknesses in the Budget setting and monitoring process in relation to City of London Police.	Management should ensure that it carries out the proposed review of the Police MTFS and budget setting and monitoring process as soon as possible so that a confirmed position is available to enable plans to be drawn up to assist the force in moving forward on a solid financial footing.	From our discussions with the Chamberlains department staff at City of London police budget monitoring and financial management has improved compared to the prior year. A balanced budget has been set for 2019/20 and City Police have started to refresh their MTFS to address the budget gaps in 2020/21 onwards.	The City Corporation and City of London Police are working closely together to address the financial challenges outlined in the MTFS and build on the improvements made in financial management.

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OVERVIEW

Opinion on financial statements

We anticipate issuing an unmodified opinion on the financial statements.

There are no matters that we wish to draw attention to by way of ‘emphasis of matter’.

Conclusion on use of resources

We are proposing to issue an unqualified use of resources conclusion.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Corporation of London and City Fund’s ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

Other information

We have not identified any material misstatements that would need to be referred to in our report.

Annual Governance Statement

We have no matters to report in relation to the Annual Governance Statement as it is not inconsistent or misleading with other information we are aware of.

Audit certificate

We will issue the Audit certificate on completion of our work on the WGA return by the deadline of 13 September.

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INDEPENDENCE

Under ISAs (UK) and the FRC’s Ethical Standard we are required, as auditors, to confirm our independence.

Under ISAs (UK) and the FRC’s Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2019.

Details of services, other than audit, provided by us to the Corporation during the period and up to the date of this report are set out in the appendices and were provided in our Audit Plan. We understand that the provision of these services was approved by the Audit and Risk Management Committee in advance in accordance with the Corporations policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

We have not identified any relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC’s Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Corporation .

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

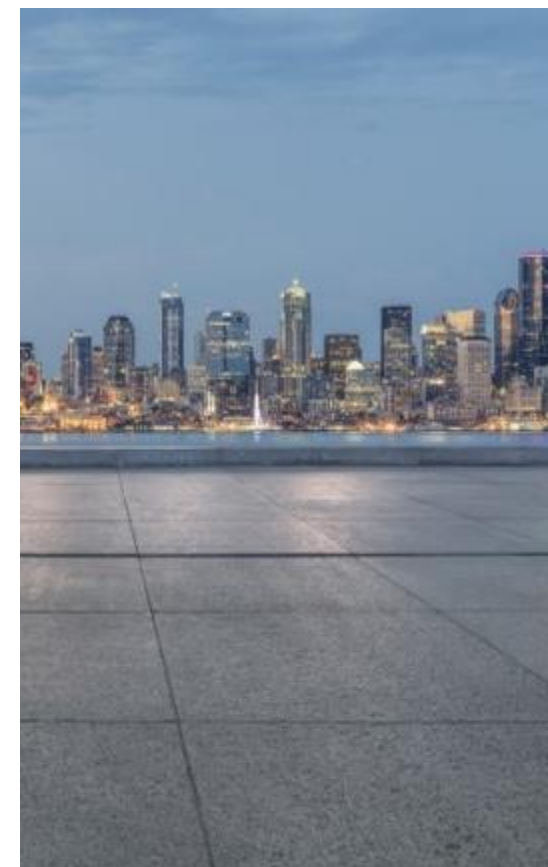
FEES

Fees summary

	2018/19 Actual £	2018/19 Planned £	2017/18 Actual £
Audit fee			
• Code audit fee	TBC	80,000	106,275
Fees for reporting on government grants:			
• Housing benefits subsidy claim	Work not started	10,000	15,918
• Pooling of housing capital receipts return	Work not started	3,000	2,340
• Teachers' pensions return	Work not started	3,000	4,500
Total fees	TBC		129,033

Additional audit costs have been incurred in relation to the Corporation hosting the London Business Rates Pool and due to the City Fund becoming a Major Local Audit under the Local Audit and Accountability Act 2014. Additional fees will be discussed with the Chamberlains Department and we will report back once finalised.

Additional costs will be incurred in relation to the Housing Benefit Subsidy Claim for 2018/19 as a result of the errors found in 2017/18 and DWP mandated audit approach to complete additional testing on these areas in the current year.



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RESPONSIBILITIES AND REPORTING

Responsibilities and reporting

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members of the Corporation.

We read and consider the ‘other information’ contained in the Statement of Accounts such as the Narrative Report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report where we consider that the Corporation has not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We review the Whole of Government Accounts Data Collection Tool provided to HM Treasury and express an opinion on whether it is consistent with the audited financial statements.

What we don’t report

Our audit is not designed to identify all matters that may be relevant to the Audit and Risk Management Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.



ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

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COMMUNICATION AND REPORTS ISSUED

Those Charged with Governance (TCWG)

References in this report to those charged with governance are to the Corporation as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit and Risk Management Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Plan	12 March 2019	Audit and Risk Management Committee
Initial Audit Completion Report	16 July 2019	Audit and Risk Management Committee
Final Audit Completion Report	(31 July 2019)	Audit and Risk Management Committee
Annual Audit Letter	(31 August 2019)	Audit and Risk Management Committee

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We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2019.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Audit and Risk Management Committee meeting at which this report is considered:

1. Clearance of outstanding issues on the audit queries tracker currently with management. The key items on the tracker are:
 - Completion of PPE and Investment Property valuation testing
 - Completion of review of NNDR pool model
 - Updated pensions disclosures
 - Completion of cash flow review
 - Receipt and review of a small number of samples relating to Income and Expenditure, Debtors and Creditors testing
 - Receipt of revised draft accounts
2. Manager, Partner and Quality Control review, and clearance of review points
3. Final review and approval by you of the Statement of Accounts
4. Technical clearance
5. Subsequent events review
6. Management letter of representation to be approved and signed



AUDIT REPORT

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AUDIT QUALITY

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BDO is totally committed to audit quality

It is a standing item on the agenda of BDO’s Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream’s objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council’s Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

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BDO LLP
55 Baker Street
London
W1U 7EU

Dear Sirs

Financial statements of Corporation of London - City Fund for the year ended 31 March 2019

We confirm that the following representations given to you in connection with your audit of the Corporation’s City Fund financial statements for the year ended 31 March 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Corporation.

The Chamberlain has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the City Fund as of 31 March 2019 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Corporation, in respect of the City Fund, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Corporation’s financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Corporation, in relation to the City Fund, have been made available to you for the purpose of your audit and all the transactions undertaken by the City Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

[Client name and Letter headed paper]

Going concern

We have made an assessment of the Corporation and the City Fund’s ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Corporation is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Corporation and the City Fund’s ability to continue as a going concern.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the City Fund’s business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

Post balance sheet events

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

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Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

Other than as disclosed in note 34 to the financial statements, there were no loans, transactions or arrangements between the Corporation and Corporation’s members or their connected persons at any time in the year which were required to be disclosed.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.

Accounting estimates

a) Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) and Police pension scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- Rate of inflation (CPI): 2.4%
- Rate of increase in salaries: 3.9%
- Rate of increase in pensions: 2.4%
- Rate of discounting scheme liabilities: 2.4%
- Commutation take up option: LPGS 50% / Police 50%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

b) Valuation of housing stock, other land and buildings and investment properties

We are satisfied that the useful economic lives of the housing stock and other land and buildings, and their constituent components, used in the valuation of the housing stock and other land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to dwellings and other land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

We are satisfied that investment properties have been appropriately assessed as Level 2 or Level 3 on the fair value hierarchy for valuation purposes and valued at fair value, based on highest and best use.

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c) Allowance for non-collection of receivables

We are satisfied that the impairment allowances for non-domestic rates, housing rent and sundry debt arrears are reasonable, based on collection rate data.

d) Non domestic rates appeals provision

We are satisfied that the provision recognised for non-domestic rates appeals is materially correct, and the calculation of historical appeals are consistent with those advised to me by the Valuation Office Agency. We confirm that the successful rates applied to outstanding appeals as at 31 March 2019 are consistent with our knowledge of the business.

Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards

Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each member and member has taken all the steps that they ought to have taken as a member of the Corporation in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Peter Kane
Chamberlain of London
[date]

FOR MORE INFORMATION:

Leigh Lloyd-Thomas

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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Report to the Audit and Risk Management Committee

CITY OF LONDON PENSION FUND

Audit Completion Report: Year ended 31 March 2019

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WELCOME

Introduction

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We have pleasure in presenting our Audit Completion Report to the Audit and Risk Management Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2019, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Risk Management Committee. At the completion stage of the audit it is essential that we engage with the Audit and Risk Management Committee on the results of our audit of the financial statements comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit and Risk Management Committee meeting and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

This report contains matters which should properly be considered by the Corporation as a whole. We expect that the Audit and Risk Management Committee will refer such matters to the Corporation, together with any recommendations, as it considers appropriate.

We would also like to take this opportunity to thank the management and staff of the Pension Fund for the co-operation and assistance provided during the audit.

Leigh Lloyd-Thomas

11 July 2019



Leigh Lloyd-Thomas
Engagement lead

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Audit Manager

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. This report has been prepared solely for the use of the Audit and Risk Management Committee and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

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This summary provides an overview of the audit matters that we believe are important to the Audit and Risk Management Committee in reviewing the results of the audit of the financial statements of the Pension Fund for the year ended 31 March 2019.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.



Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters, we anticipate issuing our opinion on the financial statements for the year ended 31 March 2019 in line with the agreed timetable.

Outstanding matters are listed in the appendices.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

Audit report

We anticipate issuing an unmodified audit opinion on the financial statements.

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Final materiality

Final financial statements materiality was determined based on 1% of the value of investments in the net assets statement. Specific materiality on the fund account was based on 5% of contributions.

We have increased our materiality from the planning materiality of £9.8 million to £10.6 million as a result of increase in valuation of investment asset at year end.

There were no changes to final specific materiality from that reported in our audit plan.

Material misstatements

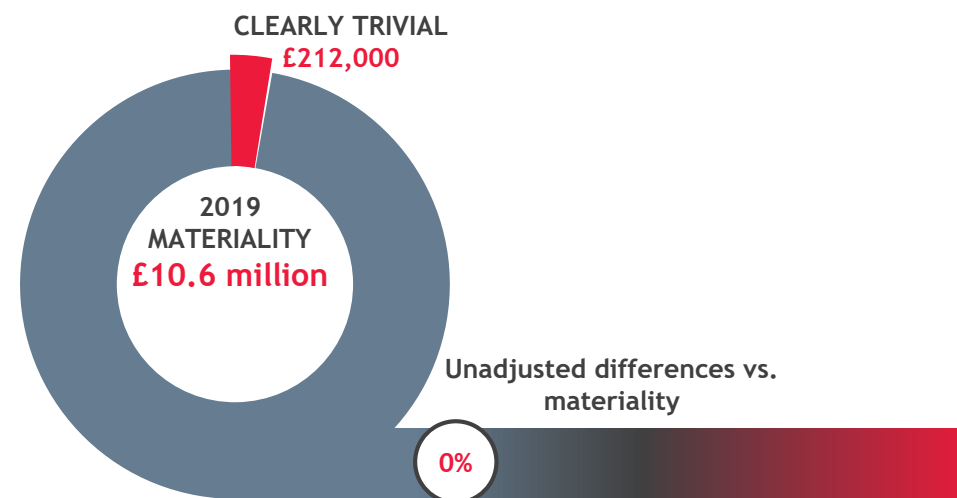
We identified one material misstatement in the disclosure for the actuarial value of promised future benefits that was understated by £12.9 million in respect of liability arising from the McCloud age discrimination judgment.

No adjustments were required to the Fund Account or Net Asset Statement.

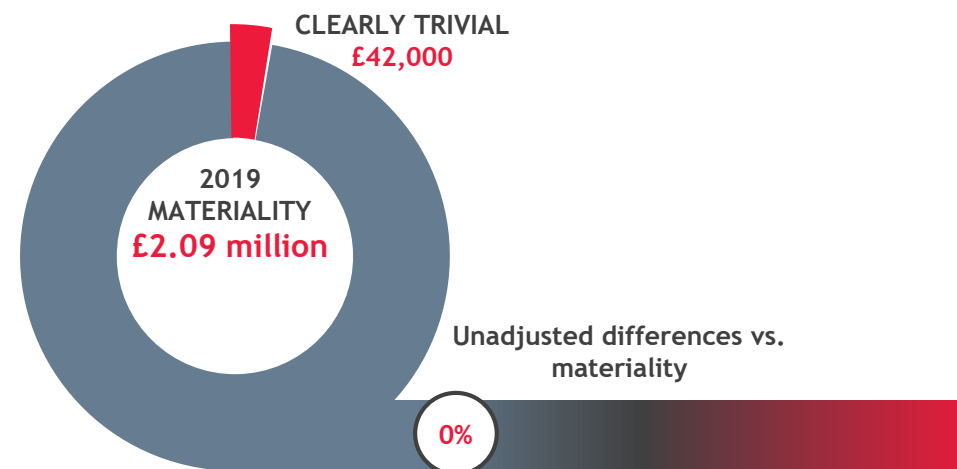
Unadjusted audit differences

We did not identify any audit differences.

Financial statements
overall materiality



Fund Account
specific materiality



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Financial reporting

- We have not identified any non-compliance with accounting policies or the applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.
- Going concern disclosures are deemed sufficient.
- The pension fund annual report is consistent with the financial statements and our knowledge acquired in the course of the audit.

Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Pension Fund in accordance with the Financial Reporting Corporation's Ethical Standard.



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AUDIT RISKS OVERVIEW

As identified in our Audit Plan dated 28 February 2019 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Estimates or Judgement	Use of Experts Required	Error Identified	Significant Control Findings	Discussion points / Letter of Representation
Management override of controls	Significant	No	No	No	No	No
Pension liability valuation	Significant	Yes	Yes	Yes, adjusted	No	Impact of McCloud liability on actuarial value of future promised benefits
Valuation of investment assets	Normal	No	Yes	No	No	No
Related party transactions disclosure	Normal	No	No	No	No	No
Pension contribution	Normal	No	No	No	No	No
Pension benefits payable	Normal	No	No	No	No	No

Areas requiring your attention

[1] Amendment arises as a result of the Government being refused leave to appeal and therefore this issue needs to be considered by an Employment Tribunal. This confirms the constructive obligation arising from the decision of the High Court in January 2019.

MANAGEMENT OVERRIDE OF CONTROLS

ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.

Risk description

The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.

Under auditing standards there is a presumed significant risk of management override of the system of internal controls.

Work performed

We carried out the following planned audit procedures:

- Reviewed and verified large and unusual journal entries made in the year and agreeing the journals to supporting documentation; and
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias.

Results

Our audit work to date on journals and estimates did not identify any issues.

We have not found any indication of management bias in accounting estimates. Our views on significant management estimates are set out in this report.

We have identified no significant or unusual transactions to date which we consider to be indicative of fraud in relation to management override of controls.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

PENSION LIABILITY VALUATION

There is a risk that the membership data and cash flows provided to the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Significant risk

Normal risk

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant Control Findings

Letter of Representation point

Risk description

The pension fund is required to report the pension liability for estimated promised future benefits for the whole fund.

An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate is based on the roll forward of membership data from the 2016 triennial valuation exercise, updated at 31 March 2019 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

Work performed

We carried out the following planned audit procedures:

- Assessed the qualifications and competence of the actuary;
- Reviewed the controls for providing accurate membership data to the actuary;
- Checked whether any significant changes in membership data have been communicated to the actuary;
- Agreed the disclosures to the information provided by the actuary; and
- Reviewed the reasonableness of the assumptions used in the calculation against other actuaries and other observable data.

Results

We have agreed the disclosures to the information provided by the actuary and identified no issues.

Our review of the controls to ensure data provided to the actuary for the roll forward valuation at 31 March 2019 is complete and accurate did not identify any issues. We have identified differences in the cash flow information sent to the actuary as at month 10 plus two months estimates to the actual final figures for the year. We did not consider these to be significant differences.

Management confirmed there has been no significant changes in the membership data.

Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted in the following page.

PENSION LIABILITY VALUATION 1

Significant estimate - LGPS pension liabilities

Whole scheme pension liabilities (£1,721 million)

< lower valuation

> Higher valuation

The pension liability has increased from £1,627 million to £1,721 million. The increased liability includes £80 million arising from changes to financial assumptions including annual salaries increases of 3.9% (previously 3.8%), annual pension increases of 2.4% (previously 2.3%), and a change in the rate of discounting scheme liabilities to 2.4% (previously 2.55%). It also includes a gain on demographic assumptions of £45 million arising from reduced mortality assumptions of approximately 0.6 years as increases in life expectancy have stalled in recent years.

We have compared the key financial and demographic assumptions used to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO.

	Actual used	Acceptable range	Comments
Financials:			
- RPI increase	3.4%	3.40 - 3.45%	Reasonable
- CPI increase	2.4%	2.40 - 2.45%	Reasonable
- Salary increase	3.9%	3.10 - 4.35%	Reasonable (CPI +0% to 2020 and then CPI +1.5%)
- Pension increase	2.4%	2.40 - 2.45%	Reasonable
- Discount rate	2.4%	2.35- 2.45%	Reasonable
Commutation:	50%	50%	Reasonable
Mortality:			
- Male current	24.5 years	22.4 - 25.0	Reasonable
- Female current	26.1 years	25.0 - 26.6	Reasonable
- Male retired	23.2 years	20.6 - 23.4	Reasonable
- Female retired	24.6 years	23.2 - 24.8	Reasonable
Mortality gains	CMI 2018 (+1.5% improvement rate)		Reasonable

We consider that the assumptions and methodology used by the actuary are appropriate, and will result in an estimate of the net pension liability which falls within a reasonable range.

We note that the consulting actuary has stated that the assumptions used by Barnett Waddingham do tend to produce slightly lower LGPS liabilities calculations than the other actuaries, and the relative strength of assumptions compared to the average used by others could result in a liability being at 98.2% based on average of the assumptions used by all actuaries.

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PENSION LIABILITY VALUATION 2

Significant estimate - McCloud impact

McCloud age discrimination

Following the ruling on age discrimination in the McCloud case, where members approaching retirement age received protected benefits moving to the career average relevant earnings scheme from the final salary scheme but employees more than 10 years from retirement did not receive this underpin of benefits, Government will have to remedy the discrimination in the LGPS and police pension schemes.

For the LGPS, the Government Actuary Department has undertaken an LGPS-wide impact assessment and a worse case scenario suggests that the liability could increase by up to 3.2% for active members where the remedy would be for all staff to receive the underpin, and using a model with an average member age of 46 and salaries increasing at +1.5% above CPI.

Management has obtained an updated whole fund valuation of the liability to take account of the impact of this ruling. This suggests that the pension liability could increase by £12.9 million (0.7% of total liabilities).

We are still in the process of reviewing the actuary's assumptions and calculation of the best estimate of potential additional costs and scheme liabilities arising from the McCloud judgement.

We will provide an update to the Committee upon completion of this work.

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There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

The investment portfolio across the funds includes unquoted infrastructure, private equity holdings and pooled investment vehicles (held through unit trust). The unquoted infrastructure funds and private equity funds are valued by the General Partner or fund manager using valuations obtained from the underlying partnerships and investments. The valuation of other funds are provided by individual fund managers and reported on a monthly basis.

Valuations for private equity are provided at dates that are not coterminous with the Corporation's year end and need to be updated to reflect cash transactions (additional contributions or distributions received) up to 31 March. There is a risk that private equity investments valuations may not be appropriately adjusted to include additional contributions or distributions at the year end.

There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.

Work performed

We carried out the following planned audit procedures:

- For unquoted infrastructure and private equity investments, we obtained direct confirmation of investment valuations from the General Partner or fund manager and requested copies, where applicable, of the audited financial statements of the underlying partnerships (and member allocations). We have confirmed that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds;
- For pooled investments, we obtained direct confirmation of investment valuations from the fund managers and agreed independent valuations, where available, provided by the custodian; and
- Obtained independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.

Results

We agreed all valuations to fund manager reports. However, we noted that the valuation of the Carnegie fund manager differed to that provided by the custodian valuation due to differences in exchange rate used. The Carnegie valuation had applied a £:\$ exchange rate of 1.299 whereas the custodian had used 1.303 resulting in the custodian reporting a lower valuation by £323,000. The pension fund has used the valuation provided by the custodian. We confirmed the quoted value of the Carnegie funds at year-end on Bloomberg with only a trivial difference between the quoted market value and custodian's valuation.

We have obtained direct confirmation of investment valuations from the fund managers and agreed published fund manager valuations, where available, to readily available observable data such as Bloomberg.

RELATED PARTY TRANSACTION DISCLOSURE

There is a risk that related party disclosures are not complete and accurate.

Risk description

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management and the Audit and Risk Management Committee.

There is a risk that related party disclosures are not complete, accurate or properly disclosed.

Work performed

We carried out the following planned audit procedures:

- Reviewed management processes and controls to identify and disclose related party transactions;
- Reviewed relevant information concerning any such identified transactions;
- Discussed with management and review members' and management declarations to ensure that there are no potential related party transactions which have not been disclosed; and
- Undertook Companies House searches for potential undisclosed interests.

Results

Our testing has not identified any issues with the disclosure of related parties transactions.

Significant risk
Normal risk
Significant management judgement
Use of experts
Unadjusted error
Adjusted error
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There is a risk that the Corporation or other admitted and scheduled employers may not be calculating contributions correctly or paying over the full amount due to the pension fund.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

Employers are required to deduct amounts from employee pay based on tiered pay rates and to make employer contributions to the pension fund in accordance with rates agreed with the actuary. Additional contributions are also required against pension strain for early retirements.

There is a risk that the Corporation or other admitted and scheduled employers may not be calculating contributions correctly or paying over the full amount due to the pension fund.

Work performed

We carried out the following planned audit procedures:

- Tested amount payable by employers / receivable by the pension fund for normal contributions including checking to employer payroll records;
- Confirmed that income is recognised in the correct accounting period where the employer is making payments in the following month;
- Tested pension strain contributions due from employers;
- Agreed total contributions payable by the Corporation (as employer) to the amounts received in the pension fund; and
- Reviewed contributions income in accordance with the Actuary's Rates and Adjustments Certificate, including specified increased rates to cover the minimum contributions to be paid as set out in the Certificate.

Results

Our testing has not identified any issues with the calculation of normal contributions receivable from employers or employees.

We identified in the prior year that pension strain costs payable for unreduced pension benefits for early retirement of employees was accounted for on a cash basis. Management has confirmed that this is now accounted for on an accrual basis when the capital cost is due.

