



## Finance Committee

**Date:** TUESDAY, 23 JULY 2019  
**Time:** 1.45 pm  
**Venue:** COMMITTEE ROOM - 2ND FLOOR WEST WING, GUILDHALL

### APPENDICES

8. **APPENDICES - DRAFT CITY FUND AND PENSION FUND STATEMENT OF ACCOUNTS**  
Report of the Chamberlain.

**For Decision**  
(Pages 1 - 250)

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**Lunch will be served for Members in Guildhall Club at 1pm**  
**NB: Part of this meeting could be the subject of audio video recording**

**John Barradell**  
**Town Clerk and Chief Executive**

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# THE CITY OF LONDON CORPORATION

## Unaudited Statement of Annual Accounts for the City

### Fund Year Ended 31 March 2019

## Contents

|   |     |
|---|-----|
| Preface .....   | 3   |
| The City of London Corporation's Responsibilities .....                               | 14  |
| Independent Auditor's Report on the City Fund to the City of London Corporation ..... | 15  |
| Core Financial Statements .....   | 19  |
| Comprehensive Income and Expenditure Statement .....                                  | 20  |
| Movement in Reserves Statement .....  | 21  |
| Balance Sheet.....  | 22  |
| Cash Flow Statement .....   | 23  |
| Notes to the Core Financial Statements .....  | 24  |
| Notes to the Comprehensive Income and Expenditure Statement .....                     | 27  |
| Notes to the Movement in Reserves Statement .....                                     | 39  |
| Notes to the Balance Sheet .....  | 44  |
| Notes to the Cash Flow .....  | 76  |
| Other Notes to the Accounts .....   | 79  |
| Housing Revenue Account .....   | 86  |
| Collection Fund Account .....   | 92  |
| Police Pension Fund .....   | 96  |
| City of London Pension Fund Account .....   | 97  |
| Accounting Policies .....   | 117 |
| Annual Governance Statement.....  | 135 |
| Further Information.....  | 152 |





# 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.uk](http://www.cityoflondon.gov.uk)<sup>1</sup>

## PERFORMANCE

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



<sup>1</sup> 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         |
| <b>Total</b>                | <b>36</b> |