Our testing has not identified any issues with the timings of contributions receivable to the fund.

PENSIONS BENEFITS

There is a risk that pension benefits payable may not be correct or paid to non-existent member.

Risk description

There is a risk that pension benefits payable may not be correct based on accrued benefits of members or may not be in calculated in accordance with the scheme regulations.

Payment to wrong or non-existent members will result in loss of assets and risk of reputational damage.

Work performed

We carried out the following planned audit procedures:

- For members leaving the scheme and deferring their pension and members becoming entitled to receive pension during the year, we checked a sample of calculations of pension entitlement;
- Checked the correct application of annual pension uplift for members in receipt of benefits;
- Tested a sample of pensioners in receipt of pensions to underlying records to confirm the existence of the member and also review the results of the checks undertaken by ATMOS on the existence of pensioners;
- Reviewed the results of the latest National Fraud Initiative data matching exercise of members in receipt of benefits with the records of deceased persons and what actions have been taken to resolve potential matches; and
- Cross checked payments to movements in the membership statistics.

Results

We did not identify any issues regarding the accuracy and existence of pension benefits.

Our test did not identify any issues regarding the existence of pensioners.

Significant risk	
Normal risk	
Significant management judgement	
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OTHER MATTERS

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
Audit fees incorrectly disclosed in the accounts.	We noted that 2018/19 audit fees was incorrectly disclosed in the accounts. Management has agreed to amend this in the financial statements.
Presentation and missing disclosures in the accounts	Our review of the draft accounts identified a number of presentational and other missing disclosures. Management has agreed to amend the financial statements.

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Fraud

Whilst the Chamberlain and members have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud.

We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Plan on 12 March 2019.

Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

Internal audit

We reviewed the audit work of the Corporation's / internal audit function to assist our risk scoping at the planning stage.



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REPORTING ON OTHER INFORMATION

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
We are required to report on whether the financial and non-financial information in the annual report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are satisfied that the other information in the annual report is consistent with the financial statements and our knowledge.

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SIGNIFICANT DEFICIENCIES

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit and Risk Management Committee.

As the purpose of the audit is for us to express an opinion on the Pension Fund’s financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We have not identified any significant deficiencies.

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OVERVIEW

Opinion on financial statements

We anticipate issuing an unmodified opinion on the financial statements.

There are no matters that we wish to draw attention to by way of ‘emphasis of matter’.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Pension Fund’s ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

Other information

We have not identified any material misstatements that would need to be referred to in our report.

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INDEPENDENCE

Under ISAs (UK) and the FRC’s Ethical Standard we are required, as auditors, to confirm our independence.

Under ISAs (UK) and the FRC’s Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2019.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

We have not identified any relationships or threats that may reasonably be thought to bear on our objectivity and independence.

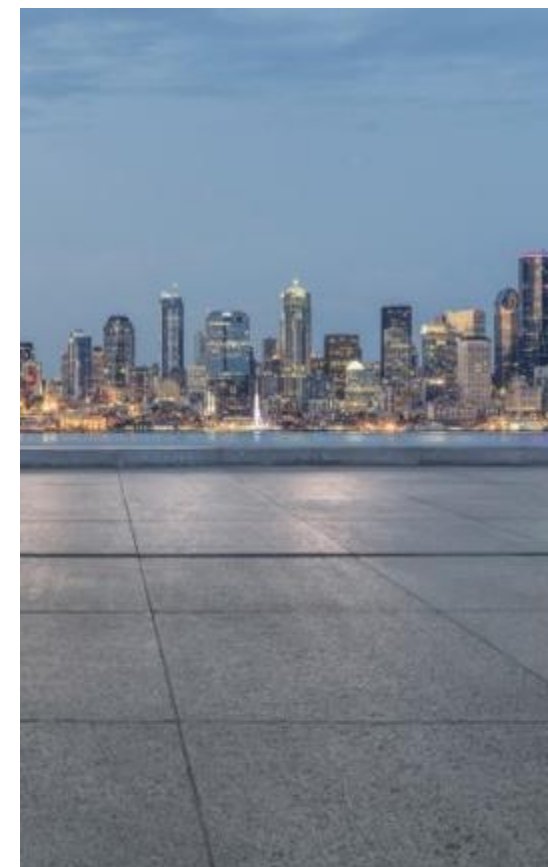
We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC’s Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Pension Fund.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC’s Ethical Standard and are independent of the Pension Fund.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

FEES

Fees summary	2018/19	2018/19	2017/18
	Actual	Planned	Actual
	£	£	£
Audit fee			
Code audit fee	15,000	15,000	21,000
Total fees	15,000	15,000	21,000



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RESPONSIBILITIES AND REPORTING

Responsibilities and reporting

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members of the Corporation.

We read and consider the ‘other information’ contained in the Statement of Accounts such as the Annual report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

What we don’t report

Our audit is not designed to identify all matters that may be relevant to the Pensions Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.



ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

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COMMUNICATION AND REPORTS ISSUED

Those Charged with Governance (TCWG)

References in this report to those charged with governance are to the Corporation as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit and Risk Management Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Plan	23 February 2019	Audit and Risk Management Committee
Initial Audit Completion Report	11 July 2019	Audit and Risk Management Committee
Final Audit Completion Report	(31 July 2019)	Audit and Risk Management Committee

OUTSTANDING MATTERS

We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2019.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Audit and Risk Management Committee meeting at which this report is considered:

1. Clearance of outstanding issues on the audit queries tracker currently with management. The key items on the tracker are:
 - Remaining journals sample
 - Unreconciled bank balance
 - Proof of receipt of strain cost income
2. Manager, Partner and Quality Control review, and clearance of review points
3. Final review and approval by you of the financial statements
4. Technical clearance
5. Subsequent events review
6. Management letter of representation to be approved and signed



AUDIT REPORT

To follow

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AUDIT QUALITY

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BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Corporation's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

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BDO LLP
55 Baker Street
London
W1U 7EU

Dear Sirs

Financial statements of City of London Pension Fund for the year ended 31 March 2019

We confirm that the following representations given to you in connection with your audit of the Pension Fund’s financial statements for the year ended 31 March 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Corporation.

The Chamberlain has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Pension Fund as of 31 March 2019 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Pension Fund, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Pension Fund’s financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Pension Fund have been made available to you for the purpose of your audit and all the transactions undertaken by the Pension Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

[Client name and Letter headed paper]

Going concern

We have made an assessment of the Pension Fund’s ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Pension Fund is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in note xx to the financial statements are sufficient.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Pension Fund’s ability to continue as a going concern.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the Pension Fund’s business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

We have not made any reports to The Pensions Regulator nor are we aware of any such reports having been made by any of our advisers. We confirm that we are not aware of any matters which have arisen that would require a report to The Pensions Regulator. There have been no communications with the Pensions Regulator or other regulatory bodies during the year or subsequently covering areas of non-compliance with any legal duty.

Post balance sheet events

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

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Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

You have not advised us of any unadjusted misstatements in the financial statements or other information in the Annual Report.

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

There were no loans, transactions or arrangements between the Pension Fund and the members or their connected persons at any time in the year which were required to be disclosed.

The disclosures in the financial statements concerning the Administering Authority of the Pension Fund are accurate.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.

Accounting estimates

The value at which investment assets are recorded in the net assets statement is the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuations, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the scheme. Any significant changes in those values since the year end date have been disclosed to you.

None of the assets of the scheme has been assigned, pledged or mortgaged.

The following key assumptions have been used to calculate the actuarial present value of future pension benefits disclosed in the financial statements:

- Rate of inflation (CPI): 2.4%
- Rate of increase in salaries: 3.9%
- Rate of increase in pensions: 2.4%
- Rate of discounting scheme liabilities: 2.4%
- Commutation take up option: 50%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

We consider these assumptions to be appropriate for the purposes of estimating the pension liability in accordance with the Code and IAS 19 and IAS 26.

Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

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Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each member and member has taken all the steps that they ought to have taken as a member of the Corporation in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Peter Kane
Chamberlain of London
[date]

FOR MORE INFORMATION:

Leigh Lloyd-Thomas

t: 020 7893 2616

e: leigh.Lloyd-thomas@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

BDO is an award winning UK member firm of BDO International, the world's fifth largest accountancy network, with more than 1,500 offices in over 160 countries.

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Committees: Audit and Risk Management – For decision	Dates: 16-07-2019
Subject: Bridge House Estates Annual Report and Financial Statements 2018/19	Public
Report of: The Chamberlain	For decision
Report author: Karen Atkinson, Head of Charity and Social Investment Finance, Chamberlain's Department	

Summary

The latest version of the Annual Report and Financial Statements for Bridge House Estates (BHE) for the year ended 31 March 2019 are attached at Annex 1 for approval. These reflect changes agreed with BDO LLP, our external auditors. This report is presented to Audit & Risk Management for approval in line with the original schedule.

BDO will be submitting their audit management report at this meeting. The audit fieldwork has been progressing well however, due to the current status of their work, BDO have requested that the Audit Panel review meeting be postponed from its original date of 15th July. At this stage, it is anticipated that an unqualified opinion will be issued.

The key points to highlight are:

- The funds of the charity are split between the permanent endowment fund (£907.5m) and unrestricted income funds (£587.3m), with total funds (net assets) held being £1,495.0m – an increase of £99.2m or 7.1% on the previous year;
- The net surplus for the year of £99.2m includes gains on financial investments of £39.1m and on property investments of £69.6m;
- A key transaction in the year was the disposal of the long leasehold of 1-5 London Wall Buildings (LWB) for £97.1m;
- Subsequent to the year-end, the charity is close to completion on the purchase of a property on Chiswell Street, EC1 for £36.4m, utilising some of the above proceeds. It further expects to complete on the sale of the freehold of 185 Tower Bridge Road for £5.6m.

BDO commenced its audit on 17 June, a month earlier than the prior year audit began. This is the first year of their appointment to audit BHE.

The audit work remains in progress as this report is written. No significant issues have been raised to date and no material misstatements have been identified within the work undertaken. At the time of writing the Audit Panel is yet to meet, with a revised date to be agreed. The Panel meeting will be followed by the provision of formal feedback to the Chamberlain. Representatives of the auditors

will be in attendance at the Audit and Risk Management Committee to present their report.

Recommendations:

The Audit and Risk Management Committee are asked to:

- Consider the contents of the audit management report issued by BDO (Annex 2);
- Recommend approval of the BHE Annual Report and Financial Statements for the year ended 31 March 2019 to the Finance Committee; and
- Delegate authority to the Chamberlain, in consultation with the Chairman and Deputy Chairman of the Audit and Risk Management Committee, for approval of any material change to the financial statements required before the signing of the audit opinion by BDO.

Main Report

Introduction

1. The 2018/19 Annual Report and Financial Statements for BHE for the year ended 31 March 2019 are presented for review.
2. The Charity Commission require charities to submit their accounts within 10 months of their financial year-end, however good practice expects charities to submit their reports earlier than this deadline. As a significant charity within the sector, BHE looks to demonstrate good governance in making available its annual report on a timely basis. The audit work commenced in line with the original timetable agreed with our auditors, however the Audit Panel Review planned for 15th July has now been postponed. Our auditors, BDO, will be providing a verbal update to this Committee on the status of the audit.
3. Approval of each year's annual report and financial statements has been delegated by the Court of Common Council to the Finance Committee.

Statement of Financial Activities

4. Income for the year came to £43.1m, an increase of £0.5m (1.2%) on the previous year. The income for the charity includes that generated by Tower Bridge tourism activities, up by 4.6% to £6.8m, alongside income from investment properties, increasing by £0.3m to £31.5m. Income arising from financial investments that are held on a non-pooled basis reduced in the year to £2.9m. Note that the MSCI benchmark data is yet to be released for 2018/19, with details on pages 18 – 19 of the Annual Report to be completed when this is available.
5. Expenditure totalled £52.8m, being £0.5m below that of 2017/18 although with the constituent parts varying as described below. Each heading includes an allocation of the underlying support costs for the charity, as recharged by the City Corporation, alongside the costs of governance. These totalled £6.1m (17/18: £5.2m). Governance costs have increased in the year due to the review being undertaken of the charity.
6. Cost of raising funds totalled £21.5m, covering expenditure relating to the Tower Bridge tourism operations alongside those for managing the financial and property investments of the charity, an overall increase of £0.6m in the year. When comparing these costs to the total income generated, it is important to note that BHE income does not include an amount for dividend/interest income generated by financial investments held, due to the charity holding pooled investments. The change in value of these holdings is reflected as growth within the balance sheet, with capital gains of £39.1m reported in 2018/19 (2017/18: £10.8m).

7. Charitable activities include costs attributable to the repair and maintenance of the 5 Thames Bridges, the prime activity of the charity, with £6.6m spent this year (17/18: £5.6m). The level of costs in this area is planned to increase over the coming months due to the repainting of Blackfriars takes place. Funds have been set aside within the Bridges Repairs designated fund to manage this peak of activity. The activities of City Bridge Trust (CBT), the ancillary object of the charity, cover those for grant-making, philanthropy and social investment. Costs in year totalled £24.1m, compared to the record high spend level of £26.1m in the previous year. Members will recall that 17/18 commitments included several high value grants approved under the 20th Anniversary programme, alongside the next 3-year instalment of £3m to The Prince's Trust. Bridging Divides, CBT's new funding policy, was launched in April 2018. With this came a revision in the funding criteria which now includes the provision of five-year grants and increased core funding.
8. Net gains on investment properties and financial investments totalled £108.6m (2016/17: £64.5m), split between properties £69.6m, financial investments £39.1m, with a small unrealised loss on social investments of £0.1m.
9. The above gains on investment properties included realised gains of £13.7m, following the sale of a long leasehold of 1-5 London Wall Buildings for £97.125m. The proceeds of this sale were held as short-term deposits as at year-end, awaiting re-investment in either newly identified properties, or to fund refurbishments of currently held properties – in line with the BHE Estates Strategy. Note that of the proceeds, £17m was returned to the unrestricted income fund to repay funds advanced for the earlier refurbishment of 21 Lime Street.

Balance Sheet

10. The Balance Sheet presents the increase in total funds held by the charity of £99.2m, resulting in a new total of £1,495.0m. This has been driven by the gains noted above. Total funds held comprise:
 - a. the permanent endowment fund at £907.5m, held in perpetuity to generate sufficient returns to support the five river bridges, with any income surplus above that required for the charity's principal object to be utilised by CBT in line with their approved funding policy;
 - b. the unrestricted income fund at £587.3m, being net of the pension deficit of £12.1m. An element of the unrestricted income fund has been designated for agreed purposes, as noted in section 11 below;
 - c. a restricted fund of £0.2m held at the year-end, being a contribution to a specific programme being undertaken by CBT.
11. Designated funds consist of unrestricted income funds which the Trustee has decided to set aside for specific purposes over the short to medium term. These total £183.5m, with key funds being:

- a. Bridges Repair Fund - representing the funds required to maintain the bridges for the next 5 years, being the higher of the average annual cost over the 50-year plan or the next 5 years forecast activity;
 - b. Bridges replacement fund - this is based upon the present value of estimated future costs, adjusted for forecast increases in construction costs. Following a detailed review undertaken by a firm of structural engineers, the amount held has been reduced to reflect a longer time period before replacement is required for each structure. Further analysis is now to be undertaken of the whole life maintenance costs to establish when the best time to replace each bridge would be. The results of this analysis will inform the future balance to be held within this fund;
 - c. Grant-making fund - representing the annual income surplus to that required for the primary object of the charity (to maintain and support the five bridges) and which may be applied for future funding activities undertaken by CBT in accordance with the Bridging Divides strategy. At present, the Trustee has allocated £100m to be spent over the 5-year life of the current strategy, with one-fifth of this transferred into this fund each year;
 - d. Social Investment fund – the balance represents the amount available to finance social investments, which includes the original £20m allocation alongside the net returns generated to date over the life of this fund.
12. Designated funds total £183.5m (17/18: £189.8m), leaving free reserves as being £403.8m (17/18: £374.4m). Consideration continues to be given to an appropriate level of free reserves to maintain going forward, with the further analysis on the whole life maintenance costs of the bridges, referred to in para 10(b) being key to this decision. The possibility of creating an 'Income Generation' designated fund will form part of this review, should it be recognised that the permanent endowment fund is not currently of a value to generate sufficient income for the future operations of the charity.

Allocation of Pension Scheme Costs & Deficit – McCloud Judgement

13. As stated within the report on the City Fund Financial Statements, the BHE Pension Liability excludes the impact of the recent McCloud judgement. This case relates to action being brought against the Government by members of the Judges' and Firefighter pension schemes challenging the transitional protections given as part of pension reforms enacted in 2015.
14. In December 2018 the Court of Appeal ruled that the transitional protections were unlawful. On 27 June 2019, the Supreme Court refused the Government's request to appeal.

15. The likely impact of this decision is an increase in the liabilities in all public sector pension schemes, which will also impact upon the recharge made to BHE for staff that work on behalf of the charity. The scale of the impact will only be known when the Government confirms its response to the judgement. It is not clear when this decision will be made. The BHE accounts has disclosed this issue within subsequent events. We are in discussions with BDO and our actuary regarding potential changes to the accounts required to reflect this judgement. An update will be provided at your Committee with the latest position on this issue.

Audit Progress and Opinion

16. BDO commenced its audit on 17 June. At the time of writing this report the audit work is still underway, with the Audit Panel is yet to meet. No significant issues have been raised to date and no material misstatements have been identified. It is anticipated that the audit will be concluded satisfactorily to enable BDO to issue an unqualified opinion. Representatives from BDO will be in attendance at the Audit and Risk Management Committee to present their report, update on the status of the audit and to clarify any points or issues.

Conclusion

17. The original timetable was for BDO to sign its audit opinion later this month. Plans are currently being reconsidered to ensure that the audit is concluded on a timely basis. Should any material adjustments to the financial statements be required before that position is reached; it is recommended that authority to approve such amendments should be delegated to the Town Clerk in consultation with the Chairmen and Deputy Chairmen of the Audit and Risk Management and Finance Committees.
18. The Charity Commission require charities to submit their accounts within 10 months of their financial year-end, however good practice expects charities to submit their reports earlier than this deadline. Copies of the published annual report and financial statements will be placed in the Members' Reading Room. A designed version of the report will be made available online and submitted to the Charity Commission. The final management report from BDO on its audit will be presented to the Court of Common Council for information.

Contact:

Karen Atkinson, Head of Charity and Social Investment Finance

T: 020 7332 1395

E: karen.atkinson@cityoflondon.gov.uk

Annex 1: Annual Report and Financial Statements for Bridge House Estates

Annex 2: BDO's Report to the Audit & Risk Management Committee



Annual Report
and Financial Statements
for the year ended 31 March 2019

Charity registration number 1035628

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Overview of the Year

Bridge House Estates (BHE) is proud to safeguard and maintain five of London's bridges: from tourism to traffic, the bridges play a key role in establishing London as an iconic capital. As well as planning for their long-term maintenance, preservation and replacement, much current refurbishment is in train; from Blackfriars Bridge and its parapets, to re-waterproofing London Bridge and the whole southern approach of Southwark Bridge.

Safety - as ever - remains a key concern; the bridge team continue to work closely with the Metropolitan Police and Transport for London to ensure they are meeting the requirements to keep the city safe, whether it be from terrorism, floods or natural disasters.

It has been a fantastic year for Tower Bridge – now approaching its 125th anniversary. One of London's most popular attractions, last year it enjoyed another outstanding year of tourism: resulting in a 10% rise on visitors and an increased turnover. This is due to a constantly evolving and innovative tourist and cultural offer, new merchandise, including locally produced and high-end ranges. The Bridge continues to attract more and more schools each year, and thanks to Autism Friendly events and improved access, we were able to welcome even more people with additional needs.

For the City Bridge Trust (CBT), BHE's charitable funding arm, the past year has been one of considerable uncertainty. Brexit negotiations dominated the Governmental agenda, without resolution. London's voluntary and community sector is at the frontline of this uncertainty, which is adversely affecting civil society organisations and the people they serve. This, combined with the impact of austerity and Local Government cuts, means charities are also seeing increased and more complex demands for their services.

In this climate it is essential that BHE and its historic endowment remain a stable anchor for Londoners, alleviating inequalities here in London through its social investment fund and distributing at least £20m each year through CBT.

In 2018/19 CBT's grant spend reached £21.9m, funding organisations working for a London where all individuals and communities can thrive. CBT's commitment to provide at least £80m over the next four years will provide London's charitable sector with a degree of certainty and security.

Whilst honouring the history and stability of BHE, considerable efforts have been made to keep the charity relevant to modern London. The review of the charities governance and strategy is continuing to ensure BHE is a model of good practice. CBT have listened to the voices of the charities they fund and increased the duration of the funding it awards from three years to five to allow greater stability for our grantees, whilst also giving greater focus to core grants.

2018/19 was a year where climate change remained top of the news and political agenda. In particular the impact of poor air quality is better understood. London is particularly affected, and it is estimated that at least 360 primary schools are in areas exceeding safe legal pollution levels. Thousands of Londoners die prematurely each year due to the poor air quality. CBT has therefore supported 13 charities in London to get greener through its Eco Audits programme and has introduced Care for the Environment as an overarching theme in its new Bridging Divides programme.

Another topical issue this year was knife-crime and gang violence in London. CBT funded several initiatives to tackle this, most notably an award to the Greater London Authority (GLA) towards the Mayor's £45 million Young Londoners Fund. This scheme is supporting a range of education, sport, cultural and other activities for young Londoners, helping them to fulfil their potential, and targets those at risk of getting caught up in crime. In addition, Youth Services infrastructure was supported, helping to protect these services and the organisations which deliver them.

We feel very proud of the support and stability that we continue to provide in this wonderful city, from our bridges, to underpinning the most vulnerable people through our charitable grants.

Origins of the charity

The origins of Bridge House Estates can be traced back to 1097 when William II, second son of William the Conqueror, raised a special tax to help repair London Bridge. By the end of the twelfth century, the shops and houses adorning Peter de Colechurch's new stone London Bridge were beginning to generate not only increased cross-river trade, but also increased taxes, rents and bequests. A significant fund began to accumulate, administered from a building on the south side of the bridge called Bridge House. Over succeeding centuries this fund has been administered by the City of London Corporation ('the City Corporation') as Trustee.

The Bridge House Estates mark has been the identifying emblem of the charity for many centuries. It is likely that the 'bridge mark' as we know it today was designed by William Leybourn, a famous seventeenth century surveyor. Leybourn is thought to have adapted a similar mark drawn against plots owned by Bridge House Estates on an earlier plan of St George's Fields, London.

The work of Bridge House Estates now reaches out across London in many important and diverse ways:

The River Bridges

The maintenance and support of five of the bridges that cross the Thames into or by the City of London – Tower Bridge, London Bridge, Southwark Bridge, Blackfriars Bridge and Millennium Bridge is the primary objective of the charity. They are gateways to the City of London and require sustained investment and expert care.

Blackfriars Bridge - Blackfriars Bridge was originally built between 1760-1769 and was known as 'Pitt Bridge' after William Pitt the Elder. This structure was replaced between 1860-1869 with a design by Joseph Cubitt of five wrought iron arches faced with cast-iron, on granite piers. The decorations include ornithological sculptures surmounting the granite columns on each cutwater, archaded cast iron parapets and enormous attached columns in red granite with Portland stone capitals. The sculptures depict land birds on the landward side of the bridge and sea birds on the side facing the sea. Queen Victoria opened the bridge in 1869.

Millennium Bridge – As the first new pedestrian bridge to be built across the Thames for over a century, Millennium Bridge links the City of London at St Paul's Cathedral with the Tate Modern Gallery at Bankside. Funded by the charity and the Millennium Commission, the 'Blade of Light' is a 325 metre steel pedestrian bridge, conceived by Sir Anthony Caro and built by Ove Arup and Foster Associates under the project management of the London Borough of Southwark and subsequently transferred to the charity to own and maintain.

Southwark Bridge - Originally built between 1814-1819, Southwark Bridge was purchased by the charity in 1868. The City of London had been trying to obtain control since 1827 to catch criminals escaping to Southwark, outside its jurisdiction! It was replaced between 1912-1921 with a design by Sir Ernest George and Basil Mott and comprises five steel arches with granite cutwaters and piers.

London Bridge - The first stone bridge across the Thames was built between 1176-1209 and replaced between 1823-1831. The current bridge was built between 1967-1972 and designed by the City Engineer, Harold Knox King with architects Mott, Hay & Anderson and William Holford & Partners. Made of concrete with polished granite, the Bridge has three spans founded on concrete piers fixed deep into the river clay. It was opened by Her Majesty, The Queen in 1973.

Tower Bridge - Designed by the Victorian architect Sir Horace Jones, the City Architect, in collaboration with Sir John Wolfe Barry, Tower Bridge was opened in June 1894 after eight years of construction. It is a working bascule suspension and girder bridge, constructed as a steel frame clad in stone and granite in Gothic style to complement the neighbouring Tower of London. Under the Corporation of London (Tower Bridge) Act 1885, the City Corporation is required to raise the Bridge to provide access to and egress from the Upper Pool of London for registered vessels with a mast or superstructure of 30 feet or more. The service is provided free of charge subject to 24 hours' notice and is available any time, day or night, 365 days per year. The City Corporation ensures that the Bridge, a designated Grade 1 listed building, is properly maintained and protected as part of the nation's heritage.

As a world-famous icon of London, Tower Bridge enables tourists to have access to the internal areas of the Bridge, with a public exhibition having been in place since 1982. The exhibition showcases the Victorian architecture, engineering and also the original Victorian Engines used to power the lifting of the Bridge. The operational and tourism activities at Tower Bridge are managed by the Trustee on behalf of the charity.

The Grant-Making and Other Charitable Activity of City Bridge Trust

After the responsibilities relating to the bridges have been met, the charity can use any surplus income for the provision of transport for elderly and disabled people in Greater London and for other charitable purposes for the general benefit of the inhabitants of Greater London, further to a scheme agreed with the Charity Commission in 1995. This scheme enables the charity to work through its charitable funding arm, City Bridge Trust, for a fairer London through tackling disadvantage. CBT works collaboratively to meet the charity's ancillary objectives through three key areas of activity, namely:

- Grant-making;
- Social investment; and
- Encouraging philanthropy.

Further information on the activities of CBT is available at www.citybridgetrust.org.uk

Trustee's Annual Report

Structure and Governance

Governing Instruments

Bridge House Estates is a charity governed by various instruments which are listed below. In March 1994 it was registered with the Charity Commission.

Founders	By various bequests over the centuries
Governing Instruments	A Royal Charter of 24 May 1282
	The Blackfriars Bridge Act 1863
	The Blackfriars and Southwark Bridges Act 1867
	The Corporation of London (Tower Bridge) Act 1885
	The Corporation of London (Bridges) Act 1911
	The City of London (Various Powers) Act 1926, section 11
	The City of London (Various Powers) Act 1949, section 13
	A supplemental Royal Charter of 26 November 1957
	The City of London (Various Powers) Act 1963, section 32
	The London Bridge Act 1967
	The City of London (Various Powers) Act 1979, section 19
	The Charities (Bridge House Estates) Order 1995 (S.I.1995/1047)
	An Order of the Charity Commission sealed 10 July 1997 (350.97)
	An Order of the Charity Commission sealed 20 July 1998 (251.98)
	The Charities (Bridge House Estates) Order 2001 (S.I.2001/4017)
	The Charity Commission Scheme dated 26 August 2005
	The Charities (Bridge House Estates) Order 2007 (S.I. 2007/550)

Governance Arrangements

The Mayor and Commonalty and Citizens of the City of London (also referred to as 'the City Corporation' or 'the City of London Corporation'), a body corporate and politic, is the trustee of Bridge House Estates. The City Corporation is trustee acting by the Court of Common Council of the City of London in its general corporate capacity and that executive body has delegated responsibility in respect of the administration and

management of this charity to various committees and sub-committees of the Common Council, membership of which is drawn from the 125 elected Members of the Common Council and external appointees to those committees. In making appointments to committees, the Court of Common Council will take into consideration any particular expertise and knowledge of the elected Members, and where relevant, external appointees. Members of the Court of Common Council are unpaid and are elected by the electorate of the City of London. The key committees which had responsibility for directly managing matters related to the charity during 2018/19 were as follows:

Policy and Resources Committee - responsible for allocating resources, administering the charity, and for determining the investment strategy between property and financial investments.

Investment Committee - responsible for the strategic oversight and monitoring of the performance of the charity's investments which are managed by three separate sub-committees, namely the Financial Investment Board, the Property Investment Board and the Social Investment Board.

Finance Committee - responsible for controlling budgets, support costs and other central charges that affect the charity as a whole.

Planning and Transportation Committee - responsible for the maintenance and upkeep of the bridges with the exception of the tourism operation at Tower Bridge.

Culture, Heritage and Libraries Committee - responsible for the tourism operation at Tower Bridge.

The City Bridge Trust Committee - responsible for reviewing and approving individual grants to voluntary organisations up to the value of £500,000 and otherwise for other charitable expenditure under the Bridging Divides Strategy. Funding commitments above £500,000 are agreed by the Court of Common Council, on recommendation of this committee.

All of the above committees are ultimately responsible to the Court of Common Council of the City of London. Committee meetings are held in public, enabling the decision making process to be clear, transparent and publicly accountable.

Details of the membership of Committees of the City Corporation are available at www.cityoflondon.gov.uk

The trustee believes that good governance is fundamental to the success of the charity. The comprehensive review of governance which commenced in 2017/18 is ongoing ensuring that the charity is effective in fulfilling its objectives. Reference is being made to the good practices recommended within the Charity Governance Code throughout this review.

Organisational structure and decision making process

The charity is administered in accordance with its governing instruments and the City Corporation's own corporate governance and administration framework, including Committee Terms of Reference, Standing Orders, Financial Regulations and Officer Scheme of Delegations. These governance documents can be obtained via a request to the email address stated on page 62.

Each Member by virtue of their membership of the Court of Common Council, its relevant committees and sub-committees, has a duty to support the City Corporation in the proper exercise of its functions and in meeting its duties as trustee of the charity by faithfully acting in accordance with charity law, the Terms of Reference of the relevant committee or sub-committee, and the City Corporation's agreed corporate governance framework as noted above backed up by its standards regime.

Induction and Training of Members

The City Corporation makes available to its Members, seminars and briefings on various aspects of its activities, including those concerning the charity, to enable Members to carry out their duties efficiently and effectively. The City Corporation has the Investor in People accreditation which is an external validation of the approach to valuing and developing the skills of both Members and staff who may be involved in administering and managing the charity.

Objectives and activities

The objectives of the charity are the support and maintenance of Tower Bridge, London Bridge, Southwark Bridge, Blackfriars Bridge and Millennium Bridge. After these responsibilities are met, any surplus income to that which can be usefully applied in accordance with the subsisting trusts in any given year is applied for the provision of transport for elderly and disabled people in Greater London and for other charitable purposes for the general benefit of the inhabitants of Greater London in accordance with a policy settled by the Trustee following consultation.

Public benefit statement

The Trustee confirms that it has referred to the guidance contained in the Charity Commission's general guidance on public benefit when reviewing Bridge House Estates' aims and objectives and in planning future activities. The five river bridges maintained and supported by the charity are available to the general public on an open access basis. Regarding grant-making activities of the charity and other support for the charitable sector undertaken under the name 'City Bridge Trust', the Trustee awards grants at its discretion to address disadvantage across London's diverse communities and provides more general support to the charitable sector through various strategic initiatives. This process is based upon published criteria, and an analysis of need in consultation. The charity utilises a transparent and fair assessment process and ensures that a robust monitoring system is in place to establish the public benefit derived from each grant approved alongside the other activities of the charity.

Consequently, the Trustee considers that Bridge House Estates operates to benefit the general public and satisfies the public benefit test.

Reference and administrative details

The administrative details of the charity are stated on page 62.

Achievements and Performance

The Bridges

This year, the bridges have continued to play host and neighbour to two major projects: The Illuminated River Project and the Thames Tideway Tunnel. Now with both on site, the team have been working very closely with the projects in order to ensure that the construction activities do not have any detrimental impact on our bridges from structural, functional and heritage perspectives.

The work on the Thames Tideway Tunnel at Blackfriars Bridge has continued to expand over the last year as the project prepares for the arrival of the Tunnel Boring Machine from the west in 2020. Investigative and enabling tasks on site this year has involved working directly underneath Blackfriars Bridge in preparation for the construction of the new permanent foreshore structures to be installed in the coming years. The bridges team have been working extensively with the project to ensure Blackfriars Bridge is continually monitored and protected in all ways throughout this process.

The Illuminated River Project has now started on site with London Bridge, Southwark Bridge and the Millennium Bridge included in the first phase of the project. Once again, the team have been working closely with the contractors as they transform the appearance of this eclectic mix of modern and heritage structures with light. The quantity and complexity of the lighting equipment is far higher than has ever been placed on the bridges and so it has been essential to ensure that the structures can continue to work both functionally and aesthetically.

Work to start the refurbishment of Blackfriars Bridge, including the refurbishment of the parapets has continued to develop. However, the challenge of how to secure access to the bridge to carry out the work whilst other major projects are on site, has caused delay. The project is due to be tendered this summer with a flexible approach to ensure that the best solution for protecting the bridge is developed. Research is being undertaken to investigate the possible use of innovative paint technology to minimise the colour degradation from ultraviolet light across the bridge.

This year, the scheme to re-waterproof London Bridge and replace its end bearings has continued to develop. However, having waited for availability of road space following Network Rail's refurbishment of London Bridge station, the works have been subject to further delay caused by essential gas works planned in the City. These works will push this project back to the spring of 2020 so that appropriate diversion routes are available.

Extensive work was successfully completed to re-waterproof Park Street Bridge (part of the Southwark Bridge southern approach) and install new drainage to preserve the life of the structure. With lessons learned from the work carried out as part of this, and taking benefit from the delay to London Bridge, a wider project to re-waterproof the whole southern approach of Southwark Bridge is being progressed for the summer of 2019.

The bridges team have also continued to work with the Metropolitan Police to facilitate and require them to maintain the Hostile Vehicle Mitigation barriers which were placed on the bridges following on from the 2017 terrorist attacks. This was especially essential on the Tower Bridge North Approach where the gullies became blocked causing significant flooding during heavy rainfall. The team also participated in Transport for London's Threat and Vulnerability Assessments for our bridges along with Police and security advisors, and we await the output from these reviews.

Work was commissioned and undertaken during the year regarding the potential long-term replacement plans of the bridges, alongside consideration of ongoing maintenance requirements. This work has fed into consideration in the year of the designated reserves required for both replacement and maintenance of our bridges, as considered on page 23 of this report.

Tourism at Tower Bridge

The iconic architecture and engineering of Tower Bridge are showcased to the public in the form of a paid visitor attraction within the historic structure, offering panoramic views from the high-level walkways of Wapping, Canary Wharf and Greenwich to the east of the City and central London skyline to the west. Steam machinery which originally powered the Bridge is preserved, curated and on display as a key element of the attraction, and in addition, glass flooring panels installed in 2014 continue to attract visitors, providing a unique aspect of the roadway, the river and the Bridge raising to allow the movement of river traffic directly beneath. Additional income generating activities for the charity include on site and online retail sales, venue hire charges, catering commissions and filming activities.

Tower Bridge experienced a record year in 2018/19, with numbers of visitors and turnover representing 10% and 6% respective increases on the previous year. The Bridge received excellent feedback within the tourism sector, achieving consistently positive reviews from visitors and a Trip Advisor ranking of 4th (as of April 2019) among all London visitor attractions.

The Bridge achieved a rating of Excellent (93%) in the annual assessment by Visit England as part of their Visitor Attraction Quality Assurance Scheme, and for an unprecedented second year in a row it was awarded a Visit England Gold Accolade, which recognises attractions "where the visitor experience is of the highest quality". Of 1,000 participating attractions, only 16 Gold Accolades were awarded in 2018, with only 2 of these located in the Capital.

The positive performance of the Bridge as an attraction in 2018/19 was attributable to the continuous development of the visitor offer, including improvements to its ticket office and particularly the growth of tourism retail, with income for the onsite gift shop having grown by 15% in comparison with the previous year. The Bridge's retail provision was recognised at the 2018 National Museums and Heritage Awards, achieving the title of 'Best Gift Shop with turnover exceeding £500,000'. Efforts were dedicated in 2018 to pursuing partnership commissioned publications, with positive

results: an authoritative book was created in partnership with Thames & Hudson in light of the Bridge's upcoming 125th anniversary, and 'The Tower Bridge Cat' won the 2019 Association of Cultural Enterprise's Best Product Award in the category of 'Best Children's Publication'.

Following redevelopment of the Engine Rooms in 2017, the overhaul of all visitor content within the Bridge's towers in April represented the second phase of Tower Bridge's long-term interpretation development plan. Housed in the North and South towers, the new displays commemorate and celebrate the human stories and social heritage of the Bridge. Included in this new content were stories and images of the teams of divers who dug out the Bridge's foundations during its construction (these men earned up to £10 per minute in 1890) and insights into the lives of the engineers, architects and workmen who designed and built Tower Bridge.

A new identity for Tower Bridge as a visitor attraction launched in June, which focused on its architectural and engineering heritage, in line with the new content which relays the Bridge's history through personal stories. This overhaul included a new logo, signage, marketing campaigns, uniforms, and also included the removal of the word 'Exhibition' from the attraction name, with the aim of making the visitor experience and the Bridge itself synonymous in terms of public perceptions. This has been well-received by visitors to date.

After maintaining the Sandford Award for Heritage Education, the Tower Bridge formal learning programme continued to attract new and repeat school visits in 2018/19. The completion of a new accessible Learning Centre in the Bridge's south tower in March 2019 provides a modern and high-quality facility for visiting schools and community engagement organisations as the Bridge's learning provision continues to grow.

Autism Friendly events, involving opening the attraction earlier than usual, were well-attended and facilitated on a monthly basis throughout 2018/19. After a successful trial period, the Special Educational Needs and Disability offer at Tower Bridge has been further embedded with a tailored, multi-sensory guided tour for schools as well as an outreach workshop session delivered by the dedicated learning team. The Bridge also participated in national and local initiatives throughout the year, such as Engineering Open House Day and London History, leading to greater engagement with families and schools and increased general awareness through key national and London-based publications.

The cultural profile of Tower Bridge was also developed further in 2018/19 with its second Artist in Residence programme, including meaningful engagement with the Bridge's learning offer and local school groups. The initial stage of the residency saw the appointed data artist Imogen Piper focus on research, delving into the historical, cultural, geographical and physical entanglement of Tower Bridge within London and the world. From Bridge Lifts, to visitor numbers, vehicle crossings and pedestrians, Piper explored the data behind Tower Bridge to inform her final piece of art, on display to visitors in the Engine Rooms since November 2018.

Public-ticketed performances of a set of original musical compositions again took place over the penultimate weekend in September in the Bridge's Bascule Chamber

space for the Totally Thames Festival. This year's creative offering included the work of disabled musicians and performers and special technologies were employed to enable this, given the naturally restrictive and inaccessible nature of the operational space. Positive feedback was received from ticket holders and a good level of publicity was achieved in mainstream, national and specialist media.

Tower Bridge maintained its profile in 2018/19 as a globally recognised symbol of London and a key part of the Capital's transport infrastructure. It was raised almost 700 times to allow Thames river vessels safe access to and egress from the Pool of London, positive progress was made with regard to illegal trader enforcement in association with the City Corporation's Department of Markets and Consumer Protection, and the Bridge's security planning, protocols and facilities were further developed throughout the year.

Performance indicators for 2018/19

	Target 2018/19	Actual 2018/19	Actual 2017/18
Visitor numbers to Tower Bridge	820,000	862,696	785,315
Visitors to second part of the Exhibition: Engine Room:	80%	72%	80%
No. of pupils participating in Education Programme	3,500	3,975	3,023
Visit England VAQAS Score	90%	93%	91%
	£	£	£
Admissions income	4,102,000	4,367,647	4,174,840
Retail income	1,179,000	1,498,267	1,305,981
Venue hire	858,000	916,478	945,706

Activities of City Bridge Trust

At the heart of Bridge House Estates lies its charitable commitment to improving the lives of Londoners: City Bridge Trust (CBT). CBT is proud to be London's biggest independent grant maker. As it sits right in the centre of the private, voluntary and government sectors, it has the distinctive vantage point of being able to convene, understand and serve the needs of all those working to create a thriving capital city, where no one gets left behind.

For almost 25 years, CBT has worked to reduce inequality and support London's communities. 2018 was an especially important year: a new strategy was launched – *Bridging Divides*. The creation of this exciting new strategy gave CBT and its partners the space to re-consider the increasingly complex social problems it tackles - how to approach them and how to use its power and partnerships to make positive change happen. *Bridging Divides* is pan-London and places increased focus on early interventions that tackle the root causes of poverty, inequality, need and

disadvantage. CBT will continue to work collaboratively with partners across civil society, public and private sectors to deliver this ambitious strategy.

Since its inception in 1995, CBT has awarded more than 8,000 grants, totalling more than £400m. During the financial year 2018/19, CBT exceeded its annual £20m target, giving £21.9m across Greater London to 213 different projects, ranging from tackling knife crime, to supporting the LGBTQ+ community and enabling employment opportunities for some of the capital's most marginalised people.

As well as grant-making, CBT will continue to use its unique convening power to develop London as a global hub for Philanthropy and Social Investment.

Strategic Initiatives

During 2018/19, nineteen strategic initiatives were funded totalling £3.1m. These initiatives add value to the grants portfolio by increasing CBT's learning and by contributing to the wider policy arena. They covered a wide range of issues, although throughout the year several common themes emerged.

Youth Services

Projects targeting children and young people were prioritised, reflecting the growing concern across London at the rise in youth violence and knife crime. Specific projects included:

- Two awards totalling £420,000 to the Federation of London Youth Clubs to help youth organisations improve services for young people in London;
- Greater London Authority were awarded £300,000 towards the costs of commissioning charitable organisations to provide sub-regional networking and multi-agency co-ordination of projects under the Young Londoners Fund;
- Centre for Youth Impact received £60,000 to support London-based youth organisations measure their impact better;
- Partnership for Young London, an umbrella body that provides advice and support to other organisations receiving Young Londoners Fund grants, was awarded £180,000 to improve their impact.

More Than Just Funding

- As part of the Bridging Divides programme, CBT worked innovatively with our grantees to improve and develop their resilience in a climate of political and financial uncertainty. A total grant of £560,000 was awarded to the Cranfield Trust to continue its Strive programme, providing management consultancy support to around 420 organisations;
- Locality and Cranfield Trust were each provided with a grant of £150,000 to carry out a 'diagnosis' of grantees' needs and then connect them up with a suitable provider of support services.

Prisoners and Ex-Offenders

CBT funded several initiatives and projects supporting prisoners and ex-offenders. These included:

- Hosting a seminar aimed at funders to discuss how to support the most vulnerable in the criminal justice system, particularly women and young people;
- Women In Prison received £446,000 to cover the cost of a Programme Manager and 4 part-time Specialist Advocates across London;
- Prisoners Abroad received £233,300 towards their resettlement fund, supporting destitute British citizens returning to London after imprisonment overseas.

The Prince's Trust

A strategic 10-year partnership with The Prince's Trust entered its fourth year following a successful review in 2017/18. This partnership continued to engage hundreds of young people across London in activities and programmes providing positive outcomes and increased opportunities. Projects covered three main themes:

- Strengthening Education Support;
- Developing Employment Opportunities; and
- Delivering a London Police Forces Project.

Anniversary Programmes

Employability – Bridge to Work

Following the award of grants totalling £2.62m in 2017/18, this initiative, which supports young disabled Londoners into employment, has made significant progress in this past year. Reporting on the first 12 months of the project has shown that to date 82% of participants have experienced a positive outcome, with 28% progressing into paid employment; 41% going into further training or education; and 13% moving on to other programmes.

A full evaluation report on the first year of the Bridge to Work programme will be published in 2019/20.

Also agreed in 2017/18, an award of £1.24m to the Centre for Mental Health focuses on individuals who have experienced mental health issues and require specialist individual support, tailored to their diagnosis to enable them to re-enter the workplace. During the first full year of this project, working in two London Boroughs, the organisation reported that they were exceeding all targets with over four times the expected number of people starting the programme. Of these, the target for the number of individuals since moved into employment has been exceeded by 70%.

Infrastructure Support and The Way Ahead

In the context of scarce resources and uncertainly for many civil society organisations, CBT has continued to support The Way Ahead programme, which seeks to put Londoners at the very heart of how their services are delivered. CBT will work collaboratively with civil society, public sector bodies and funders to improve their infrastructure and ability to continue delivering their services.