### 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:

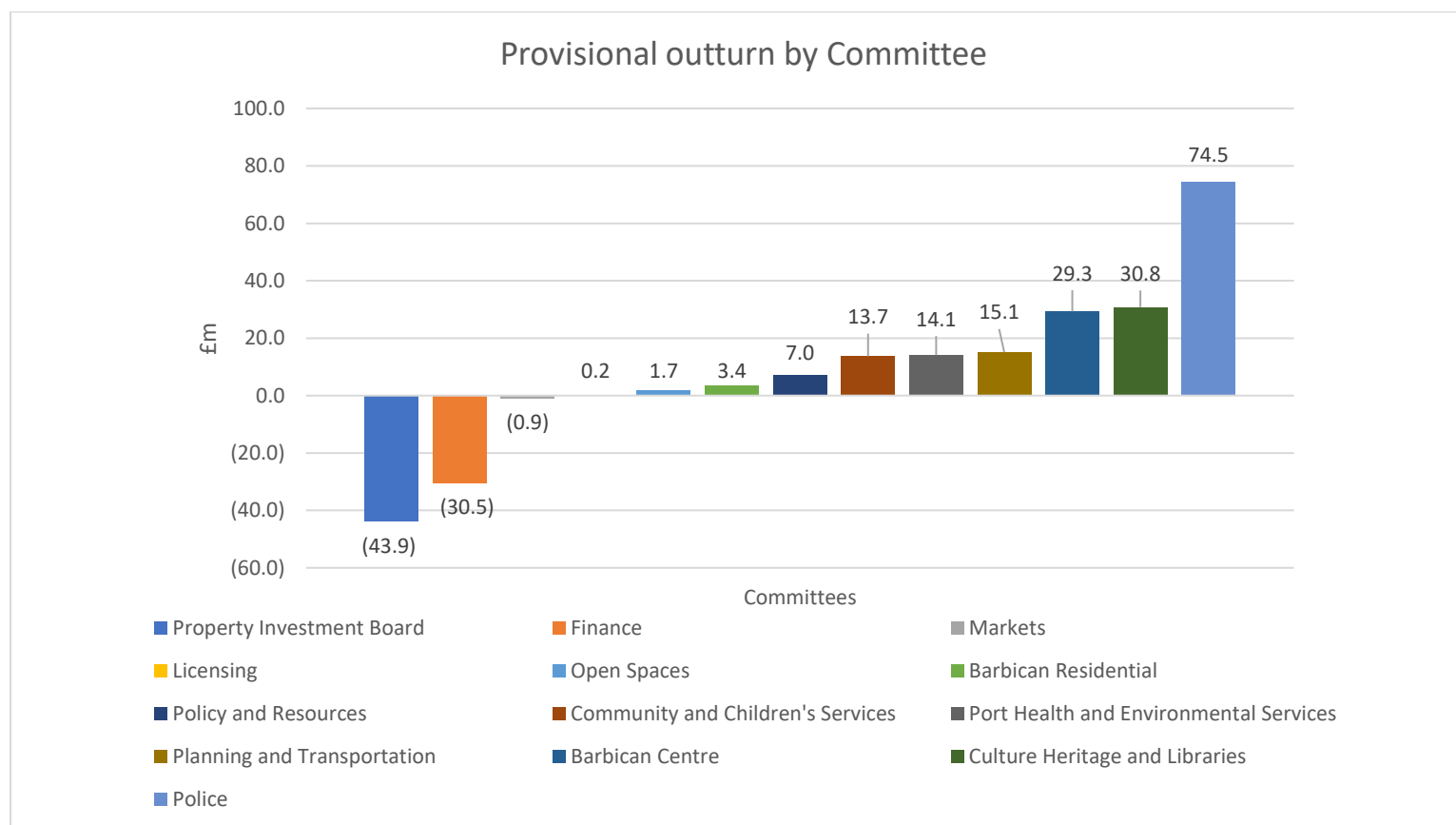
- **Spending Review** (potentially reporting November 2019) – there is unlikely to be significant additional government funding for local government or police, with the most likely outcome being a further squeeze.
- The **Fair Funding Review** of local government funding could shift resources away from 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<br>(Better)/Worse |
| <i>Net Expenditure (Income)</i>   | <b>Net</b>   | <b>Outturn</b> | <b>Total</b>                |
|   | <b>£m</b>    | <b>£m</b>      | <b>£m</b>                   |
| 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)                       |
| <b>City Fund requirement to be met from government grants, local taxation and transfers to/(from) reserves.</b> | <b>122.0</b> | <b>114.5</b>   | <b>(7.5)</b>                |
| Transfer from City of London Police Reserve   |              | (0.4)          |                             |
| Funding from Taxation and Grants  |              | (138.4)        |                             |
| <b>2018-19 Transfer to City Fund Balance</b>  |              | <b>(24.3)</b>  |                             |

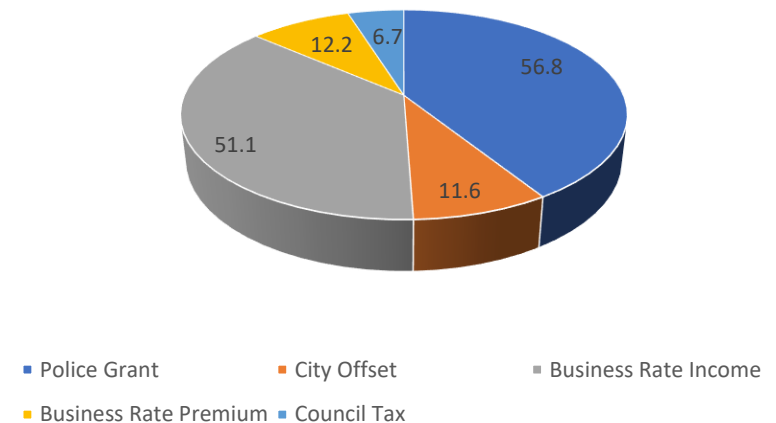
7. 2018-19 was the first year in which the City Fund did not receive any revenue support grant from Government as this has been rolled into retained business rate income. This was also the first year of the London Business Rate Pool Pilot, which has been entered into by all 32 London Boroughs, the Greater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

Page held for the Independent Auditor's Report

Page held for the Independent Auditor's Report

Page held for the Independent Auditor's Report

Page held for the Independent Auditor's Report



# 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                        |
|                   |                |                           | <b>Services</b>   |       |                   |                |                           |
| 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                      |
| <b>391.4</b>      | <b>(213.3)</b> | <b>178.1</b>              | <b>Cost of Services</b>                                   |       | <b>448.8</b>      | <b>(204.3)</b> | <b>244.5</b>              |
|                   |                | (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)                   |
|                   |                | <b>(72.8)</b>             | <b>(Surplus)/Deficit on the Provision of Services</b>     |       |                   |                | <b>(53.3)</b>             |
|                   |                | (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                       |
|                   |                | <b>(19.4)</b>             | <b>Other Comprehensive (Income) &amp; Expenditure</b>     |       |                   |                | <b>(13.8)</b>             |
|                   |                | <b>(92.2)</b>             | <b>TOTAL COMPREHENSIVE (INCOME) &amp; EXPENDITURE</b>     |       |                   |                | <b>(67.1)</b>             |

## 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               |
| <b>Balance at 31 March 2018</b>  |       | <b>(122.3)</b>    | <b>(4.5)</b>            | <b>(26.2)</b>            | <b>(27.1)</b>            | <b>(8.5)</b>          | <b>(188.6)</b>        | <b>(1,158.1)</b>  | <b>(1,346.7)</b> |
| 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)           |
| <b>Balance at 31 March 2019 carried forward*</b>                       |       | <b>(122.3)</b>    | <b>(3.8)</b>            | <b>(21.6)</b>            | <b>(33.9)</b>            | <b>(3.2)</b>          | <b>(184.8)</b>        | <b>(1,229.0)</b>  | <b>(1,413.8)</b> |

\* 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               |
| <b>Balance at 31 March 2017 carried forward</b>                        |       | <b>(90.9)</b>     | <b>(8.1)</b>            | <b>(33.7)</b>            | <b>(23.4)</b>            | <b>(6.5)</b>          | <b>(162.6)</b>        | <b>(1,091.9)</b>  | <b>(1,254.5)</b> |
| 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)           |
| <b>Balance at 31 March 2018 carried forward**</b>                      |       | <b>(122.3)</b>    | <b>(4.5)</b>            | <b>(26.2)</b>            | <b>(27.1)</b>            | <b>(8.5)</b>          | <b>(188.6)</b>        | <b>(1,158.1)</b>  | <b>(1,346.7)</b> |

\*\* 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             |
| <b>2,465.1</b>   | <b>Long-Term Assets</b>                              |       | <b>2,550.0</b>   |
|                  |  |       |                  |
| 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             |
| <b>835.1</b>     | <b>Current Assets</b>                                |       | <b>912.2</b>     |
|                  |  |       |                  |
| (360.7)          | Short-Term Creditors                                 | 21    | (363.1)          |
| (58.0)           | Provisions   | 22    | (72.7)           |
| <b>(418.7)</b>   | <b>Current Liabilities</b>                           |       | <b>(435.8)</b>   |
|                  |  |       |                  |
| (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)           |
| <b>(1,534.8)</b> | <b>Long-Term Liabilities</b>                         |       | <b>(1,612.6)</b> |
| <b>1,346.7</b>   | <b>NET ASSETS</b>                                    |       | <b>1,413.8</b>   |
|                  |  |       |                  |
| (188.6)          | Usable Reserves                                      |       | (184.8)          |
| (1,158.1)        | Unusable Reserves                                    | 31    | (1,229.0)        |
| <b>(1,346.7)</b> | <b>TOTAL RESERVES</b>                                |       | <b>(1,413.8)</b> |

## 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)  | <b>Cash and cash equivalents at the end of the reporting period</b> |       | <b>(38.5)</b> |