To enable this, CBT established The Cornerstone Fund, to support the strategic development of the infrastructure underpinning London's civil society in partnership with other funders and key stakeholders. Following the allocation of £3m in 2017/18,

a total of £990,995 was distributed during the year through a two-stage application process.

The first stage of funding was launched alongside the Bridging Divides programme, and invited applications from organisations wishing to work collaboratively to build more resilient communities. A panel of aligned funders¹ reviewed the initial applications and recommended that eleven development grants be awarded – with CBT then going on to approve three of these to receive stage two grants: H4All, Race on the agenda and British Refugee Council.

As part of the Cornerstone Fund Programme, our funding partners also awarded grants: John Lyons Charity to the London Village Network and the National Lottery Community Fund to HEAR Equality and Human Rights Network.

CBT was delighted that the Greater London Assembly awarded £175,000 to The Cornerstone Fund. This was in the spirit of collaboration, to help build our joint understanding of the challenges, opportunities and impact of these types of initiatives.

Responsive grant-making

Whilst around 20% of the grant-making budget is available for Strategic Initiatives as outlined above, most of the funds allocated are used for responsive grant-making to charitable organisations reaching the most disadvantaged people in London.

The new Bridging Divides programme has the following priority areas:

- Connecting the Capital;
- Positive Transitions; and
- Advice and Support.

Along with the above programmes, CBT also revised their funding criteria to include the provision of five-year grants, increased core funding for organisations, and small grants of up to £10,000 for groups with an income of less than £75,000 per year.

Following the opening of these programmes to applications in April 2018, the first grants were awarded in September 2018. This was because CBT prioritised those requests already received under its previous 'Investing in Londoners' programmes.

Grants awarded during the year included:

- Baobab Centre for Young Survivors in Exile were awarded £123,000 towards their specialist therapeutic mental health interventions for young asylum seekers and refugees in London;
- Beat, an eating disorder charity, received £254,600 for support to young Londoners. This helped them begin specialist treatment earlier, which is shown to improve the chances of successful recovery;
- Polka Children's Theatre was awarded £100,000 towards a £6.5m refurbishment project which will make this unique venue in the London Borough of Merton fully accessible for all visitors;

¹ Comprising National Lottery Community Fund, Trust for London, John Lyons Charity, Greater London Authority and London Councils

- Clink Charity, which aims to reduce re-offending by providing prisoners with training in catering, hospitality and horticulture, received a grant of £105,000. This award will fund a Support Worker based in High Down Prison, providing additional advice and mentoring to help clients find and maintain long-term employment after they are released;
- Kalayaan, an organisation which supports vulnerable migrant domestic workers in London and campaigns for their rights, received £288,100. This award will pay for an Immigration Lawyer, allowing them to provide expert advice and information to their client group;
- Age UK Bexley were awarded £90,000 for its 'Men in Sheds' project for older men to socialise and learn new skills through creative woodwork workshops; and
- Women's Environmental Network Trust received £110,600 towards the cost of the Tower Hamlets Food Growing Network which brings together and promotes food growing projects in the borough.

Social Investment

The Social Investment Fund represents the designation of £21.4m from the charity's unrestricted income funds, which are to be invested for a financial return as part of the charity's balanced investment portfolio, but focuses solely on markets that achieve social impact.

Since its inception in 2012 the Social Investment Fund has committed a total of £18m and achieved a return of 4.3% (gross) on invested capital. During the year, the Fund bought retail charity bonds from Golden Lane Housing (£0.45m), to enable people with learning disabilities to live independently and provided a bridging loan to Dartington Hall Trust (£3m) to support the charity with development plans. These brought the total funds invested at the end of 2018/19 to £13.2m with a further £2.1m either committed but not yet placed or subject to agreement of terms.

During 2018/19, two investments were refinanced, a five-year fixed rate bond to Greenwich Leisure Limited to continue Olympic legacy work and other projects consistent with its social aims; and a £0.5m fixed rate loan to HCT Group, to increase transport opportunities to those with disability or in poverty.

In 2018/19 CBT held the fifth round of the "Stepping Stones Fund", an award-winning social investment readiness facility. This programme, which continues to be delivered in partnership with UBS, is open to charitable organisations, social enterprises and not-for-profit companies working in Greater London. Twelve grants totalling £429,240 were awarded to organisations tackling a range of social issues, including homelessness, elderly social care and unemployment. These latest awards brought the total number of Stepping Stones grants to 77, with a value of over £3.2 million. CBT and UBS have re-opened Stepping Stones to new applicants on a rolling basis from April 2019.

In recognition that a gap exists between the programme and the size of investments available from the charity's Social Investment Fund, CBT launched a follow-on loan scheme for Stepping Stones grantees in partnership with the Clothworkers' Foundation and UBS.

Philanthropy

Over the Centuries, philanthropy has played a major part in City life, with the very existence of Bridge House Estates partly originating from Londoners donating money to “God and the Bridge”. Today, millions of pounds are raised and distributed each year by City businesses, the Livery Companies and the Mayoralty. However, there remains a huge potential for additional giving within the City and London in general whether through the giving of money, time, skills or assets.

CBT and its Trustee, the City Corporation, therefore jointly appointed a Philanthropy Director in 2017 to develop a cross cutting strategy for CBT and the City Corporation. The strategy was approved in the summer of 2018 and is focused on ensuring that individuals and communities, especially those experiencing marginalisation, thrive as a result of higher impact and higher value philanthropy. An implementation plan was approved in February 2019.

Whilst the consultation for and development of the strategy and implementation plan have been underway, CBT has played an active role in promoting high impact and high value philanthropy through sponsoring the launch of the Centre for London’s strategic review of giving in London: ‘More, better, together’, engaging with the Global Donors Forum’s first London conference and, together with the City Corporation and consultants Corporate Citizenship, supporting the development of research into the levels of giving by financial and professional service firms. Work is also underway to scope the potential of developing a physical space with a working title of ‘Philanthropy House’ in which to co-locate organisations specialising in philanthropy and social investment.

Property Investment

Bridge House Estates has an income driven investment property fund which is held within its permanent endowment fund, comprising of assets located primarily in the City of London and the London Borough of Southwark with one building in the West End and a small estate in Lewisham. The fund is predominately comprised of offices, with the majority of the remainder of the properties being a mix of office and retail uses within each building. There are 72 assets within the fund of which some 40% are ground leases. Due to their unique nature, including properties beneath or adjacent to the bridges, 12 of these assets are not benchmarked alongside the rest of the portfolio, however these are externally valued annually.

The objectives, as stated within the Investment Policy on page 24, are to maximise rental income and to outperform the MSCI Benchmark (Greater London Properties including owner occupied) total return on an annualised 5-year basis. The rental income has been maximised in accordance with the business plans for each asset and the property fund [outperformed] the relevant benchmarks on an annual basis ([] % versus MSCI benchmark of []% and MSCI universe of []%) and on an annualised 5-year basis as detailed below. The underlying value of the property portfolio decreased by £27.0m (3.5%) to £739.3m following the sale of a long lease of 1-5 London Wall Buildings for £97.125m in December 2018. This receipt is included within the total return figures. The performance of the fund is depicted in the table below:

	31 March 2019	31 March 2018
Capital Value	£739.3m	£766.3m
Gross Rental Income	£31.5m	£31.8m
5-year annualised Total Return	[]%	15.4%
Benchmark 5-year annualised Total Return	[]%	13.9%
MSCI Universe (All UK Property) 5-year annualised Total Return	[]%	11.1%

Within the portfolio the key achievements during the year were as follows:

- The sale of a long lease of 1-5 London Wall Buildings for £97.125m with proceeds to fund future acquisitions and refurbishment projects;
- Planning permission for the refurbishment of Candlewick House, Cannon Street;
- Completion of joint sale agreement with Transport for London and London Borough of Southwark to allow marketing of a long lease of Colechurch House, SE1;
- Terms agreed for re-gear of the head lease of 160 Blackfriars Road to allow for an office and hotel development (subject to planning permission);
- 32,000 sq ft of new lettings have completed at a total rent of £770,000 per annum;
- 17 rent reviews have completed totalling an annual rent uplift of £990,500 per annum.

Plans for future periods

The vision for the next year across the activities of the charity includes:

The Bridges - over the coming year, both the Thames Tideway Tunnel and the Illuminated River projects will continue to develop and interface directly with the bridges. The bridges team will continue to work closely with both projects to provide technical approval and ensure that the assets are protected. With the launch of the first phase of the Illuminated River Project due in the summer of 2019, there will be a focus on London, Southwark and Millennium.

The inquest into the London Bridge terror attack will take place during 2019. As owner and maintainer of the bridge, we are an Interested Party, statements have been prepared and staff have been called as witnesses.

We will also be commissioning the next contract for our Consultant Engineer for the Inspection of the bridges and the provision of engineering advice, which is again proposed as a six-year commission to reflect the inspection cycle of the bridges.

Tower Bridge Tourism - plans for the coming year for the tourism activities at Tower Bridge include:

- Celebrate Tower Bridge's 125th Anniversary with a year-long activities, events and publicity programme;
- Complete the final stage of the Interpretation Plan in overhauling the visitor experience in the Walkways;
- Implement the second phase of the Bridge's new commercial identity and seek comprehensive feedback and evaluation;
- Positively develop the Bridge's cultural profile via Artist in Residence and Bascule Chamber programmes;
- Revisit the potential for secure entrance/exit facility at the South Tower.

Activities of City Bridge Trust - over the next 12 months CBT will continue to implement its Bridging Divides strategy. This will include developing its Funder Plus offer to grantees, and further work on learning and impact, working closely with its appointed learning partner.

CBT will launch a second Call for Ideas around Responding to the Resilience Risk. This responds directly to the growing need to develop the resilience of frontline workers in the voluntary sector.

Following a governance review, CBT will appoint two Co-opted Members to its committee, ensuring that it has the broad range of skills and experience necessary to deliver its mission of reducing inequality across London.

The Social Investment Fund will explore refining its investment strategy to allow for closer alignment with CBT's grant-making focus. The Stepping Stones Fund will also be relaunched as a continuous rolling programme.

In the year ahead, in order to implement the Philanthropy Strategy, we will analyse our current philanthropy data and practices to better understand what we are currently doing and what we could do better. We will understand much more about the resourcing, networks and expertise required to maximise our philanthropic potential and develop a plan to achieve this longer term. We will forge a range of strategic partnerships with key actors on the global philanthropic stage and have plans in place to maximise our collective potential to raise awareness of, and drive up engagement with, high impact and/or high value philanthropy in London, the UK and internationally.

Property investments - key activities planned within the investment property fund for 2019/20 include:

- Maximise the price achieved from the sale of a long lease of Colechurch House, SE1;
- Complete the acquisition of head leaseholds and any new investments where opportunities arise, utilising proceeds received from 1-5 London Wall Buildings, with a view to increasing income across the portfolio;
- Progress the refurbishment of Candlewick House, Cannon Street now planning permission has been achieved;
- Complete the lease to WeWork of Electra House and progress the refurbishment of Tower Chambers, both located on Moorgate.

Financial Review

Overview of financial performance

Income

In 2018/19, the charity's total income for the year was £43.1m, an overall increase of £0.5m against the previous year (£42.6m).

The income derived from the various activities at Tower Bridge reached record levels in 2018/19. The continuous development of the charity's visitor attraction, including the retail and events offer, has seen income from charitable activities increase to £6.8m (2017/18: £6.5m).

Investment income is driven by the rental income earned from the property portfolio, which is currently all held within the endowment fund. For 2018/19, property income totalled £31.5m an increase of £0.3m against the previous year (2017/18: £31.8m). This strong performance was supported by the inclusion of further collections of backdated rents. The majority of the financial investment holdings of the charity continue to be held on a pooled basis, with the income equivalent forming part of the movement in the value of assets held within the balance sheet. Income arising from financial investments held on a non-pooled basis is reported within the statement of financial activities at £2.8m for the year (2017/18: £3.9m). The balance of investment income includes earnings from the charity's social investment fund, together with interest received on money market deposit balances held.

Grant income of £0.2m was received in the year, restricted towards specific programmes administered by City Bridge Trust (2017/18: £nil).

Other income includes fees received by CBT to undertake grant administrative duties on behalf of other organisations. Within the current year a one-off amount was received relating to access to land owned by the charity, explaining the increase in this income area to £1m (2017/18: £0.2m).

Expenditure

Total expenditure for the year was £52.8m, being just £0.5m below the prior year total but with a different split between activities. All expenditure is unrestricted with the exception of £0.6m (2017/18: £0.3m) of costs attributable to the maintenance of the capital value of the endowment.

Within the above total, expenditure on raising funds increased by 2.9% to £21.5m (2017/18: £20.9m). This amount covers the costs of managing the charity's investment property portfolio plus the fees attributable to the financial investments held, alongside expenditure relating to the Tower Bridge tourism operations.

Charitable activities expenditure in the year totalled £30.7m (2017/18: £31.7m). £6.6m was spent on maintaining the five Thames Bridges in the year, an increase of £1.0m compared to the previous year. Much of the focus has been on working towards several projects due to take place over the coming months, which will incur higher levels of spend. Grant-making activities and related spend totalled £24.1m (2017/18: £26.1m), with spend now including grant commitments made under the new Bridging

Divides funding policy, adopted from April 2018. The reduction in new grant commitments of £2.5m to £21.9m (2017/18: £24.4m) reflects the one-off 20th Anniversary grants that were awarded in the previous year, now being actively managed by the team. The increase in the costs of administering grant-related activity includes the introduction of a new team structure within the year, alongside embedding the charity's philanthropy activities.

Other expenditure covers the net costs of the pension scheme for the staff of the City Corporation that work on behalf of the charity.

Overall Performance

The above activity levels in the year resulted in an overall operating deficit of £9.7m (2017/18: £10.7m deficit), prior to gains on investments. However strong performances have been delivered by both the property and financial investment portfolios, adding a further £108.6m to the assets of the charity.

Property investments held reported gains of £69.6m (2017/18: £53.6m), including a realised gain of £13.7m following disposals in the year. The long leasehold disposal of 1-5 London Wall Buildings in the year has resulted in an increase in short term financial investments held, as the charity progresses plans to reinvest the proceeds within the property portfolio. Financial investments achieved gains of £39.1m (2017/18: £10.8m). The social investment fund delivered a small unrealised loss of £0.1m (2017/18: £0.1m gain).

Under its delegated responsibility from the City Corporation as Trustee, the Financial Investment Board, as a sub-committee of the Investment Committee, set an absolute return target of CPI (Consumer Prices Index) plus 4% for the non-property investments, being 6.0% for 2018/19 (2017/18: target based on RPI +4%, being 7.3%). The fund achieved an overall return of 5.6% in the year (2017/18: 1.8%). Over the past three years and five years respectively, the fund has achieved an overall return of 7.7% and 6.6% per annum. This performance consists of both capital gains and in-year earnings retained across the various holdings, resulting in the overall gain in the year of £39.1m reported above.

During the year the charity completed the transition of £60.7m of financial investment assets from the Standard Life Global Absolute Return Strategy Fund to the Multi Asset Credit Fund, managed by CQS, alongside £50.0m of assets from the Wellington Global Value Equity Fund to the Baillie Gifford Global Alpha Growth Fund. Both transitions were undertaken to support the Charity's investment objectives.

Funds held

The charity's total funds held increased by £99.2m or 7.1% to £1,495.0m as at 31 March 2019 (2017/18: £1,395.8m) Within the total funds held, £907.5m represent permanent endowment funds which are held in perpetuity as a capital fund to generate income for the activities of the charity. Any income arising from this capital is accounted for within unrestricted funds. The permanent endowment is held to enable the charity to generate income to meet its primary objective of maintaining and

supporting the five river bridges across the Thames, with the remaining surplus income available to undertake the activities of City Bridge Trust.

Unrestricted income funds held include the general fund and a number of designated funds. The total unrestricted income fund was £587.3m as at 31 March 2019 (2018: £564.2m), net of £12.1m held to cover the pension deficit (2018: £11.8m).

The charity's designated funds consist of unrestricted income funds which the Trustee has chosen to set aside for specific purposes. Such designations are not legally binding and the Trustee can decide to "undesignate" these funds at any time. Designations as at 31 March 2019 totalled £183.5m (2018: £189.8m). £14.1m was transferred to the bridges repair fund in the year to meet the future maintenance costs of its five bridges, with £34.0m now set aside to cover costs planned over the next 5 years (2017/18: £19.9m). The increase provides for the expected higher costs of major projects planned for Blackfriars Bridge over the next few years. However the balance held within the bridges replacement fund was reduced by £18.9m to £104.6m (2017/18: £123.5m) in line with detailed analysis undertaken, as explained below. Detail of all designated funds, including their purpose, is set out within Note 23 to the financial statements.

A restricted fund of £0.2m (2017/18: nil) was held at year-end, being a contribution to specific programmes undertaken by CBT.

Reserves Policy

The permanent endowment funds are held in perpetuity. It is the Trustee's policy to invest the assets of the charity held within this fund to retain the real value of the endowment while also generating sufficient returns to fund the charity's primary objectives of maintaining and supporting the five river bridges, whilst preserving both the 'real' value of the asset base and the purchasing power of the sums available for annual expenditure over the long term

Any income surplus to that required to be applied to the charity's principal object is predominantly used to provide assistance in the form of grants to charitable organisations across Greater London. The level of funds available for grant awards is monitored and adjusted to ensure compliance with the policy to preserve the 'real' value of the asset base.

The charity is considering adopting a total return basis for its permanent endowment fund. With this approach, the Trustee decides each year how much of the total return within the endowment fund can be released to income for spending against the objectives and how much is retained for investment. Prior to adopting this approach, the charity will be maintaining a designated fund for bridge replacement out of its unrestricted income funds.

Reserve levels held as at 31 March 2019 are set out in Note 23. The charity holds free reserves of £403.8m (2018: £374.4m). Whilst the charity has undertaken modelling to consider the future costs of potential replacement of the five bridges, further analysis

continues to be required in relation to this complex area, with a focus on the appropriate timing. Alongside this analysis, consideration is being given as to whether the permanent endowment fund holds sufficient funds to enable the charity to undertake future activities at levels determined to meet its objectives. The creation of a designated 'income generation fund' will be considered during 2019/20. As a result of the above facts, following the reconstitution of the endowment fund in 2017/18, the trustee is continuing to consider a suitable level of free reserves to maintain on an ongoing basis.

Investment Policy

The charity's financial investments are invested in accordance with the powers set out in an Order of the Charity Commission dated 20 July 1998, the Trustee Act 1925, the Trustee Act 2000 and within its investment policy. The Order enables the charity to invest the property of the charity either:

- in the acquisition of any securities or property (real or personal) of any sort: or
- on deposit or loan whether in the UK or elsewhere.

The policy is to seek an absolute return over the long term in order to provide for real increases in annual expenditure, whilst preserving the charity's capital base in real terms. Investments are made by the charity's appointed fund managers in accordance with the above policy. The charity considers proactive engagement with the companies in which it invests to be the most effective means of understanding and influencing the social, environmental and governance policies of those companies. It expects investment managers to take steps to ensure that these factors are adequately addressed in the selection, retention and realisation of investments as far as such factors may affect investment performance. The City Corporation is committed to being a responsible investor and the long term steward of the assets in which it invests. The City Corporation has developed a Responsible Investment Policy which applies to the charity. During 2018/19, the City Corporation finalised its Statement of Commitment to the UK Stewardship Code and became a signatory to the Principles for Responsible Investment. Consideration is being given as to how the Trustee's general investment policies might have application to the charity.

Full details of the charity's Investment Policy are set out in the City Corporation's Investment Strategy Statement which is available from the Chamberlain of London, at the email address on page 62.

The performance of the charity's financial investments during the year is discussed on page 22 and set out in Note 15.

The property investments of the charity are managed within an approved Estates' strategy, which is reviewed in depth on a three-yearly basis. The strategic objectives of the property fund are to:

- Maintain and maximise rental income; and
- To outperform the MSCI Benchmark (Greater London properties including owner occupied) total return on an annualised 5-year basis.

The performance of the fund during 2018/19 is set out on page 19 and within Note 14.

Grant-making Policy

The charity has established its grant making policy to achieve its ancillary objects, as laid out on page 5, for the public benefit. In the name of The City Bridge Trust, its charitable funding arm, BHE considers and funds a large number of grantees and makes awards through a wide programme of funding schemes. The majority of grants are for revenue expenditure, awarded over 2–5 years.

All applications are assessed via a robust process to ensure that proposed activities for funding will be supported by adequate and appropriate resources and will be used only for activities that match the charity's criteria. Approved grantees are required to report annually on the impact of their work. Information is collected in a uniform and systematic way, enabling analysis and feedback to take place. The results of monitoring reports are used to assess the overall effectiveness of grant-making, along with a commissioned grantee perception survey providing benchmarking and performance data.

Details of how to apply for grants are available on the City Bridge Trust website – www.citybridgetrust.org.uk

Remuneration Policy

The charity's senior staff are employees of the City Corporation and, alongside all staff, pay is reviewed annually. The City Corporation is committed to attracting, recruiting and retaining skilled people and rewarding employees fairly for their contribution. As part of this commitment, staff are regularly appraised and, subject to performance, eligible for the payment of bonuses and recognition awards.

The above policy applies to staff within the charity's key management personnel, as defined within Note 12 to the financial statements.

Fundraising

Charities subject to the audit requirements of the Charities Act 2011 are required to include a statement in their annual report relating to fundraising activities. The charity is aware of these requirements and, as it does not undertake fundraising activity, has nothing to disclose under the provisions of section 13 of the Charities (Protection and Social Investment) Act 2016.

Principal Risks and Uncertainties

The charity is committed to a programme of risk management as an element of its strategy to preserve the charity's assets. In order to embed sound practice a Strategic Risk Management Group is in place to ensure that risk management policies are applied, that there is an on-going review of activity and that appropriate advice and support is provided. A key risk register has been prepared for the charity, which has been reviewed by the Trustee. This identifies the potential impact of key risks and the measures which are in place to mitigate such risks.