# 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                          |
|  |  |                             | <b>Committees</b>   |  |  |                             |
| 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                        |
| <b>110.4</b>   | <b>67.7</b>  | <b>178.1</b>                | <b>Net Cost of Services</b>                                   | <b>137.2</b>   | <b>107.3</b>   | <b>244.5</b>                |
| (138.2)  | (112.7)  | (250.9)                     | Other Income and Expenditure                                  | (136.5)  | (161.3)  | (297.8)                     |
| (27.8)   | (45.0)   | (72.8)                      | <b>(Surplus) or Deficit on the Provision of Services</b>      | <b>0.7</b>   | <b>(54.0)</b>  | <b>(53.3)</b>               |
| <b>(99.0)</b>  |  |                             | <b>Opening City Fund and HRA Balances</b>                     | <b>(126.8)</b>   |  |                             |
| (27.8)   |  |                             | Add (Surplus) or Deficit on City Fund and HRA Balance in Year | 0.7  |  |                             |
| <b>(126.8)</b>   |  |                             | <b>Closing City Fund and HRA Balances at 31 March*</b>        | <b>(126.1)</b>   |  |                             |

\* 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              |
| <b>22.2</b>                      | <b>(0.4)</b>                        | <b>0.0</b>                         | <b>45.9</b>       | <b>67.7</b>       | <b>Net Cost of Services</b>   | <b>2.9</b>                       | <b>(7.1)</b>                        | <b>0.0</b>                         | <b>111.5</b>      | <b>107.3</b>      |
| (93.8)                           | 32.8                                | (5.8)                              | (45.9)            | (112.7)           | Other Income and Expenditure  | (58.3)                           | 32.1                                | (24.9)                             | (110.2)           | (161.3)           |
| <b>(71.6)</b>                    | <b>32.4</b>                         | <b>(5.8)</b>                       | <b>0.0</b>        | <b>(45.0)</b>     | <b>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</b> | <b>(55.4)</b>                    | <b>25.0</b>                         | <b>(24.9)</b>                      | <b>1.3</b>        | <b>(54.0)</b>     |

### 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               |
|                | <b>Expenditure</b>   |                  |
| 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)            |
| <b>736.6</b>   | <b>Total expenditure</b>   | <b>1,093.3</b>   |
|                |  |                  |
|                | <b>Income</b>  |                  |
| (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)           |
| <b>(809.4)</b> | <b>Total Income</b>  | <b>(1,146.6)</b> |
| <b>(72.8)</b>  | <b>(Surplus) or Deficit on the Provision of Services</b>             | <b>(53.3)</b>    |

## 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)         |
| <b>(93.4)</b> | <b>Total</b>  | <b>(91.0)</b> |

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                       |
| <b>(1.7)</b>              | <b>Total Other Operating Income and Expenditure</b>          | <b>(2.3)</b>              |
|                           | 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                       |
| <b>(87.7)</b>             | <b>Total Financing and Investment Income and Expenditure</b> | <b>(52.2)</b>             |

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)          |
| <b>(161.5)</b> | <b>Total Taxation and Non-Specific Grant Income</b>        | <b>(243.3)</b> |
| <b>(250.9)</b> | <b>Total Income and Expenditure below Cost of Services</b> | <b>(297.8)</b> |

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        |
| <b>Total DSG after Academy recoupment for 2018-19</b>  | <b>1.0</b>                   | <b>2.0</b>               | <b>3.0</b> |
| 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        |
| <b>Agreed initial budgeted distribution in 2018-19</b> | <b>1.5</b>                   | <b>2.0</b>               | <b>3.5</b> |
| 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        |
| <b>Carry forward to 2019-20</b>                        | <b>0.7</b>                   | <b>0.0</b>               | <b>0.7</b> |

| 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        |
| <b>Total DSG after Academy recoupment for 2017-18</b>  | <b>0.9</b>                   | <b>1.8</b>               | <b>2.8</b> |
| 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        |
| <b>Agreed initial budgeted distribution in 2017-18</b> | <b>1.3</b>                   | <b>1.8</b>               | <b>3.1</b> |
| 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        |
| <b>Carry forward to 2018-19</b>                        | <b>0.5</b>                   | <b>0.0</b>               | <b>0.5</b> |



## 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                 |
| <b>385</b>              | <b>151</b> | <b>337</b>        | <b>Total</b>  | <b>390</b>              | <b>198</b> | <b>368</b>        |

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   |
| <b>Salary is £150,000 or more a year</b>                                     |  |              |                                      |       |          |                  |                                 |                                       |  |                       |  |
| 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   |
| <b>Salary is between £50,000 and £150,000</b>                                |  |              |                                      |       |          |                  |                                 |                                       |  |                       |  |
| 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   |
| <b>Salary is £150,000 or more a year</b>  |  |              |                                      |       |          |                  |                                 |                                       |  |                       |  |
| 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  |
| <b>Salary is between £50,000 and £150,000</b>   |  |              |                                      |       |          |                  |                                 |                                       |  |                       |  |
| 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   |  |
| <b>11.0</b>                                 | <b>1.0</b>                                  | <b>12.0</b>  | <b>611.3</b>                                    | <b>Total</b>        | <b>7.0</b>                                  | <b>8.0</b>                                  | <b>15.0</b>  | <b>361.3</b>                                    |  |

## 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          |
| <b>135.9</b> |   | <b>104.3</b> |



# 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                            |
| <b>Adjustments to the Revenue Resources</b>  |                   |                         |                          |                          |                       |                               |
| <b>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</b> |                   |                         |                          |                          |                       |                               |
| 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                           |
| <b>Total Adjustments to Revenue Resources</b>  | <b>15.1</b>       | <b>(12.5)</b>           | <b>0.0</b>               | <b>(7.6)</b>             | <b>0.0</b>            | <b>5.0</b>                    |
| <b>Adjustments between Revenue and Capital Resources</b>   |                   |                         |                          |                          |                       |                               |
| 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                           |
| <b>Total Adjustments between Revenue and Capital Resources</b>   | <b>49.1</b>       | <b>2.3</b>              | <b>(9.3)</b>             | <b>0.1</b>               | <b>(0.5)</b>          | <b>(41.7)</b>                 |
| <b>Adjustments to Capital Resources</b>  |                   |                         |                          |                          |                       |                               |
| 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                           |
| <b>Total Adjustments to Capital Resources</b>  | <b>0.0</b>        | <b>0.0</b>              | <b>13.9</b>              | <b>0.7</b>               | <b>5.8</b>            | <b>(20.4)</b>                 |
| <b>Total Adjustments</b>   | <b>64.2</b>       | <b>(10.2)</b>           | <b>4.6</b>               | <b>(6.8)</b>             | <b>5.3</b>            | <b>(57.1)</b>                 |

| 2017-18  |  | Usable Reserves         |                               |                                |                                |                             | Movement<br>in<br>Unusable<br>Reserves |
|--|--|-------------------------|-------------------------------|--------------------------------|--------------------------------|-----------------------------|--|
| Comparative Figures  |  | City<br>Fund<br>Balance | Housing<br>Revenue<br>Account | Capital<br>Receipts<br>Reserve | Capital<br>Grants<br>Unapplied | Major<br>Repairs<br>Reserve |  |
|  |  | £m                      | £m                            | £m                             | £m                             | £m                          | £m                                     |
| <b>Adjustments to the Revenue Resources</b>  |  |                         |                               |                                |                                |                             |  |
| <b>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</b> |  |                         |                               |                                |                                |                             |  |
| 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                                    |
| <b>Total Adjustments to Revenue Resources</b>  |  | <b>31.1</b>             | <b>(7.4)</b>                  | <b>0.0</b>                     | <b>(5.2)</b>                   | <b>0.0</b>                  | <b>(15.7)</b>                          |
| <b>Adjustments between Revenue and Capital Resources</b>   |  |                         |                               |                                |                                |                             |  |
| 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                                    |
| <b>Total Adjustments between Revenue and Capital Resources</b>   |  | <b>14.5</b>             | <b>6.8</b>                    | <b>(8.2)</b>                   | <b>0.0</b>                     | <b>(5.0)</b>                | <b>(8.1)</b>                           |
| <b>Adjustments to Capital Resources</b>  |  |                         |                               |                                |                                |                             |  |
| 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                                    |
| <b>Total Adjustments to Capital Resources</b>  |  | <b>0.0</b>              | <b>0.0</b>                    | <b>15.7</b>                    | <b>1.5</b>                     | <b>3.0</b>                  | <b>(20.2)</b>                          |
| <b>Total Adjustments</b>   |  | <b>45.6</b>             | <b>(0.6)</b>                  | <b>7.5</b>                     | <b>(3.7)</b>                   | <b>(2.0)</b>                | <b>(46.8)</b>                          |