The principal risks faced by the charity, and actions taken to manage them are as follows:

Risk	Actions to manage risks
Appropriate returns from investment activities are not achieved to enable the charity to maintain its asset value and support its' charitable activities.	<p>Property investments The property portfolio is managed within an approved Estates' strategy, which is reviewed on a three-yearly basis. KPIs are in place to monitor and drive rental income, with a working group in place to review cyclical maintenance costs to ensure effectiveness.</p> <p>Financial investments Risk is reduced through the use of a range of fund managers implementing different investment mandates. The Financial Investment Board continually monitors individual fund manager performance. As a result, during the year two underperforming managers were replaced. Although BHE is a long term investor, the Trustee acts decisively where it believes a fund manager is unable to recover from poor performance.</p>
The outcome of Brexit negotiations has an adverse impact on the charity's income streams, on procurement and supply chains and on the recruitment and retention of staff.	<p>A close watching brief continues to be kept on the implications of events as they unfold, with risks being identified, assessed, mitigated and recorded.</p> <p>The risk of a reduction to property income is low in the short term with tenants tied to rental values in long lease agreements.</p> <p>Financial investments are mainly invested in pooled global securities and therefore have limited exposure to any potential deterioration or volatility in the FTSE Index.</p>
Structural damage to one of the bridges may cause it to become non-operational.	The City Surveyor's Department and Department of the Built Environment within the City Corporation work together, alongside other statutory bodies, to manage ongoing actions associated with this risk which includes potential structural damage as a result of issues such as a substantial vessel strike or through acts of terrorism. Possible impacts from the Thames Tideway tunnelling continue to be monitored. A 50-year maintenance plan is in place to manage on-going works.
Grant funding not used for its intended purpose.	Rigorous grants management and monitoring systems are in place which would pick up if a grant was being used for a different purpose. Grantees may also receive an unannounced visit during the life of their grant.

Trustee responsibilities

The Trustee is responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Charity law requires the Trustee to prepare financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under charity law the Trustee must not approve the financial statements unless the trustee is satisfied that they give a true and fair view of the state of affairs of the charity and of the incoming resources and application of resources, including the income and expenditure, of the charity for that period.

- In preparing these financial statements, the Trustee is required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

The Trustee is responsible for keeping adequate accounting records that are sufficient to show and explain the charity's transactions and disclose with reasonable accuracy at any time the financial position of the charity and enable the Trustee to ensure that the financial statements comply with the Charities Act 2011. The Trustee is also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial statements are published on the trustee's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the trustee's website is the responsibility of the trustee. The trustee's responsibility also extends to the ongoing integrity of the financial statements contained therein.

Adopted and signed for on behalf of the Trustee.

Jeremy Paul Mayhew MA MBA

Chairman of Finance Committee

Guildhall, London

Jamie Ingham Clark FCA, Deputy

Deputy Chairman of Finance
Committee

XX Month 2019

Independent Auditor's Report to the Trustee of Bridge House Estates

Opinion

We have audited the financial statements of Bridge House Estates ("the charity") for the year ended 31 March 2019 which comprise the Statement of Financial Activities, the Balance Sheet, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the charity's affairs as at 31 March 2019 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities Act 2011.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the charity in accordance with the ethical requirements relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions related to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the charity's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Trustee is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Charities Act 2011 requires us to report to you if, in our opinion;

- the information contained in the financial statements is inconsistent in any material respect with the Trustees' Annual Report; or
- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the Trustee

As explained more fully in the Responsibilities of the Trustee statement, the Trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to liquidate the charity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

We have been appointed as auditor under section 144 of the Charities Act 2011 and report in accordance with the Act[s] and relevant regulations made or having effect thereunder.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance

is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's ("FRC's") website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the charity's trustee, as a body, in accordance with the Charities Act 2011. Our audit work has been undertaken so that we might state to the charity's trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity and the charity's trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Fiona Condron (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
London

XX Month 2019

BDO LLP is eligible for appointment as auditor of the charity by virtue of its eligibility for appointment as auditor of a company under section 1212 of the Companies Act 2006.

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Report of the Audit Review Panel to the Right Honourable the Lord Mayor, Aldermen and Livery of the several Companies of the City of London in Common Hall assembled

We, whose names are hereunto subscribed, the Audit Review Panel of the Chamberlain's and Bridgemasters' Accounts, elected by the Livery of London in Common Hall assembled on 25 June 2015, 24 June 2016, 26 June 2017 and 25 June 2018 pursuant to Act 11, George 1, Cap. 18, an Act for regulating elections within the City of London, etc., do report as follows:-

We have reviewed the processes adopted by Moore Stephens LLP for the audit of the Bridge House Estates for the period from 1 April 2018 to 31 March 2019.

In our view the audit of the Financial Statements has been conducted in accordance with auditing procedures as stated on pages 28 to 30.

This report is made solely to the above named addressees. Our work has been undertaken to enable us to make this report and for no other purpose.

P. Dossett

A. Francis

P. Watts

Dated: XX Month 2019

The BDO City Corporation Engagement Lead, Leigh Lloyd-Thomas, is also a member of the Audit Review Panel. However, as the role of the Panel is to provide independent confirmation that the processes adopted by BDO LLP have been conducted in accordance with auditing procedures, it is not appropriate for Leigh Lloyd-Thomas to sign the report.

Statement of Financial Activities

For the year ended 31 March 2019

	Notes	Unrestricted Funds £m	Restricted Funds £m	Endowment Funds £m	2018/19 Total Funds £m	2017/18 Total Funds £m
Income and Endowments from:						
Voluntary income	2	-	0.2	-	0.2	-
Charitable activities	3	6.8	-	-	6.8	6.5
Investments	4	35.1	-	-	35.1	35.9
Other income	5	1.0	-	-	1.0	0.2
Total Income		42.9	0.2	-	43.1	42.6
Expenditure on:						
Raising funds	6	20.9	-	0.6	21.5	20.9
Charitable activities						
Repair and maintenance of bridges		6.6	-	-	6.6	5.6
Grants to voluntary organisations		24.1	-	-	24.1	26.1
Total charitable activities	7	30.7	-	-	30.7	31.7
Other						
Net pension scheme costs	9	0.6	-	-	0.6	0.7
Total Expenditure		52.2	-	0.6	52.8	53.3
Net Expenditure		(9.3)	0.2	(0.6)	(9.7)	(10.7)
Net gains on property investments	14	-	-	69.6	69.6	53.6
Net gains on financial investments	15	32.2	-	6.9	39.1	10.8
Net (losses)/gains on social investments	16	(0.1)	-	-	(0.1)	0.1
Total Gains on Investments		32.1	-	76.5	108.6	64.5
Net Income after gains/(losses) on investments		22.8	0.2	75.9	98.9	53.8
Other recognised gains:						
Actuarial gains on defined benefit pension scheme	9	0.3	-	-	0.3	0.8
Net movement in funds		23.1	0.2	75.9	99.2	54.6
Reconciliation of funds:						
Fund balances brought forward at 1 April 2018		564.2	-	831.6	1,395.8	1,341.2
Total funds carried forward	22	587.3	0.2	907.5	1,495.0	1,395.8

All of the above results are derived from continuing activities.

There were no other recognised gains and losses other than those shown above.

The notes on pages 35 to 61 form part of these financial statements

Balance Sheet

As at 31 March 2019

	Notes	2019 Total £m	2018 Total £m
Fixed assets:			
Tangible assets	13	3.7	3.7
Investment properties	14	739.3	766.3
Financial investments	15	687.6	645.4
Social Investment Fund	16	13.2	8.5
Total fixed assets		1,443.8	1,423.9
Current assets			
Stock		0.2	0.2
Debtors	18	12.0	15.1
Short term investments and deposits	15	104.3	25.4
Cash at bank and in hand		5.5	0.7
Total current assets		122.0	41.4
Creditors: Amounts falling due within one year	19	(32.9)	(33.7)
Net current assets		89.1	7.7
Total assets less current liabilities		1,532.9	1,431.6
Creditors: Amounts falling due after more than one year	20	(25.8)	(24.0)
Net assets excluding pension scheme liability		1,507.1	1,407.6
Defined benefit pension scheme liability	21	(12.1)	(11.8)
Total net assets		1,495.0	1,395.8
The Funds of the charity:			
Permanent endowment funds		907.5	831.6
Restricted funds		0.2	-
Unrestricted income funds		587.3	564.2
Total funds	22	1,495.0	1,395.8

The notes on pages 35 to 61 form part of these financial statements

Approved and signed on behalf of the Trustee

Dr Peter Kane

Chamberlain of London

XX Month 2019

Statement of Cash Flows

For the year ended 31 March 2019

	Notes	2018/19 Total £m	2017/18 Restated Total £m
Cash flows from operating activities:			
Net cash used in operating activities	24	5.5	(10.8)
Cash flows from investing activities:			
Interest and income from financial investments		3.5	4.1
Cash added to short term deposits		(78.9)	(13.2)
Purchase of tangible fixed assets		(0.4)	(0.2)
Sale of investment property		83.7	2.0
Purchase of property		(0.8)	(14.9)
Additions/(proceeds) to/from social investments		(4.8)	0.3
Additions to financial investments		(193.7)	(51.8)
Proceeds from sale of financial investments		190.6	84.4
Net cash provided by investing activities		(0.7)	10.7
Cash flows from financing activities:		-	-
Decrease in cash in the year		4.8	(0.1)
Change in cash and cash equivalents in the reporting period		4.8	(0.1)
Cash and cash equivalents at the beginning of the reporting period		0.7	0.8
Cash and cash equivalents at the end of the year		5.5	0.7

Notes to the Financial Statements

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items that are considered material in relation to the financial statements of the charity.

a. Basis of preparation

The financial statements of the charity, which is a public benefit entity under FRS102, have been prepared under the historical cost convention, as modified for the revaluation of investment property and financial investments measured at fair value, and in accordance with the Statement of Recommended Practice (SORP) Accounting and Reporting by Charities, published in 2015, Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102) and the Charities Act 2011.

b. Going concern

The financial statements have been prepared on a going concern basis as the Trustee considers that there are no material uncertainties about the charity's ability to continue as a going concern. A rolling annual review of the charity's forecast financial position over a five-year period is carried out to confirm that sufficient income funds will be generated to finance required expenditure on the bridges with surplus funds allocated to charitable funding.

c. Critical accounting judgements and assumptions

Key accounting judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The following are the significant judgements that have been made in the process of applying the charity's accounting policies and that have the most significant effect on the amounts recognised in the Financial Statements:

i. Valuation processes

Some of the charity's investment assets are measured at market value for financial reporting purposes. The charity applies judgement in approving the appropriate values for inclusion, using qualified professionals in such decisions. Unquoted social investments are in some cases internally valued, and management is required to make certain judgemental assumptions.

ii. Investment property disposals

When accounting for the disposal of long leaseholds of investment properties, the charity utilises the methodology as set out within the RICS Professional Standards ("the Red Book") in apportioning values between land and buildings. This includes a number of factors such as insurance values and future construction costs, which are subject to judgement.

iii. Defined benefit pension scheme

The charity has an obligation to pay pension benefits to those working for it. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 21 for the disclosures relating to the defined benefit pension scheme.

d. Income and expenditure

All income is included in the Statement of Financial Activities (SOFA) when the charity is legally entitled to the income; it is more likely than not that the economic benefit associated with the transaction will come to the charity and the amount can be quantified with reasonable certainty. Income consists of fees and charges from the tourism operation at Tower Bridge, income from property and financial investments and income on money market deposits held.

Expenditure is accounted for on an accruals basis and has been classified under the principal categories of 'expenditure on raising funds', 'expenditure on charitable activities' and 'other expenditure'. Expenditure on raising funds comprises those related to the operation of the Tower Bridge tourist attraction, alongside those related to management of the investment property portfolio and financial investments, including apportioned support costs. The element of costs relating to property and financial investments that are attributable to maintaining the capital value of the endowment are charged to that fund, with the balance of these costs coming from the unrestricted income fund. Expenditure on charitable activities comprises repair and maintenance of the bridges alongside grant-making, including apportioned support costs. Grants are recognised as expenditure at the point at which an unconditional commitment is made, with notification made in writing to the grantee, and where the liability can be quantified with reasonable certainty. Where the payment is planned to be more than 12 months after the reporting date of the charity's accounts, the charity reviews the present value of future payments and considers whether the effective financing cost is material to the charity's reporting. If so, the financing charge is disclosed in the SOFA. Otherwise the unadjusted value of the grant awarded is shown within creditors. In 2018/19 the charity does not consider the effective financing cost of future payments as material, and no adjustment has been made.

Governance costs include the costs of governance arrangements which relate to the general running of the charity as opposed to the direct management functions inherent in the activities undertaken. These include external audit, internal audit and costs associated with constitutional and statutory requirements such as the cost of Trustee meetings.

Support costs (including governance costs) include activities undertaken by the City Corporation on behalf of the charity, such as human resources, technology, legal support, accounting services, committee administration, public relations and premises costs. The basis of the cost allocation is set out in Note 11.

The Trustee, the City Corporation, accounts centrally for all payroll related deductions. As a result, the charity accounts for all such sums due as having been paid.

e. Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are valued at the year-end rate of exchange. All gains or losses on translation are taken to the Statement of Financial Activities in the year in which they occur.

f. Pension costs

Defined benefit scheme

The Trustee operates a funded defined benefit pension scheme for its staff employed on its activities, which includes staff acting for the Trustee on behalf of Bridge House Estates. The original scheme is based on final salary and length of service on retirement. Changes to the Scheme came into effect from 1 April 2014 and any benefits accrued from this date are based on career average revalued salary, with various protections in place for those members in the Scheme before the changes took effect.

The Pension Fund is the responsibility of the City Corporation as a corporate body exercising its functions including as Trustee of BHE, and the charity does not have an exclusive relationship with the City of London Pension Fund. Although the proportion of the Pension Fund that relates to City Corporation employee members engaged on BHE activities is not separately identifiable, a share of the total Pension Fund has been allocated to BHE based on employer's pension contributions paid into the Fund by BHE as a proportion of total employer's contributions paid.

For the defined benefit scheme the amounts charged within expenditure are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the Statement of Financial Activities if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and expected return on the assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in other recognised gains and losses.

The assets of the scheme are held separately from those in the charity, and are invested by independent fund managers appointed by the Trustee. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis by a qualified actuary using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The resulting defined benefit asset or liability is presented separately after net assets on the face of the balance sheet.

Barnett Waddingham, an independent actuary, carried out the latest triennial actuarial assessment of the scheme as at 31 March 2016, using the projected unit method. The actuary will carry out the next triennial actuarial assessment of the scheme as at 31 March 2019 during 2019/20, which will set contributions for the period from 1 April 2019 to 31 March 2022.

g. Operating leases – Bridge House Estates as the lessor

Assets subject to operating leases are included in the Balance Sheet according to the nature of the assets. Rental income from operating leases, excluding charges for services such as insurance and maintenance, are recognised on a straight-line basis until the next rent review, even if the payments are not received on this basis, unless another basis is more representative of the time pattern in which the benefits derived from the leased asset are diminished. Lease incentives are allocated over the term of the lease.

h. Taxation

The charity meets the definition of a charitable trust for UK income tax purposes, as set out in Paragraph 1 Schedule 6 of the Finance Act 2010. Accordingly, the charity is exempt from UK taxation in respect of income or capital gains under part 10 of the Income Tax Act 2007 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

i. Fixed Assets

Tangible fixed assets

Assets that are capable of being used for more than one year and have a cost greater than £50,000 are capitalised. Such assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged from the year following that of acquisition, on a straight line basis, in order to write off each asset over its estimated useful life as follows:

Computer Software	3 years
Computer and other equipment	5 years
Fixtures and fittings	8-20 years
Operational assets	10-30 years

Land is not depreciated.

Where a fixed asset (other than freehold land) is not depreciated or has a life of more than 50 years, an annual impairment review is carried out.

Heritage assets

In recognition of the historical and cultural nature of the five bridges maintained by the charity, these are considered to be heritage assets in line with the

definition within SORP2015. The bridges are also considered to be inalienable (i.e. they may not be replaced or disposed of without specific statutory powers). A valuation of the bridges, and certain strategic properties integral to the operation of Tower Bridge, is not included in these accounts as the Trustee does not consider that relevant cost or valuation information can be obtained at a cost commensurate with the benefit to readers of the financial statements. This is because of the unique nature of the assets held, the lack of reliable cost information held and the lack of comparable market values. The insured value, with cover being for all risks, of the five bridges at 31 March 2019 was £929m (2018: £857m).

Investment properties

Investment properties for which fair value can be measured reliably without undue cost or effort on an on-going basis are measured at fair value annually with any change recognised in the Statement of Financial Activities. The valuations are estimated by appropriately qualified professional valuers.

No depreciation or amortisation is provided in respect of freehold or leasehold investment properties with over 20 years to run.

Financial Investments

i. Quoted Investments

Quoted investments comprise publicly quoted, listed securities including shares, bonds and units. Quoted investments are stated at fair value at the balance sheet date. The basis of fair value for quoted investments is equivalent to the market value, using the mid-price. Asset sales and purchases are recognised at the date of trade.

ii. Unquoted Investments

Unquoted investments are valued at a valuation advised by the fund managers.

Social investments

Social investments that are loans are accounted for at the outstanding amount of the loan less any provision for unrecoverable amounts. Unquoted equity, social investment funds and partnerships, and similar social investments are held at cost, less any provision for diminution in value, unless the charity is able to obtain a reliable estimate of fair value.

j. Stocks

Stocks are valued at the lower of cost or net realisable value. All stocks are finished goods and are held for resale as part of the Tourism operation at Tower Bridge.

k. Financial assets and liabilities

The charity has chosen to adopt Section 11 of FRS 102 in respect of financial instruments. Financial assets and liabilities, including debtors and creditors, are recognised when the charity becomes party to the contractual provisions of the

instrument. Additionally all financial assets and liabilities are classified according to the substance of the contractual arrangements entered into. Financial assets and liabilities are initially measured at transaction price (including transaction costs) and are subsequently re-measured where applicable at amortised cost.

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire, or when the group has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

I. Funds structure

Income, expenditure and gains/losses are allocated to particular funds according to their purpose:

Permanent Endowment Fund – this fund consists of funds which are held in perpetuity for the benefit of the charity as a result of conditions imposed by the original donors and trusts. Income generated from the investments which represent these funds can be spent on the charitable purposes of the charity, hence is allocated to the unrestricted income fund. Gains/losses on the underlying assets remain as part of the endowment.

Restricted funds – these include income that is subject to specific restrictions imposed by donors, with related expenditure deducted when incurred.

Unrestricted income funds – these funds can be used in accordance with the charitable objects at the discretion of the Trustee, and include both income generated by assets held within the permanent endowment fund and from those representing unrestricted funds. Specifically, this represents the surplus of income over expenditure for the charity which is carried forward to meet the requirements of future years, known as free reserves.

Designated Funds – these are funds set aside by the Trustee out of unrestricted funds for a specific purpose.

2. Income from voluntary activities

	Restricted Income Funds £m	Total 2018/19 £m	Unrestricted Income Funds £m	Total 2017/18 £m
Grant income	0.2	0.2	-	-
	0.2	0.2	-	-

3. Income from charitable activities

	Unrestricted Income Funds £m	Total 2018/19 £m	Unrestricted Income Funds £m	Total 2017/18 £m
Tower Bridge tourism fees and charges	6.8	6.8	6.5	6.5
	6.8	6.8	6.5	6.5

4. Income from investments

	Unrestricted Income Funds £m	Total 2018/19 £m	Unrestricted Income Funds £m	Total 2017/18 £m
Investment property	31.5	31.5	31.8	31.8
Financial investments	2.8	2.8	3.9	3.9
Interest receivable	0.8	0.8	0.2	0.2
Total Investment income	35.1	35.1	35.9	35.9

All investments are held to provide an investment return to the charity.

5. Other income

	Unrestricted Income Funds £m	Total 2018/19 £m	Unrestricted Income Funds £m	Total 2017/18 £m
Other income	1.0	1.0	0.2	0.2
	1.0	1.0	0.2	0.2

6. Expenditure on raising funds

	Direct costs £m	Support costs £m	Total 2018/19 £m	Direct costs £m	Support costs £m	Total 2017/18 £m
Tourism expenses	5.5	0.9	6.4	4.6	0.9	5.5
Investment property expenses	6.7	3.5	10.2	6.8	3.0	9.8
Financial investment expenses	4.9	-	4.9	5.6	-	5.6
	17.1	4.4	21.5	17.0	3.9	20.9

Of the total expenditure on raising funds £20.9m (2017/18: £20.6m) relates to the unrestricted income fund and £0.6m (2017/18: £0.3m) to the endowment fund.

Tourism expenses - staff costs and other expenses related to the management and operation of the Tower Bridge tourist attraction.

Investment property expenses - staff costs, repairs and maintenance costs, and professional fees relating to the management of the investment property portfolio.

Financial investment expenses – fees paid to fund managers.

7. Expenditure on charitable activities

	Direct costs	Support costs	Total 2018/19	Total 2017/18
	£m	£m	£m	£m
Repair and maintenance of bridges	5.6	1.0	6.6	5.6
Grants to voluntary organisations	23.4	0.7	24.1	26.1
	29.0	1.7	30.7	31.7

Repair and maintenance of bridges

Staff costs, repairs and maintenance, insurance, equipment and materials costs relating to the Thames river bridges maintained by the charity.

Grants to voluntary organisations

Grants awarded in the name of the City Bridge Trust, the grant making arm of the charity, for purposes benefiting the inhabitants of Greater London. Direct costs include net grants awarded of £21.3m (2017/18: £23.8m) and costs of administering the grants process of £2.1m (2017/18: £1.8m).

All expenditure on charitable activities is unrestricted.

8. Grants awarded

During the year ended 31 March 2019, grants were awarded to institutions under the following programmes:

	2018/19 £m	2017/18 £m
Investing in Londoners	8.2	12.7
Bridging Divides	9.2	-
Strategic Initiatives	3.1	6.4
Stepping Stones Fund	0.4	0.6
CBT 20th Anniversary Grants	1.0	4.7
Grants awarded	21.9	24.4
Grant adjustments and cancellations	(0.6)	(0.6)
Net grants awarded	21.3	23.8
Other grant related activities	2.1	1.8
	23.4	25.6

Grants were made to 200 organisations in the year (2017/18: 210), supporting 213 projects (2017/18: 227). The average amount of a grant equalled £102,962 (2017/18: £107,807). All grantees receiving funding must work for the benefit of inhabitants of Greater London and have to meet stated eligibility criteria. Grants are not given directly to individuals.

Details of all the grants approved are shown on the CBT website www.citybridgetrust.org.uk, including organisation name, amount given and purpose of the award.

Reconciliation of grants payable:

	2018/19 £m	2017/18 £m
Commitments at 1 April	31.9	27.6
Commitments made in the year	21.9	24.4
Grant adjustments and cancellations	(0.6)	(0.6)
Grants paid during the year	(19.3)	(19.5)
Commitments at 31 March	33.9	31.9

Outstanding grant commitments at 31 March 2019 are payable as follows:

	2018/19 £m	2017/18 £m
Within one year (note 19)	18.3	18.3
After more than one year (note 20)	15.6	13.6
Commitments at 31 March	33.9	31.9

The split of future payment dates is based upon contractual terms, which may relate to multi-year commitments.