## 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<br>at 31<br>March<br>2017 | Transfers<br>Out<br>2017-18 | Transfers<br>In<br>2017-18 | Balance<br>at 31<br>March<br>2018 | Transfers<br>Out<br>2018-19 | Transfers<br>In<br>2018-19 | Balance<br>at 31<br>March<br>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)                            |
| <b>Total</b>                              |       | <b>(40.6)</b>                     | <b>6.9</b>                  | <b>(21.8)</b>              | <b>(55.5)</b>                     | <b>49.5</b>                 | <b>(72.0)</b>              | <b>(78.0)</b>                     |

- (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             |
| <b>Cost or valuation</b>   |                   |                        |                        |                             |                |                  |                           |                |                |
| <b>at 1 April 2018</b>   | 324.7             | 471.0                  | 61.6                   | 44.0                        | 98.0           | 1.5              | 24.6                      | 6.3            | <b>1,031.7</b> |
| Additions  | 4.7               | 2.7                    | 0.9                    | 5.7                         | 11.2           | 0.0              | 13.4                      | 0.3            | <b>38.9</b>    |
| Transfers  | 6.4               | (2.9)                  | 0.0                    | 0.0                         | 0.0            | 0.0              | (7.2)                     | (0.4)          | <b>(4.1)</b>   |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve                          | (13.8)            | 28.9                   | 0.0                    | 0.1                         | 0.0            | 0.0              | 0.0                       | (0.3)          | <b>14.9</b>    |
| 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            | <b>(8.7)</b>   |
| Derecognition - disposals  | (3.5)             | (0.2)                  | 0.0                    | (11.7)                      | 0.0            | 0.0              | 0.0                       | (2.2)          | <b>(17.6)</b>  |
| <b>at 31 March 2019</b>  | <b>309.9</b>      | <b>499.4</b>           | <b>62.5</b>            | <b>38.1</b>                 | <b>109.2</b>   | <b>1.5</b>       | <b>30.8</b>               | <b>3.7</b>     | <b>1,055.1</b> |
| <b>Accumulated Depreciation and Impairment</b>   |                   |                        |                        |                             |                |                  |                           |                |                |
| <b>at 1 April 2018</b>   | (0.1)             | (5.0)                  | (24.2)                 | (34.1)                      | (52.0)         | 0.0              | 0.0                       | (0.7)          | <b>(116.1)</b> |
| Depreciation Charge  | (2.9)             | (10.4)                 | (3.0)                  | (3.3)                       | (6.9)          | 0.0              | 0.0                       | (0.1)          | <b>(26.6)</b>  |
| Depreciation written out to the Revaluation Reserve  | 2.5               | 9.9                    | 0.0                    | 0.0                         | 0.0            | 0.0              | 0.0                       | 0.1            | <b>12.5</b>    |
| 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            | <b>0.4</b>     |
| Derecognition - disposals  | 0.0               | 0.0                    | 0.0                    | 11.7                        | 0.0            | 0.0              | 0.0                       | 0.0            | <b>11.7</b>    |
| <b>at 31 March 2019</b>  | <b>(0.1)</b>      | <b>(5.5)</b>           | <b>(27.2)</b>          | <b>(25.7)</b>               | <b>(58.9)</b>  | <b>0.0</b>       | <b>0.0</b>                | <b>(0.7)</b>   | <b>(118.1)</b> |
| <b>Net Book Value</b>  |                   |                        |                        |                             |                |                  |                           |                |                |
| <b>at 31 March 2018</b>  | <b>324.6</b>      | <b>466.1</b>           | <b>37.4</b>            | <b>9.9</b>                  | <b>46.0</b>    | <b>1.5</b>       | <b>24.6</b>               | <b>5.6</b>     | <b>915.6</b>   |
| <b>at 31 March 2019</b>  | <b>309.8</b>      | <b>493.9</b>           | <b>35.3</b>            | <b>12.4</b>                 | <b>50.3</b>    | <b>1.5</b>       | <b>30.8</b>               | <b>3.0</b>     | <b>937.0</b>   |