9. Other costs: net total pension scheme costs

	2018/19 £m	2017/18 £m
Deficit at 1 April	(11.8)	(11.9)
Current service cost	(0.9)	(0.9)
Net interest	(0.3)	(0.3)
Employer contributions	0.6	0.5
Net total charge for the year	(0.6)	(0.7)
Actuarial (losses)/gains	0.3	0.8
Deficit at 31 March	(12.1)	(11.8)

The net total pension costs charged in the Statement of Financial Activities represents 2% (2017/18: 2%) of the total charge in the City Corporation Pension Fund financial statements. This allocation is based on the split of the employee pension contribution across the funds managed by the City Corporation and is reviewed annually.

10. Net income for the year

Net income is stated after charging:

	2018/19 £	2017/18 £
Auditors' remuneration for the audit of the financial statements	37,280	38,240
Additional fees incurred in 18/19 for the audit of the 17/18 financial statements	17,000	-
Depreciation	281,303	302,956

11. Support Costs

Support costs include activities undertaken by the City Corporation on behalf of the charity, such as human resources, digital services, legal support, accounting services, committee administration, public relations and premises costs. Such costs are determined on a departmental basis, and are allocated on a cost recovery basis to the charity on the basis of resources consumed by the respective activities as follows:

	Tourism £m	Investment Property £m	Bridges £m	Grants £m	Governance £m	2018/19 £m	2017/18 £m
Department:							
Chamberlain	-	0.3	0.1	-	-	0.4	0.4
Comptroller & City Solicitor	-	0.4	0.2	0.1	-	0.7	0.3
Town Clerk	-	-	-	0.1	0.3	0.4	0.4
City Surveyor	-	2.4	0.2	-	-	2.6	2.3
Built Environment	-	-	0.1	-	-	0.1	0.1
Culture, Heritage & Libraries	0.2	-	-	-	-	0.2	0.3
Public Relations	-	-	-	-	-	-	-
Digital Services	0.3	0.1	0.1	0.1	-	0.6	0.7
Premises costs	0.1	-	0.1	0.1	-	0.3	0.2
Other	0.1	0.2	-	0.2	0.3	0.8	0.5
Sub-total	0.7	3.4	0.8	0.6	0.6	6.1	5.2
Reallocation of governance costs	0.2	0.1	0.2	0.1	(0.6)	-	-
Total Support costs	0.9	3.5	1.0	0.7	-	6.1	5.2

All support costs are undertaken from unrestricted funds. Governance costs are allocated on the basis of FTE staff within each activity.

12. Details of staff costs

All staff that work on behalf of the charity are employed by the City Corporation. The average full-time equivalent number of people directly undertaking activities on behalf of the charity during the year was:

	2018/19	2017/18
Investment properties	16	18
Tower Bridge tourism	54	53
Repair & maintenance of bridges	30	28
Grants team	22	20
	122	119

Amounts paid in respect of employees directly undertaking activities on behalf of the charity were as follows:

	2018/19 £m	2017/18 £m
Salaries and wages	4.5	4.0
National Insurance costs	0.4	0.4
Employer's pension contributions	0.8	0.8
Total emoluments of employees	5.7	5.2
Agency staff	0.7	0.4
Total emoluments	6.4	5.6

The number of directly charged employees whose emoluments for the year were over £60,000 was:

	2018/19	2017/18
£60,000 - £69,999	5.0	4.0
£70,000 - £79,999	1.0	1.0
£80,000 - £89,999	2.0	-
£100,000 - £109,999	-	1.0
£110,000 - £119,999	1.0	-
	9.0	6.0

All employees paid over £60,000 have retirement benefits accruing under the defined benefit scheme.

In addition, support staff are charged to the charity on the basis described within Note 11. The full-time equivalent number of support service staff charged is 72 (2017/18: 67.0).

The charity is committed to equal opportunities for all employees. An Equality and Inclusion Board has been established to actively promote equality, diversity and inclusion in service delivery and employment practices. The Board is responsible for monitoring the delivery of the Equality and Inclusion Action Plan and progress against the Equality Objectives for 2016-20. This also includes addressing the City Corporation's gender pay gap.

Remuneration of Key Management Personnel

The charity considers its key management personnel to comprise the Members of the City of London Corporation, acting collectively for the City Corporation in its capacity as the Trustee, and senior officers employed by the City of London Corporation to manage the activities of the charity. These senior officers include the Town Clerk and Chief Executive, Chamberlain, Deputy Town Clerk, Comptroller and City Solicitor, City Surveyor and the Chief Grants Officer. These officers work on a number of the City Corporation's activities and their salaries and associated costs are allocated to the activities under its control, including Bridge House Estates, on the basis of employee time spent on the respective services, as stated within Note 11.

The proportion of senior officer employment benefits, including employer pension contributions, allocated to the charity amounted to £229,000 in 2018/19 (2017/18: £200,000). No Members received any remuneration, with directly incurred expenses reimbursed, if claimed. Expenses totalling £119 were claimed in 2018/19 from the charity (2017/18: nil).

13. Tangible fixed assets

	Computers & other equipment £m	Fixtures & fittings £m	Leasehold Improvements £m	Total £m
Cost				
At 1 April 2018	0.7	2.2	4.2	7.1
Additions	0.1	0.2	-	0.3
Disposals	(0.2)	-	-	(0.2)
At 31 March 2019	0.6	2.4	4.2	7.2
Depreciation				
At 1 April 2018	0.3	1.0	2.1	3.4
Charge for the year	0.1	0.1	0.1	0.3
Disposals	(0.2)	-	-	(0.2)
At 31 March 2019	0.2	1.1	2.2	3.5
Net book value				
At 31 March 2019	0.4	1.3	2.0	3.7
At 31 March 2018	0.4	1.2	2.1	3.7

14. Investment Properties

	2019 £m	2018 £m
Market value at 1 April	766.3	702.2
Purchases	0.8	14.9
Book value of disposed assets	(83.7)	(2.0)
Total unrealised gains*	55.9	51.2
Market value at 31 March	739.3	766.3

* Includes rent free adjustment of £3.9m (2017/18: £2.7m).

The net gain on property investments is arrived at as follows:

	2019 £m	2018 £m
Total unrealised gains	55.9	51.2
Realised gain on disposal	13.7	2.4
	69.6	53.6

A full valuation was performed as at 31 March at market values determined in accordance with the RICS Valuation – Professional Standards (“the Red Book”). This was undertaken by C&W(UK) LLP and Savills(UK) Ltd, chartered surveyors, acting as independent valuers.

As many of the investment properties were gifted to the charity and others were acquired centuries ago, it is impracticable to provide historical cost information. It has therefore been assumed that the historical cost is nil. The properties are all situated in Greater London.

15. Financial Investments

Total financial investments as at 31 March are split as follows:

	2019 £m	2018 £m
Long term investments	687.6	645.4
Short term investments:		
- short term deposits and money market funds	95.0	5.0
- short term investments in hands of fund managers	9.3	20.4
	104.3	25.4
Total market value at 31 March	791.9	670.8

Analysis of movement in financial investments

	2019 £m	2018 £m
Investments held by fund managers		
Market value 1 April	665.8	678.0
Additions to investments at cost	193.7	61.5
Disposals at market value	(201.7)	(84.4)
Gain from change in fair value	39.1	10.7
Investments at 31 March	696.9	665.8
Cash investments		
Investments at 1 April	5.0	1.5
Cash held as short-term deposits and as part of long-term portfolio	90.0	3.5
Investments at 31 March	95.0	5.0
Total investments at 31 March	791.9	670.8

The increase in short-term deposits held is as a result of the sale of a property in the year for £97.1m, with proceeds awaiting re-investment.

The geographical spread of investments at 31 March was as follows:

	Held in the UK £m	Held outside the UK £m	Total at 31 March 2019 £m	Total at 31 March 2018 £m
Fixed Interest	95.0	40.9	135.9	33.6
Index Linked	25.3	10.7	36.0	43.7
Pooled units	103.6	390.3	493.9	460.8
Listed equities	13.3	31.4	44.7	45.7
Managed funds	9.3	-	9.3	20.4
Private equity	3.9	22.3	26.2	22.0
Infrastructure	-	45.9	45.9	44.6
	250.4	541.5	791.9	670.8

Investment powers

The Charity Commission Order dated 20 July 1998, the Trustee Act 1925 and the Trustee Act 2000 enable the Trustee to invest the property of the charity either:

- in the acquisition of any securities or property (real or personal) of any sort; or
- on deposit or loan whether in the UK or elsewhere.

16. Social Investment Fund

	Value as at 01 April 2018 £m	Drawn down £m	Repaid £m	Investment gain/(loss) £m	Value as at 31 March 2019 £m
Investment Fund	2.8	-	-	-	2.8
Loan	1.8	5.3	(0.6)	-	6.5
Bond	1.9	0.6	(0.5)	(0.1)	1.9
Property Fund	2.0	-	-	-	2.0
	8.5	5.9	(1.1)	(0.1)	13.2

The geographical spread of social investments at 31 March was as follows:

	Held in the UK £m	Held outside the UK £m	Total at 31 March 2019 £m	Total at 31 March 2018 £m
Investment Fund	2.5	0.3	2.8	2.8
Loan	6.5	-	6.5	1.8
Bond	1.9	-	1.9	1.9
Property Fund	2.0	-	2.0	2.0
	12.9	0.3	13.2	8.5

At the year-end £0.1m (2017/18: £2.8m) had been committed but remained undrawn, with £2.0m (2017/18: £0.5m) approved but subject to agreement of terms, making a total promised of £15.3m (2017/18: £11.8m). Details of all investments placed are shown on the City Bridge Trust website www.citybridgetrust.org.uk.

17. Nature and extent of risks arising from Financial Instruments

In accordance with FRS102 11.48A (f), the charity has disclosed the nature and extent of those risks relating to its' financial investments. The charity's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund activities.

Credit Risk - this is the potential risk that a counterparty will fail to meet its obligations in accordance with agreed terms. This principally arises from cash and cash equivalents, deposits with banks and with financial institutions. Deposits are not made with banks and financial institutions unless they are rated independently with a minimum score of Long term A, Short term F1. The Trust also invests in Money Market Funds, which are subject to a minimum credit rating of AAA/mmf. The lending list is reviewed on a regular basis using advice from credit rating agencies, treasury advisors and in-house judgements based partially on credit default swap rates. The charity's maximum exposure to credit risk in relation to its investments in banks and money market funds cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution.

Liquidity risk - this is the risk that the charity may not have sufficient funds available to meet its payment obligations as they fall due. The charity has no borrowing exposure and has no plans to borrow to finance future expenditure. Operations are financed by

realising investments as necessary to meet both current and future forecast cash requirements.

Market risk – this covers the possibility that financial loss might arise as a result of changes in such measures as interest rates and stock market movements. Price risk is the risk of a decline in the value of a security or a portfolio. The charity minimises price risk through a strategy of diversification by holding a geographical spread of investments in the UK and overseas markets.

Potential market movements

Asset type	% Change
Global Equities - Developed Markets (incl UK)	17.0%
Global Equities - Emerging Markets	28.7%
Global Bonds	4.1%
Multi-Asset	7.3%
Private Equity	24.2%
Infrastructure	14.7%

The potential percentage allowance for changes in asset values are within a one-standard deviation tolerance. Taking these changes, the potential increase/decrease in the market prices of the fund's assets have been derived, and provide a range of possible net asset values which would be available to meet the fund's liabilities.

Asset type	Value £m	Change %	Value on increase £m	Value on decrease £m
Global Equities - Developed Markets (incl UK)	294.4	17.0%	344.4	244.4
Global Equities - Emerging Markets	12.0	28.7%	15.4	8.6
Global Bonds	29.4	4.1%	30.6	28.2
Multi-Asset	289.1	7.3%	310.2	268.0
Private Equity	26.1	24.2%	32.4	19.8
Infrastructure	45.9	14.7%	52.6	39.2
Total	696.9		785.8	608.0
UK Cash	95.0	0.0%	95.0	95.0
Total financial investments	791.9		880.8	703.0

The percentage change for equities includes a grouping of listed and private equities and the equity funds categorised elsewhere as pooled unit trusts. The percentage change for bonds includes a grouping of government and corporate fixed interest securities. Separate consideration of the individual asset types is not available.

Foreign Currency Risk – this risk exists when a financial transaction or asset/liability is denominated in a currency other than that of the base currency of the charity. The risk is that a movement in the exchange rate may cause a foreign currency investment value to either decrease or increase when the investment is sold and converted back into the base currency.

The following table shows the illustrative effect on the charity's asset values that would result from movements in exchange rates.

Currency Baskets	Value	Change	Value on increase	Value on decrease
	£'m	%	£'m	£'m
GBP	458.6	0.00%	458.6	458.6
EUR	70.5	2.38%	72.2	68.8
USD	183.4	2.67%	188.3	178.5
Other	79.4	3.86%	82.5	76.3
Total financial investments	791.9		801.5	782.3

18. Debtors

	2019 £m	2018 £m
Trade debtors	1.6	3.5
Rental debtors	4.0	3.5
Prepayments & accrued income	6.4	8.1
	12.0	15.1

Debtors include £3.7m balances which are due after more than one year (2017/18: £0.8m)

19. Creditors – amounts falling due within one year

	2019 £m	2018 £m
Grants payable (note 8)	18.3	18.3
Trade creditors	2.0	1.7
Accruals	1.0	1.3
Deferred income	5.9	5.7
Rent deposits	5.2	6.4
Other creditors	0.4	0.3
	32.9	33.7

Deferred income relates to property rental income and lease premiums received in advance for periods after the year-end.

	2019 £m	2018 £m
Deferred income analysis within creditors:		
Balance at 1 April	5.7	5.1
Amounts released to income	(5.7)	(5.1)
Amounts deferred in the year	5.9	5.7
Balance at 31 March	5.9	5.7

20. Creditors – amounts due after more than one year

	2019 £m	2018 £m
Grants payable (note 8)	15.6	13.6
Deferred income	10.2	10.4
	25.8	24.0

	2019 £m	2018 £m
Deferred income - due after more than one year:		
Balance at 1 April	10.4	10.5
Amounts transferred to less than one year	(0.2)	(0.1)
Balance at 31 March	10.2	10.4

Deferred income includes lease premiums that will be released over periods of up to 166 years.

21. Pensions

City of London Corporation defined benefit pension scheme

The City Corporation operates a funded defined benefit pension scheme, The City of London Pension Fund, for its staff employed on activities relating predominantly to the three principal funds for which it is responsible (City Fund, City's Cash and Bridge House Estates).

The assets of the scheme are held in a specific trust separately from those of the Corporation and contributions are paid to the scheme as agreed with the scheme's Trustees. As the proportion of the Pension Fund that relates to Bridge House Estates is not separately identifiable, the share of pension contributions paid to the scheme by the charity is calculated pro-rata to employer's contributions paid by each of the City Corporation contributors to the scheme.

Accounting for the defined benefit scheme under IAS19

The full actuarial valuation of the defined benefit scheme was updated to 31 March 2019 by an independent qualified actuary in accordance with IAS19. As required by IAS19, the defined benefit liabilities have been measured using the projected unit method. The valuation has been completed under IFRS, in line with the City Fund requirements, rather than under FRS102, with the differences considered not to be materially incorrect.

The returns on gilts and other bonds are assumed to be the gilt yield and corporate bond yield respectively at the relevant date. The return on equities is then assumed to be a margin above gilt yields.

The estimated amount of total employer contributions expected to be paid to the scheme by the charity during 2019/20 is £567,000 (2018/19 actual: £593,000). This figure is calculated pro-rata to total contributions that will be payable by the City Corporation in accordance with the Schedule of Contributions towards the scheme's deficit.

a) Major assumptions by the actuary

Financial

The financial assumptions used for the purposes of the FRS102 calculations are as follows:

Assumptions as at:	2019 % p.a.	2018 % p.a.	2017 % p.a.
RPI increases	3.4	3.3	3.6
CPI increases	2.4	2.3	2.6
Salary increases	3.9	3.8	4.1
Pension increases	2.4	2.3	2.6
Discount rate	2.4	2.6	3.7

Life expectancy

The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)		2019	2018
Age 65 retiring today	Males	23.2	23.9
	Females	24.6	25.2
Retiring in 20 years	Males	24.5	25.3
	Females	26.1	26.7

The table reflects the change in the mortality tables used for the 31 March 2019 valuation and allowance is made for future improvements in life expectancy.

b) Amounts included in the balance sheet

The amounts included in the charity's balance sheet arising from the City Corporation pension scheme's liabilities in respect of the defined benefit scheme for the current and previous two periods are as follows:

	2019 £m	2018 £m	2017 £m
Fair value of assets (bid value)	19.4	18.0	17.6
Fair value of liabilities	31.5	29.8	29.5
Net liability in balance sheet	12.1	11.8	11.9

The net pension fund liability represents 2% of the total net balance sheet liability in the City Corporation Pension Fund financial statements.

c) Amounts included in the Statement of Financial Activities

The amounts included within total expenditure in relation to the defined benefit scheme are as follows:

	2019 £m	2018 £m
Current service cost	0.9	0.9
Interest cost	0.7	0.3
Contributions	(0.6)	(0.5)
Total expense	1.0	0.7

The total pension costs charged in the Statement of Financial Activities (as adjusted for current service cost and employer's contributions) represents 2% of the total charge in the City Corporation Pension Fund financial statements.

d) Asset allocation

The current allocation of the scheme's assets is as follows:

Employer asset share - bid value	2019		2018	
	£m	% p.a.	£m	% p.a.
Equity Investments	13.0	67	11.8	65
Cash	0.2	1	0.1	1
Infrastructure	1.1	6	1.1	6
Absolute Return Portfolio	5.1	26	5.1	28
Total assets	19.4	100	18.1	100

The charity's share of pension scheme assets at 31 March 2019 represents 2% of the total pension scheme assets of the City Corporation Pension Fund

e) Movement in the present value of scheme liabilities

Changes in the present value of the scheme liabilities over the year are as follows:

	2019 £m	2018 £m
Deficit at beginning of the year	(29.8)	(29.5)
Current service cost	(0.9)	(0.9)
Interest Cost	(0.8)	(0.8)
Remeasurement gains/losses:		
Actuarial gains/losses arising from changes in demographic assumptions	0.8	-
Actuarial gains/losses arising from changes in financial assumptions	(1.4)	0.9
Benefits paid	0.8	0.7
Contributions from scheme participants	(0.2)	(0.2)
Unfunded pension payments		
Deficit at the end of the year	(31.5)	(29.8)

The charity's share of the closing value of the pension scheme liabilities represents 2% of the total closing value of the pension scheme liabilities of the City Corporation Pension Fund.

f) Movement in the scheme net liability

The net movement in the scheme liabilities over the year are as follows:

	2019 £m	2018 £m
Surplus/(deficit) at beginning of the year	(11.8)	(11.9)
Current service cost	(0.9)	(0.9)
Net interest	(0.3)	(0.3)
Employer contributions	0.6	0.5
Actuarial gains/(losses)	0.3	0.8
Surplus/(deficit) at the end of the year	(12.1)	(11.8)

g) Movement in the present value of scheme assets

Changes in the fair value of the scheme assets over the year are as follows:

	2018 £m	2018 £m
As at 01 April	18.0	17.6
Interest on assets	0.5	0.5
Remeasurement gains/losses:		
Return on assets less interest	0.9	(0.1)
Contributions by employer including unfunded	0.5	0.5
Contributions by scheme participants	0.2	0.2
Estimated benefits paid net of transfers in and including unfunded	(0.8)	(0.7)
Closing value of scheme assets	19.3	18.0

h) Projected pension expense for the year to 31 March 2020

No allowance has been made for the costs of any early retirements or augmentations which may occur over the year and whose additional capitalised costs would be included in the liabilities. As it is only an estimate, actual experience over the year may differ. No balance sheet projections have been provided on the basis that they will depend upon market conditions and the asset value of the scheme at the end of the following year.

	Year to 31/03/2020 £m	Year to 31/03/2019 £m
Service cost	0.9	0.8
Interest cost	0.3	0.3
Total expense	1.2	1.1
Employer contribution	0.5	0.5

22. Analysis of net assets between funds

At 31 March 2019	Unrestricted Income Funds		Restricted Funds	Endowment Funds	Total at 31 March 2019	Total at 31 March 2018
	General Funds	Designated Funds	Restricted Funds	Endowment Funds		
	£m	£m	£m	£m	£m	£m
Fixed Assets - Investment properties	-	-	-	739.3	739.3	766.3
Fixed Assets - Financial investments	427.3	170.3	-	90.0	687.6	645.4
Other fixed assets	3.7	13.2	-	-	16.9	12.2
Current assets & liabilities	10.7	-	0.2	78.2	89.1	7.7
Long-term liabilities	(25.8)	-	-	-	(25.8)	(24.0)
Pension liability	(12.1)	-	-	-	(12.1)	(11.8)
	403.8	183.5	0.2	907.5	1,495.0	1,395.8

At 31 March 2018	Unrestricted Income Funds		Restricted Funds	Endowment Funds	Total at 31 March 2018	Total at 31 March 2017
	General Funds	Designated Funds		Endowment Funds		
	£m	£m		£m	£m	£m
Fixed Assets - Investment properties	-	-	-	766.3	766.3	702.2
Fixed Assets - Financial investments	381.1	181.3	-	83.0	645.4	667.3
Other fixed assets	3.7	8.5	-	-	12.2	12.4
Current assets & liabilities	8.4	-	-	(0.7)	7.7	(14.5)
Long-term liabilities	(24.0)	-	-	-	(24.0)	(14.3)
Pension liability	(11.8)	-	-	-	(11.8)	(11.9)
Interfund account	17.0	-	-	(17.0)	-	-
	374.4	189.8	-	831.6	1,395.8	1,341.2

23. Movement in funds

At 31 March 2019	Total as at 01 April 2018 £m	Income £m	Expenditure £m	Gains & losses £m	Transfers £m	Total as at 31 March 2019 £m
Endowment Funds	831.6	-	(0.6)	76.5	-	907.5
Total Endowment Funds	831.6	-	(0.6)	76.5	-	907.5
Restricted Funds	-	0.2	-	-	-	0.2
Total Restricted Funds	-	0.2	-	-	-	0.2
General Funds	386.2	42.2	(29.5)	32.2	(15.2)	415.9
Pension Reserve	(11.8)	-	(0.6)	0.3	-	(12.1)
Total General Funds	374.4	42.2	(30.1)	32.5	(15.2)	403.8
Property Dilapidations	1.1	0.3	(0.8)	-	-	0.6
Service Charges	0.5	-	-	-	-	0.5
Bridges Repairs	19.9	-	-	-	14.1	34.0
Bridges Replacement	123.5	-	-	-	(18.9)	104.6
Grant-making	23.7	-	(21.3)	-	20.0	22.4
Social Investment Fund	21.1	0.4	-	(0.1)	-	21.4
Total Designated Funds	189.8	0.7	(22.1)	(0.1)	15.2	183.5
Total Unrestricted Income Funds	564.2	42.9	(52.2)	32.4	0.0	587.3
Total Funds	1,395.8	43.1	(52.8)	108.9	0.0	1,495.0

At 31 March 2018	Total as at 01 April 2017 £m	Income £m	Expenditure £m	Gains & losses £m	Transfers £m	Total as at 31 March 2018 £m
Endowment Funds	779.4	-	(0.3)	52.5	-	831.6
Total Endowment Funds	779.4	-	(0.3)	52.5	-	831.6
General Funds	416.0	42.5	(47.3)	12.0	(37.0)	386.2
Pension Reserve	(11.9)	-	(0.7)	0.8	-	(11.8)
Total General Funds	404.1	42.5	(48.0)	12.8	(37.0)	374.4
Property Dilapidations	1.5	0.1	(0.2)	-	(0.3)	1.1
Service Charges	0.2	-	-	-	0.3	0.5
Bridges Repairs	19.0	-	(4.8)	-	5.7	19.9
Bridges Replacement	117.0	-	-	-	6.5	123.5
Grant-making	-	-	-	-	23.7	23.7
Social Investment Fund	20.0	-	-	-	1.1	21.1
Total Designated Funds	157.7	0.1	(5.0)	-	37.0	189.8
Total Unrestricted Income Funds	561.8	42.6	(53.0)	12.8	-	564.2
Total Funds	1,341.2	42.6	(53.3)	65.3	-	1,395.8

Purpose of the endowment fund

The permanent endowment fund is held in perpetuity as a capital fund to generate income for the activities of the charity. Any income arising from this capital is accounted for within unrestricted funds. Further detail of the origins of this fund is stated on page 4.

Purposes of restricted funds

The restricted fund represents funds received from the Greater London Assembly towards the Cornerstone Fund, supporting the strategic development of the infrastructure underpinning London's civil society (see pages 15-16).

Purposes of designated funds

Designated funds have been set aside by the Trustee for the following purposes:

Property Dilapidations	represents funds not yet utilised as received from tenants at the end of a lease to enable the property to be brought back to the required condition.
Service charges	represents service charges received from tenants to enable major cyclical works to be financed.
Bridges Repairs	represents funds required to maintain the bridges for the next 5 years.
Bridges Replacement	represents funds set aside to fund the future rebuild of the bridges. This is based on the present value of estimated future costs, adjusted for increases in construction costs.
Grant-making	represents surplus income which has been designated for future grant-making activities in the name of City Bridge Trust.
Social Investment Fund	to finance investments that generate a financial return, alongside an associated social return, consistent with the agreed investment policy.

The charity also maintains a Pension Reserve Fund, representing the net liability owed.

Transfers are made to and from unrestricted income funds in order to maintain designated funds at the required levels.

24. Note to the statement of cash flows

Reconciliation of net income to net cash inflow from operating activities.

	2018/19	2017/18
	£m	Restated £m
Net income for the reporting period (as per the statement of financial activities)	98.9	53.8
Adjustments for:		
Interest and income from investments	(3.5)	(4.1)
Depreciation charges	0.3	0.3
Gains on financial investments	(39.1)	(10.8)
Gains on property investments	(55.9)	(51.2)
Losses/(gains) on social investments	0.1	(0.1)
(Decrease)/Increase in debtors	3.1	(3.8)
Decrease in creditors falling due within one year	(0.9)	(5.3)
Increase in long term creditors	1.9	9.7
Net pension scheme costs	0.6	0.7
Net cash used in operating activities	5.5	(10.8)

25. Commitments

There were no commitments as at 31 March 2019 in respect of future accounting periods (2018: nil)

26. Related parties

The City Corporation is the sole Trustee of the charity, as described on page 6. The City Corporation provides various services to the charity, the costs of which are recharged to the charity. This includes the provision of banking services, charging all transactions to the charity at cost and crediting or charging interest at a commercial rate. The cost of these services is included within expenditure, as set out in Note 11.

The charity is required to disclose information on related party transactions with bodies or individuals that have the potential to control or influence the charity. Members are required to disclose their interests, and these can be viewed online at www.cityoflondon.gov.uk.

Members and Senior Staff are requested to disclose all related party transactions, including instances where their close family has made such transactions.

All related party transactions are arm's length agreements.

Figures in brackets represent the amounts due at the balance sheet date.

Related Party	Connected party	2018/19 £'000	2017/18 £'000	Detail of transaction
London Funders (LF)	An Officer of CoL is a Trustee of LF	- (213) 2 (-)	27 (363) 2 (-)	LF received grant funding from CBT The charity paid a membership fee to LF
Age UK London (AUL)	A member represents the City Corporation on AUL	- (24)	25 (85)	AUL received grant funding from CBT
Trust for London (TL)	The City Corporation nominates 3 members to TL	300 (370)	400 (350)	TL received grant funding from CBT
Blind in Business (BiB)	A Member of CoL is a Trustee of BiB	84 (63) 13 (-)	- (16) 16 (-)	BiB received grant funding from CBT BiB paid rent & service charges to the Charity
Partnership for Young London (PYL)	A Member of CoL is a Trustee of PYL	305 (247)	23 (23)	PYL received grant funding from CBT
Cripplegate Foundation, incorporating Islington Giving (CF)	Two members of CoL are Trustees of CF, alongside the husband of a Member	25 (48)	- (95)	CF received grant funding from CBT
UBS	A Member of COL is an employee of UBS	40 (-)	50 (-)	CBT received funding from UBS
Heart of the City (HoTC)	Two Officers of CoL were Trustees of HoTC during the year. Three members of CoL are Council members of HoTC	- (404)	475 (475)	HoTC received grant funding from CBT
Michael Hudson (MH)	A Member held a lease at a property of the charity	6 (-)	7 (-)	MH paid rent & service charges to the Charity
London & Partners Ltd (L&P)	A Member is a Director of L&P	1 (-)	- (-)	The charity paid for a membership fee to L&P

The Members and Officers noted above did not participate in the discussions or decision making relating to the award of the grants.

Related Party Transactions with the City Fund (the City Fund is held by the City Corporation in respect of its activities as a local authority, police authority and port health authority):

During 2018/19 BHE contributed £114k to the 'Ring of Steel' security infrastructure project being undertaken within the City Fund. There were no other significant transactions between BHE and the other principal funds of the City Corporation during the year (nil transactions in 2017/18).

Related Party Transactions with City's Cash (City's Cash is held by the City Corporation and finances activities mainly for the benefit of London as a whole but also of relevance nationwide)

City's Cash holds a lease with BHE for the rental of a property. Rental income of £26.5k was received in the year (2017/18: £13.5k). The balance owed to BHE at year-end was £16.4k (17/18: £3.4k)

27. Subsequent events

There are risks to Bridge House Estates from the vote to leave the EU which took place on 23 June 2016. In particular, the future levels of demand for office accommodation in the City and surrounding areas and the consequential impacts on rental incomes. A close watching brief continues to be kept on this and other implications as events unfold with financial forecasts being refreshed if and when the picture becomes clearer.

In line with its plans for future periods (as stated on page 20), in July 2019 the charity completed the purchase of a property on Chiswell Street, EC1 for £36.4m. This investment property was purchased utilising proceeds from a disposal made in 2018/19 and forms part of the income generating assets that back the charity's endowment fund.

In July 2019, the charity also sold the freehold of one of its investment properties, 185 Tower Bridge Road, for £5.6m.

In December 2018 the Court of Appeal ruled that transitional provisions which were put in place under reforms to both the Judges' and Firefighters' Pension Schemes discriminated against a group of members on the grounds of age. The Government intends to appeal this ruling. However, should it stand, the potential impact on public service pension schemes may result in an increase in liabilities. The ruling will be applicable to all public sector pension schemes including that in place with the Corporation of London, whose staff work on behalf of Bridge House Estates. The Government Actuary's Department estimated the precise size of such liabilities could amount to between 0.5% and 1% of total scheme liabilities although the timing of final outcome is uncertain. This would equate to an increase in the Pensions Liability on the balance sheet of between £0.2m and £0.3m.

Reference and Administration details

Bridge House Estates

Registered charity number 1035628

The grant-making and other charitable activity of the charity operates under the name City Bridge Trust

Principal office

Guildhall, London, EC2P 2EJ

Trustee

The Mayor and Commonalty & Citizens of the City of London

Senior management:

Chief Executive	John Barradell OBE - The Town Clerk and Chief Executive of the City of London Corporation
Treasurer	Dr Peter Kane - The Chamberlain of the City of London Corporation
Solicitor	Michael Cogher - The Comptroller and City Solicitor of the City of London Corporation
Surveyor	Paul Wilkinson – City Surveyor
Grants	David Farnsworth – Chief Grants Officer and Director of City Bridge Trust

Auditors

BDO LLP, 55 Baker Street, London, W1U 7EU

Bankers

Lloyds Bank Plc., P.O. Box 72, Bailey Drive, Gillingham Business Park, Kent ME8 0LS

Investment advisors

Mercer, Quatermile One, 15 Lauriston Place, Edinburgh, EH3 9EP

Contact for The Chamberlain, to request copies of governance documents - PA-DeputyChamberlain@cityoflondon.gov.uk

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Report to the Audit and Risk Management Committee
BRIDGE HOUSE ESTATES
Audit for the year ending 31 March 2019 - Status report

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We have pleasure in presenting our Report to the Audit and Risk Management Committee where we provide a progress report on the audit for the year ended 31 March 2019. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results, to date, of work undertaken in respect of the planned audit approach for the year ended 31 March 2019, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Risk Management Committee.

Due to the current status of our work, the Audit Panel review of Bridge House Estates has been postponed and a verbal update on this will be provided to the Committee.

As we approach the completion stage of the audit it is essential that we engage with the Audit and Risk Management Committee on the results of audit work on key risk areas, including significant estimates and judgements made by Management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit and Risk Management Committee meeting on 16 July 2019, and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

This report contains matters which should properly be considered by the City of London Corporation. We expect that the Audit and Risk Management Committee will refer such matters to the appropriate Committees within the Corporation together with any recommendations, as it considers appropriate.

We would also like to take this opportunity to thank the Management and staff of the Charity for the co-operation and assistance provided during the audit to date.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. This report has been prepared solely for the use of the Audit and Risk Management Committee and Those Charged with Governance and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.



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OVERVIEW

Executive summary

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This summary provides an overview of the audit matters that we believe are important to the Audit and Risk Management Committee in reviewing the results of the audit of the financial statements for Bridge House Estates for the year ended 31 March 2019.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.



Overview

Our audit work is in progress and subject to the successful resolution of outstanding matters we anticipate being in a position to issue an unmodified audit opinion on the Charity's financial statements for the year ended 31 March 2019 in line with the agreed timetable.

Outstanding matters are listed on page 30 in the appendices.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

Recommendations regarding systems and internal controls are detailed on page 26.

Adjusted and unadjusted audit differences are listed on pages 22, 23 and 24.

No restrictions were placed on our work.

Audit report

We are currently unaware of any matters which would prevent us from issuing an unmodified audit opinion on the financial statements of the Charity as set out on page X.

We will update and issue a final report to the Committee at the point the financial statements are to be approved in order to provide the Committee with further detail relating to our final conclusions and whether any further discussions with the Committee are required.

If anything material comes to attention post the issue of this report, we will liaise with Management to ensure that there is appropriate communication through to the Chair of the Committee.

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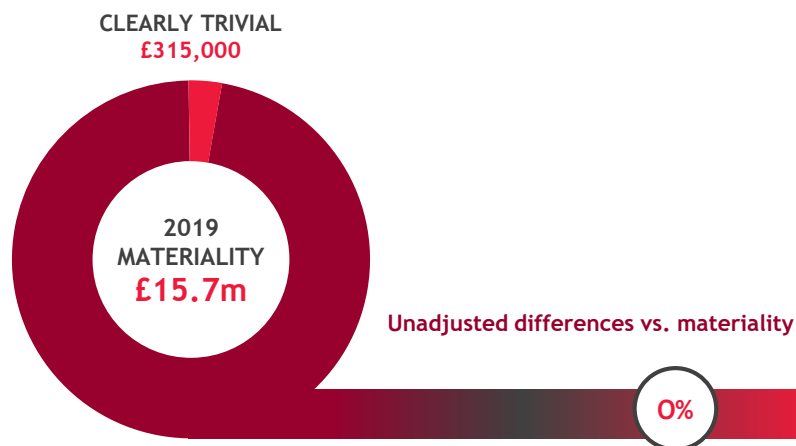
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Final Materiality

Materiality was determined as follows:

- Financial statement materiality: 1% of gross assets
- Specific materiality for items impacting the Statement of Financial Activities: 1% of total income

There were no changes to final materiality and triviality from that reported in our planning report other than being updated for the results for the year ended 31 March 2019.



Unadjusted audit differences

Clearly trivial was set at 2% of financial statement materiality (£315k) and specific materiality (£9k). It is only unadjusted differences that are above clearly trivial that we report to the Board on the unadjusted differences summary.

To date, we have identified audit adjustments that, if posted, would reduce the reported surplus by £13k, and net assets by £13k.

At the time of writing we are aware of one further potential adjustment relating to the valuation of a property which is expected to be sold post year end. This could result in an increase in the valuation of £1.1 million. We will verbally update the Committee on the conclusions of our work in this area on 16 July.

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Financial reporting

- We have not identified any non-compliance with accounting policies or applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.



Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.
- Completion of post balance sheet event review up to point of signing the financial statements.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Charity in accordance with the FRC's Ethical Standard.

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OVERVIEW - SIGNIFICANT RISKS

As identified in our audit planning report dated 28 February 2019 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the directing of the efforts of the engagement team.

Significant Audit Risk	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported in Management letter	Specific Letter of Representation Point	Discussion points for Audit and Risk Management Committee
Management override of controls	Yes	Yes	TBC	No	No	TBC
Revenue recognition	Yes	No	Yes	No	Yes	No
Property, plant & equipment and investment property valuations	Yes	Yes	TBC	No	Yes	Yes
Pension liability valuation	Yes	Yes	TBC	No	Yes	Yes



 Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

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ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant Control Findings to be reported in Mgmnt letter

Letter of Representation point

Risk description

- ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

Details

Our audit procedures will include the following:

- Consideration of estimates and judgements applied in the financial statements to assess their appropriateness and the existence of any systematic bias;
- Review and checking of unusual journal entries made in the year, agreeing the journals to supporting documentation. We will determine key risk characteristics to filter the population of journals. We will use our IT team to assist with the journal extraction; and
- Consideration of unadjusted audit differences for indications of bias or deliberate misstatement.

Results

At present, our testing of journals is in progress. We will provide the Committee with a verbal update at the meeting on 16 July 2019.

Please refer to page 13 for our review of estimates.



REVENUE RECOGNITION

Under auditing standards there is a presumption that income recognition presents a fraud risk.

Risk description

- Under auditing standards there is a presumption that there is a risk of fraud in revenue recognition.
- For Bridge House Estates, we consider there to be a significant risk in respect of the completeness of investment property income which accounts for approximately 75% of total income.

Details

Our audit procedures included the following:

- Carried out audit procedures to gain an understanding of the charities internal control environment for the significant income streams, including how this operates to prevent loss of income and ensure that income is recognised in the correct accounting period. This included substantive testing on the material income streams and cut off testing to ensure income is recognised in the correct period and appropriately classified as restricted or unrestricted funds;
- Tested a sample of fees and charges to ensure that income has been recorded in the correct period and that all income that should have been recorded has been;

- We selected a sample of grants and donations to ensure completeness, accuracy, existence and classification (as restricted or unrestricted) in the financial statements;
- We selected a sample of investment income and confirmed to third party investment manager reports;
- A sample of property rental income was agreed to lease agreements and recalculations performed to determine whether the amounts are accurate and recorded in the correct period.

Results

Tower Bridge Income

Tower Bridge income was tested substantively by selecting a sample of 34 days from the nominal ledger and agreeing these back to G4S reports. For completeness we selected 21 random days' reports and ensured these had been recorded in the general ledger. No issues were noted.

REVENUE RECOGNITION 2

Under auditing standards there is a presumption that income recognition presents a fraud risk.

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant Control Findings to be reported in Mgmnt letter

Letter of Representation point

Results Continued

Investment Property Income

We traced a sample of rental income amounts through to lease agreements. We also obtained a report from the tenant system and developed an expectation of the rental income for the year and compared this to the general ledger.

Testing was completed satisfactorily however we identified two audit adjustments;

- £70k was included within financial investment income however it related to investment property income. This has been adjusted.
- £13k of income was not deferred correctly. On the basis of materiality this has not been adjusted.

Financial Investment Income

We selected a sample of investments income and agreed these through to investment manager reports. At the time of writing we are still awaiting 3 investment managers reports.

Interest Receivable

Testing is in progress in this area.

Other Income

We traced a sample of other income through to supporting documentation. No issues were noted.

PPE AND INVESTMENT PROPERTY VALUATION

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There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on significant assumptions.

Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings to be reported in Mgmnt letter
Letter of Representation point

Risk description

Land, buildings and dwellings are reported at fair value / carrying value. For Bridge House Estates, operational assets are carried at cost.

Investment properties are reported at fair value at the balance sheet date.

The Corporation applies an annual revaluation process for investment properties and higher value operational assets to provide assurance that carrying values are not materially misstated; with the remainder of the non material value assets being revalued every 5 years. The Corporation has appointed four different valuers for investment property and other operational land and buildings. Internal valuers also carry out some valuations at year end.

Due to the significant value of the land, buildings, dwellings and investment properties and the high degree of estimation uncertainty, there is a risk over the valuation of these assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.

Details

Our audit procedures included the following:

- Assessed the qualifications and competence of the valuers used;

- Reviewed the instructions provided to the valuers and review the values' skills and expertise in order to determine if we can rely on the management expert;
- Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage;
- Reviewed accuracy and completeness of asset information provided to the valuer such as rental agreements and land plot / building sizes;
- Reviewed assumptions used by the valuers and movements against relevant indices for similar classes of assets and follow up valuation movements that appear unusual;
- Discussed with our Real Estate Team the reasonableness of assumptions on benchmark and yields range for investment properties;
- We compared movements in the valuation of assets year-on-year and investigate unusual movements; and
- Completed disclosure checklist.

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Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings to be reported in Mgmt letter
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Results

Our testing is still in progress however we have identified the following;

- We attended the second of three meetings between the City's surveyor team and their appointed valuation expert, Cushman & Wakefield. The purpose of our attendance at this meeting was to observe the discussions and challenge between management and their advisers to ensure there was no obvious bias applied to deriving the basis for the property valuations and that consistency was applied across properties with similar characteristics. We took detailed notes on each property however, at this stage we did not seek to determine our own expectations of the appropriate year end valuations.
- At the final audit visit, we performed a review of the yields for investment properties and identified a number of these which are outside of our expected range (based on a range of external sources and benchmarks). Where the notes of our meeting notes above provided relevant details to support the valuation we considered those explanations. For the remainder of the differences we are meeting with the Surveyors team to corroborate these variances.
- We reviewed the accounting treatment for the sale of 1-5 London Wall which occurred in January 2019. While we are awaiting supporting information for elements of the calculation of the Depreciated Replacement Cost (DRC) (against which the lease premium is compared to determine whether the premium relates exclusively to the property and not the land) we are broadly comfortable with the accounting treatment proposed by management following their extensive review and consideration of the options.
- Similarly, we are aware of two other leases held by BHE (Leith House and Salisbury House) where, given the agreement of the accounting for London Wall, management are reviewing the previous treatment adopted to ensure that treatment was appropriate.

PENSION LIABILITY VALUATION

There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings to be reported in Mgmnt letter
Letter of Representation point

Risk description

The LGPS pension fund is required to report the pension liability for estimated promised future benefits for the whole fund. The Corporation's share of the net liability, including its share of the assets held in the pension fund, is allocated across the funds in proportion to the payroll cost for each fund. This is currently 2% for Bridge House Estates.

An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate is based on the roll forward of membership data from the 2016 triennial valuation exercise for the LGPS and the 2017 triennial valuation for the police pension, updated at 31 March 2019 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

The proportion of the Pension Fund that relates to Bridge House Estates is not separately identifiable and therefore the share of pension contributions paid to the scheme by the Trust is calculated pro rata to employer's contributions paid by each of the Corporation contributors to the scheme. The risk is therefore also focussed on the accuracy of this calculation.

Details

Our audit procedures included the following:

- Assessed the qualifications and competence of the actuary through the use of PwC consulting actuary (auditor's expert);
- Reviewing the inputs into the calculation;
- Reviewed the reasonableness of the assumptions used by Barnett Waddingham (management's expert) for the calculation of the liability against other local government and police pension actuaries' assumptions and other observable data using the benchmark range of acceptable assumptions provided by PwC consulting actuary (auditor's expert);
- Reviewed the controls for providing accurate membership data to the actuary;
- Checked whether any significant changes in membership data have been communicated to the actuary;
- Checked the accuracy of the calculations relating to the allocation of the share of the net assets across the funds in proportion to the employer's contribution's paid to the scheme; and
- Reviewed the reasonableness of the relevant disclosures in Bridge House Estates relating to the basis of apportioning the net pension liability of the Corporation.

Results

We are awaiting the results of the Pension audit which is in progress. We understand this is pending the impact of the McCloud decision which will result in an increase in the liability currently allocated to Bridge House Estates.

From the review of the BHE Annual Report, we raised a question relating to the valuation of the pension scheme under IFRS as opposed to FRS102. BHE's actuary confirmed that the value of the assets and liabilities measured under the two accounting standards (IAS19 and FRS102) would be exactly the same for the City of London and, by extension, exactly the same for BHE.

OVERVIEW - OTHER RISKS

As identified in our audit planning report dated 28th February 2019 we assessed the following matters as being normal risks of material misstatement in the financial statements.

Other Audit Risk	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported in Management letter	Specific Letter of Representation Point	Discussion points for Audit and Risk Management Committee
Accounting for leases	No	No	Yes, adjusted	No	No	No
Fund accounting	No	No	Yes, adjusted	No	No	Yes
Investment valuations	No	Yes	No	No	No	No
Related Party transactions disclosure	No	No	Yes, adjusted	No	Yes	No
Pension contributions	No	Yes	TBC	No	Yes	No



Areas requiring your attention

ACCOUNTING FOR LEASES

There is a risk leases may not be correctly accounted.

Risk description

Bridge House Estates have a significant number of leases i.e. is party to a significant number of lease arrangements as lessor. The premiums and rents are apportioned between the land element, which will ordinarily be an operating lease recognised as revenue, and the building element which is likely to be a finance lease and recorded as a capital disposal. The element of the premium relating to the land is treated as deferred income and released to revenue over the term of the lease. There is also likely to be complex calculations relating to the recognition of rental income, rent free calculations, lease extension/ lease premiums, dilapidations and the relevant disclosures.

Details

- Lease income was tested substantively by selecting a sample of leases, obtaining the relevant agreements, calculating the expected income and agreeing it to the accounts, including any amounts of deferred income, rent free calculations, lease extension/ lease premiums, dilapidations and the relevant disclosures.
- We checked the disclosures to ensure that these are in line with the relevant accounting standard.

Results

Our testing is in progress - refer to slide 10 & 12.

Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings to be reported in Mgmnt letter
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FUND ACCOUNTING

There is a risk that fund accounting is not being correctly applied

Risk description

Bridge House Estates had a significant prior year restatement of funds associated with endowment funds having not been correctly identified and accounted for historically. We therefore consider as a risk, the accuracy and presentation of the closing funds position and the net assets by fund.

We have committed to reviewing the prior year adjustment and rationale early to ensure any feedback can be considered by management.

Details

We have:

- reviewed in detail the papers documenting the issue as prepared by management and the previous auditor
- Reviewed the opening balances
- Reviewed the allocation of income, expenditure and investment gains/ losses to restricted/endowment funds as this may require some judgement.
- Reviewed the disclosure of the net assets by fund for each entity as this will need consideration of the evidence available to support the disclosure.

Results

- We are content that the opening balance position, for the purposes of the FY19 financial statements is not materially misstated.
- Our testing of funds is in progress. However, we identified through our reading of the annual report that a new designated fund of £38m had been created in the year. Further investigation confirmed that this new designated fund had not been formally minuted before the year end and as such should be accounted for as a non adjusting post balance sheet event and not a designated fund as at 31 March 2019.
- This has been adjusted by management. We recommend that the creation of a designated fund post year end is noted in the reserves policy as a ring-fencing of future funds and note that the decision should be minuted during FY20. Through our discussions with management we recommended that, going forward the establishment of any new designated fund is documented pre year end in order to be included in the financial statements. However the amount(s) of funds to be transferred into the new designated fund can be agreed subsequently. Refer to slide 26 for recommendation.
- We note that in Draft 3 of the financial statements there is reference to ongoing considerations regarding an appropriate level of free reserves. In the context of the requirements for all charities to disclose the free reserves policy and position at the reporting date, we would encourage the Trustee to conclude this review prior to the issue of the March 2020 financial statements.

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant Control Findings to be reported in Mgmt letter

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INVESTMENT VALUATIONS

There is a risk that investment valuations may not be corrected reported at year end.

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant Control Findings to be reported in Mgmt letter

Letter of Representation point

Risk description

- The investment portfolio within BHE includes unquoted infrastructure, private equity holdings and pooled investment vehicle (held through unit trust). The unquoted infrastructure funds and private equity funds are valued by the General Partner or fund manager using valuations obtained from the underlying partnerships and investments. The valuation of other funds are provided by individual fund managers and reported on a monthly basis.
- Valuations for private equity are provided at dates that are not coterminous with the year for Bridge House Estates and need to be updated to reflect cash transactions (additional contributions or distributions received) up to 31 March. There is a risk that private equity investments valuations may not be appropriately adjusted to include additional contributions or distributions at the year end.
- There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements

Details

Our audit procedures include the following:

- For unquoted infrastructure and private equity investments, obtained direct confirmation of investment valuations from the General Partner or fund manager and request copies, where applicable, of the audited financial statements of the underlying partnerships (and member allocations). We confirmed that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds.

- For pooled investments, obtained direct confirmation of investment valuations from the fund managers and agreed independent valuations, where available, provided by the custodian.
- Obtained independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.
- Agreed the allocation of amounts for each fund where there is pooling of investments across the funds to supporting information.

Results

We have agreed investments to confirmations received from investment managers. We have three investment managers reports outstanding - see page 30.

We have confirmed the existence of the social investments held within the portfolio and are in the process of considering whether there are any further indicators of impairment.

We are in the process of confirming a sample of listed investment balances to external published sources. We have also performed testing over purchases and sales on Investments.

Our testing of the private equity and other non listed elements of the portfolio is ongoing.

In conjunction with the City Fund auditors, we are in the process of reviewing the control reports for the investment managers.

RELATED PARTIES TRANSACTIONS

There is a risk that related party disclosures are not complete and accurate.

Risk description

- Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management and the Audit and Risk Management Committee.
- There is a risk that related party disclosures are not complete and accurate, and disclosed in accordance with the applicable reporting framework for each fund/entity.
- Historically members / trustees of each entity have provided year end declarations but the requirements to consider other connected parties (including family and business connections) may not have been explicitly considered.

Details

Our audit procedures included the following:

- Reviewed management processes and controls to identify and disclose related party transactions;
- Reviewed relevant information concerning any such identified transactions;
- Discussed with management and review members' and management declarations to ensure that there are no potential related party transactions which have not been disclosed; and
- Undertaken Companies House and Charity Commission searches for potential undisclosed interests.

Results

Our work is in progress. However we identified through our testing of leases that BHE had one transaction with City's Cash during the year for the rental of archways under Southwark Bridge. This has now been disclosed as a related party transaction. We will perform additional work around completeness of Related Parties to ensure all transactions are included.

In addition, we noted that related parties below £10k were not being disclosed in the financial statements. As related party transactions are material by nature, this has been corrected in the financial statements.

PENSION CONTRIBUTIONS

There is a risk that the Corporation or other admitted and scheduled employers may not be calculating contributions correctly or paying over the full amount due to the pension fund.

Risk description

- Employers are required to deduct amounts from employee pay based on tiered pay rates and to make employer contributions in accordance with rates agreed with the actuary. Additional contributions are also required against pension strain for early retirements.
- There is a risk that the Corporation or other admitted and scheduled employers may not be calculating contributions correctly or paying over the full amount due to the pension fund.

Details

Our audit procedures included the following:

- Tested amounts payable by employers / receivable by the pension fund for normal contributions including checking to employer payroll records;
- Ensured that income is recognised in the correct accounting period where the employer is making payments in the following month;
- We performed tests over pension strain contributions due from employers;
- Agreed total contributions payable by the Charity (as employer) to the amounts received in the pension fund;
- Reviewed contributions income in accordance with the Actuary's Rates and Adjustments Certificate, including specified increased rates to cover the minimum contributions to be paid as set out in the Certificate; and
- Discussed with the actuary the potential impact on GMP equalisation on the charity.

Results

Please refer to page 13

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant Control Findings to be reported in Mgmnt letter

Letter of Representation point

SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS & ESTIMATES

The Members are required to make a number of significant judgements, key assumptions and estimates when compiling the entities financial statements.

The judgements, assumptions and estimates that have the most significant effect on the financial statements are detailed in the notes of the draft financial statements. We have detailed below our work and conclusions in relation to the key items. While the valuation of the investment properties and defined benefit pension scheme are deemed to be a significant risks, we do not consider the other judgements to give rise to a significant audit risk.

Judgements

Fair Value of investment properties

The fair value of investment property is determined by the valuers to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction.

Discussion

- The valuations have been prepared in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuation - Professional Standards January 2018 ("the Red Book").
- Factors reflected include current market conditions, annual rentals, operating costs and location.
- Refer to page 11 for conclusion on investment property valuations.

Defined benefit pension scheme

There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

Discussion

- Refer to page 13

Going concern

Management and Trustees are required to consider at least the 12 month period from date of sign off in assessing the going concern assumption

Discussion

- The documentation of our work is in progress however given the significant assets held by BHE we are not anticipating any issues in concluding this area.

Investment Valuations

Inappropriate assumptions may be used to value investments

Discussion

- Refer to page 17

Depreciation and amortisation

Depreciation is charged on a straight line basis based on the useful economic life of the assets

Discussion

- No significant issues noted

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MATTERS REQUIRING ADDITIONAL CONSIDERATION

	Significant matter	Comment based on progress to date
1	Significant difficulties encountered during the audit	No exceptions to note
2	Significant matters that arose during the audit that were discussed or were subject to correspondence with management	No exceptions to note
3	Serious incident reporting	No serious incident reports have been communicated to us
4	Written representations which we seek	We enclose a copy of our draft representation letter
5	Any fraud or suspected fraud issues	No exceptions to note
6	Any suspected non-compliance with laws or regulations	No exceptions to note
7	Any misstatements in opening balances that exist in the current period financial statements	No exceptions to note
8	Significant matters in connection with related parties	No exceptions to note
9	Any other significant matters arising relevant to the oversight of the financial reporting process	No exceptions to note
10	Any material misstatements effecting prior period financial statements on which a predecessor auditor had previously reporting	No exceptions to note

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OVERVIEW: UNADJUSTED AUDIT DIFFERENCES AND DISCLOSURES

Summary for the current year

Unadjusted audit differences:

We are required to bring to your attention unadjusted differences and we request that you correct them.

There is one unadjusted audit differences identified by our audit work to date which would decrease draft income of £98.9m by £13k and would decrease draft net assets of £1,495m by £13k. Management consider the differences to be immaterial in the context of the financial statements as a whole. We request that the reason for not correcting is included in the letter of representation.

Details of the unadjusted audit differences can be found on page 23.

Unadjusted financial reporting matters

We are required to bring to your attention financial reporting disclosure omissions and improvements that the Audit and Risk Management Committee is required to consider.

There are no unadjusted financial reporting matters.

Adjusted audit differences

A small number of audit adjustments have been posted through the accounts by the finance team subsequent to the draft accounts presented for audit.

Details of the adjusted audit differences can be found on page 24.

Adjusted financial reporting matters

A small number of disclosure omissions were identified and have been corrected in the draft accounts presented for audit.

These are detailed on page 25.

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UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance sheet	
	£m	£m Dr	£m Cr	£m Dr	£m Cr
Unadjusted audit differences					
Net income for the year before adjustments	98.9				
Adjustment 1: Deferral of investment income					
DR Investment Property income		0.013			
CR Deferred income					0.013
Net income for the year if adjustments accounted for	98.9				

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ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance sheet	
	£m	£m Dr	£m Cr	£m Dr	£m Cr
Adjusted audit differences					
Net income for the year before adjustments	98.9				
Adjustment 1: Adjustment to correctly allocate investment property income					
DR Investment Income		0.07			
CR Investment Property Income			0.07		
Adjusted net income for the year	98.9				

ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Audit and Risk Management Committee is required to consider.

The following adjusted disclosure matters were noted:

- BHE initially had included a new designated fund however this had not been minuted prior to the year end. Therefore the new designated fund needed to be removed and the amount included within general funds.
- We noted that BHE had included a disclosure threshold for related parties transactions of £10k. In accordance with FRS 102 all related party transactions should be disclosed.



CONTROL ENVIRONMENT: OBSERVATIONS NOTED

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We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit and Risk Management Committee.

We have not identified any significant deficiencies in internal control.

As the purpose of the audit is for us to express an opinion on the Charity’s financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

Area	Observation & implication	Recommendation	Management response
Designated Funds	BHE determined to include an amount of general reserves in a designated fund however this decision was not formally minuted before the year end.	We recommend that going forward BHE should ensure that any intention to designate funds is minuted prior to the year end in line with the Charities SORP.	We confirm that any new designated funds will be approved by the appropriate Committee prior to year-end.
Accounting Treatment of large, one off or complex transactions	We noted that key accounting treatments (e.g. for 1-5 London Wall) were not determined until the accounts were prepared.	We recommend that management engage with us throughout the year so that we can agree and confirm the accounting treatment of large, one off or complex transactions well in advance of the year end audit. Prior to this, management should ensure that these are considered fully in terms of the accounting treatment at the time the transaction is completed rather than at the year end.	We confirm that the accounting treatment of large, one off or complex transactions will be discussed with our auditors in advance of the year end audit, with full consideration of these made at the time the transaction is made in a timely manner.

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Opinion on financial statements

Whilst our work is progressing, at the time of writing we are not aware of any matters which would prevent us being able to issue an unmodified opinion on the financial statements.

There are no matters that we wish to draw attention to by way of ‘emphasis of matter’.

Going concern

The documentation of our work in regards to going concern is currently in progress although given the level of assets held by the charity we currently have no concerns.

There are no material uncertainties in relation to going concern disclosed in the financial statements or of which we are aware that we need to draw attention to in our report at this stage.

Comments on the Annual report and statutory other information

- We have reviewed the Annual report and fed back comments to management. We are in the process of reviewing draft 2 though we expect management to have incorporated our comments from draft 1.
- Our review of the other information accompanying the financial statements is not yet complete but we expect any misstatements, material or otherwise, to be corrected by management. We will confirm this as part of our final review of the financial statements.

INDEPENDENCE

Under ISAs (UK) and the FRC’s Ethical Standard we are required, as auditors, to confirm our independence.

Under ISAs (UK) and the FRC’s Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2019.

Details of services, other than audit, provided by us to the Charity during the period and up to the date of this report are set out on the following page. We understand that the provision of these services was approved by the Committee in advance in accordance with the Charity’s policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our planning report.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence. We note that Leigh Lloyd-Thomas is on the Audit Panel but is not involved in reviewing our work not signing the opinion on these accounts.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC’s Ethical Standard and are independent of the Group.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

FEES

Fees summary for year ended 31 March 2019

	£	£
Audit fee for year ending 31 March 2019		
• Charity financial statements	40,000	
Total fees		40,000



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OUTSTANDING MATTERS

Our audit work is in progress in respect of the financial statements for the year ended 31 March 2019.

The following matters are outstanding at the date of this report. We will provide you with a verbal update on their current status at the Audit and Risk Management Committee meeting on 16 July 2019:

- Journal testing
- Certain investment managers confirmations
- Cash flow forecast and going concern
- Supporting information for the 1-5 London Wall insurance valuation and the additional lease transactions
- We have audit fieldwork to be completed in the following areas; Investment properties, Investments, Cash, Receivables. Creditors, Funds, Payroll, Commitments and Investment income. Some information to complete has been received and yet to be fully reviewed while other items remain outstanding
- Completion of internal review processes
- Final review of the financial statements. We have reviewed drafts 1 and 3 and have fed back comments to management
- Finalisation of audit for ‘other information’
- Subsequent events procedures up until the date of signing
- Receipt of the letter of representation



APPENDICES

TRUSTEE'S RESPONSIBILITIES EXPLAINED

The Trustee's Responsibilities and Reporting

The Trustee is responsible for preparing and filing an Annual Report and financial statements which show a true and fair view, comply with the Charities SORP, prepared in accordance with UK GAAP.

Our audit of the financial statements does not relieve Management nor those charged with governance of their responsibilities for the preparation of the financial statements.

Further information regarding these responsibilities is provided in the engagement letter.

Trustee responsibilities	What this means
<ul style="list-style-type: none">Maintain adequate accounting records and maintain an appropriate system of internal control for the charityPrepare the annual report and the financial statements which give a true and fair view and which are prepared in accordance with UK Generally Accepted Accounting Practice.Safeguard the assets of the charity and take reasonable steps for the prevention and detection of fraud and other irregularities.	Further information regarding these responsibilities is provided in the engagement. We are happy to explain these in more detail to you.
To make available to us, as and when required, all the charity's accounting records and related financial information.	
To provide us with Committee papers on key issues including but not limited to:	
<ul style="list-style-type: none">Review of business risksGoing concern assessmentsImpairment reviewsAny key judgments and estimates.	
Having made enquiries of fellow Trustees state in the Annual report that:	In addition to answering our queries, this requires proactive behaviour in order to make us aware of any relevant information. Relevant information is very broad and includes any information needed in connection with our report.
<ul style="list-style-type: none">So far as they are aware, there is no relevant audit information of which the charity's auditors are unawareThey have taken all reasonable steps they ought to have taken as the Trustee in order to make themselves aware of any relevant audit information and to establish that the charity's auditors are aware of that information.	

OUR RESPONSIBILITIES

Responsibilities and reporting

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members.

We report only those matters which come to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements.

We are also required to report on the consistency of the Annual report with the Financial Statements and our knowledge of the charity and their environment obtained in the course of the audit and whether they have been prepared in accordance with the requirements of the Charities SORP.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

FRAUD RISK

Respective responsibilities

In accordance with the International Standards on Auditing (UK) we are required to discuss with you the possibility of material misstatement, due to fraud or error. Below is a summary of the respective responsibilities of the Board of Trustees, management, and the Auditor with regards to fraud:

Trustees' Responsibility

- To evaluate management's identification of fraud risk, and implementation of anti-fraud measures; and
- To investigate any alleged or suspected instances of fraud brought to their attention.

Management's Responsibility

- To design and implement systems and controls that enables the organisation to prevent and detect fraud;
- To ensure that the organisation's culture promotes ethical behaviour; and
- To perform a risk assessment that specifically includes the risk of fraud, and consideration of whether having a whistleblowing policy in place.

Auditor's Responsibility

- To evaluate and obtain sufficient appropriate audit evidence regarding the assessed risk of material misstatement due to fraud;
- To identify and assess the risks of material misstatement of the financial statements due to fraud; and
- To report fraud to an appropriate authority outside the entity where there is a suspected or actual instance suggesting dishonesty or fraud.

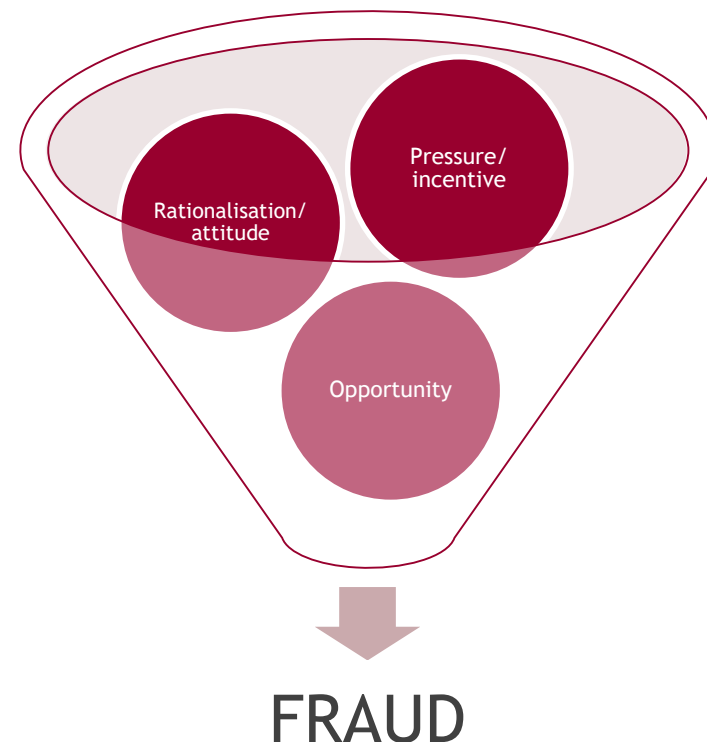
The auditor would also report to those charged with governance subject to "tipping-off" provisions under anti-money laundering legislation.

We will continue to consider fraud throughout the audit process and will discuss with the Audit Committee. We will liaise with management to determine any actual, suspected or alleged fraud known to them. We will discuss with management any knowledge they have of suspected or alleged fraud.

We will consider management's process for identifying and responding to the risks of fraud, including the nature, extent and frequency of such assessments. We ask that Board members advise us if they do not concur with the assessment made by management in your management representation letter to us.

The key questions we are required to ask the trustees are as follows:

- Are you aware of any instances of actual, suspected or alleged fraud?;
- What are your processes for identifying and responding to the risk of fraud?; and
- What communication is made with the Audit Committee and the Board with regards to processes for identifying and responding to the risk of fraud?



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BDO LLP
2 City Place
Beehive Ring Road
Gatwick
West Sussex
RH6 0PA
Dear Madams/Sirs

Financial Statements of Bridge House Estates for the year ended 31 March 2019

We confirm that the following representations given to you in connection with your audit of the charity’s financial statements (the “financial statements”) for the year ended 31 March 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other trustees and officials of the charity.

We have fulfilled our responsibilities as trustees for the preparation and presentation of the financial statements as set out in the terms of the audit engagement letter, and in particular that the financial statements give a true and fair view of the financial position of charity as at 31 March 2019 and of the results of the charity’s operations and cash flows for the year then ended in accordance with the applicable financial reporting framework and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the charity have been made available to you for the purpose of your audit and all the transactions undertaken by the charity have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and trustee meetings have been made available to you.

Going concern

We have made an assessment of the charity’s ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the charity is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the charity’s ability to continue as a going concern.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which our business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

Post balance sheet events

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

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Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

We attach a schedule showing uncorrected misstatements that you identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below.

In our opinion, the effects of not correcting such identified misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable accounting framework.

Other than as disclosed in note 26 to the financial statements, there were no loans, transactions or arrangements between the charity and the charity's trustees or their connected persons at any time in the year which were required to be disclosed.

In the opinion of the trustees the charity has no controlling party.

Carrying value and classification of assets and liabilities

[We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.] [NB this representation will be considered at the conclusion of the audit.]

Accounting estimates

[Pensions and investment property estimates and assumptions to be included in final version]

Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

Serious incident reports

We confirm that no serious incident reports have been made to the Charity Commission during the period or since the end of the period.

Charity income

All grants, donations and other income, the receipt of which is subject to specific terms or conditions, have been notified to you. There have been no breaches of terms or conditions during the period in the application of such income.

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Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each trustee has taken all the steps that they ought to have taken as a trustee in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

(Signed on behalf of the board of trustees)

Date:

FOR MORE INFORMATION:**Fiona Condron**

t: 01293 591 102

m: 07979 706 565

e: Fiona.Condron@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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