## 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             |
| <b>Cost or valuation</b>   |                   |                        |                        |                             |                |                  |                           |                |                |
| <b>at 1 April 2017</b>   | 343.9             | 440.7                  | 61.2                   | 39.7                        | 87.4           | 1.3              | 11.2                      | 6.4            | <b>991.8</b>   |
| Additions  | 0.3               | 2.8                    | 0.4                    | 4.4                         | 9.8            | 0.2              | 17.2                      | 0.1            | <b>35.2</b>    |
| Transfers  | 0.6               | 2.4                    | 0.0                    | 0.0                         | 0.8            | 0.0              | (3.8)                     | 0.0            | <b>0.0</b>     |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve                          | (11.2)            | 25.8                   | 0.0                    | 0.0                         | 0.0            | 0.0              | 0.0                       | (0.2)          | <b>14.5</b>    |
| 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            | <b>(4.3)</b>   |
| Derecognition - disposals  | (5.3)             | 0.0                    | 0.0                    | (0.1)                       | 0.0            | 0.0              | 0.0                       | 0.0            | <b>(5.4)</b>   |
| <b>at 31 March 2018</b>  | <b>324.7</b>      | <b>471.0</b>           | <b>61.6</b>            | <b>44.0</b>                 | <b>98.0</b>    | <b>1.5</b>       | <b>24.6</b>               | <b>6.3</b>     | <b>1,031.7</b> |
| <b>Accumulated Depreciation and Impairment</b>   |                   |                        |                        |                             |                |                  |                           |                |                |
| <b>at 1 April 2017</b>   | (0.1)             | (4.8)                  | (21.2)                 | (31.5)                      | (45.3)         | 0.0              | 0.0                       | (0.7)          | <b>(103.6)</b> |
| Depreciation Charge  | (3.9)             | (9.8)                  | (3.0)                  | (2.7)                       | (6.7)          | 0.0              | 0.0                       | (0.1)          | <b>(26.2)</b>  |
| Depreciation written out to the Revaluation Reserve  | 3.2               | 9.6                    | 0.0                    | 0.0                         | 0.0            | 0.0              | 0.0                       | 0.1            | <b>12.9</b>    |
| 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            | <b>0.7</b>     |
| Derecognition - disposals  | 0.0               | 0.0                    | 0.0                    | 0.1                         | 0.0            | 0.0              | 0.0                       | 0.0            | <b>0.1</b>     |
| <b>at 31 March 2018</b>  | <b>(0.1)</b>      | <b>(5.0)</b>           | <b>(24.2)</b>          | <b>(34.1)</b>               | <b>(52.0)</b>  | <b>0.0</b>       | <b>0.0</b>                | <b>(0.7)</b>   | <b>(116.1)</b> |
| <b>Net Book Value</b>  |                   |                        |                        |                             |                |                  |                           |                |                |
| <b>at 31 March 2017</b>  | <b>343.8</b>      | <b>435.9</b>           | <b>40.0</b>            | <b>8.2</b>                  | <b>42.1</b>    | <b>1.3</b>       | <b>11.2</b>               | <b>5.7</b>     | <b>888.2</b>   |
| <b>at 31 March 2018</b>  | <b>324.6</b>      | <b>466.0</b>           | <b>37.4</b>            | <b>9.9</b>                  | <b>46.0</b>    | <b>1.5</b>       | <b>24.6</b>               | <b>5.6</b>     | <b>915.6</b>   |



## 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 15<sup>th</sup> 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](http://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    | <b>Opening Capital Financing Requirement</b>         | 44.6    |
|         | <b>Capital Investment</b>                            |         |
| 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    |
|         | <b>Sources of Finance</b>                            |         |
| (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    | <b>Closing Capital Financing Requirement</b>         | 43.6    |

| 2017-18 |   | 2018-19 |
|---------|---|---------|
| £m      |   | £m      |
|         | <b>Explanation of movement in year</b>                      |         |
| (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     | <b>Increase/(decrease) in Capital Financing Requirement</b> | (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         |
| <b>17.6</b> | <b>Total</b>                                  | <b>17.2</b> |

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           |
| <b>1,521.8</b> | <b>Balance at end of the year</b>     | <b>1,586.2</b> |

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            |
|              |               | <b>Investments</b>  |               |               |
| 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           |
| <b>0.0</b>   | <b>686.0</b>  | <b>Total Investments</b>  | <b>0.0</b>    | <b>688.5</b>  |
|              |               | <b>Debtors</b>  |               |               |
| 17.6         | 35.5          | Amortised Cost  | 17.2          | 46.0          |
| <b>17.6</b>  | <b>0.0</b>    | <b>Total Debtors</b>  | <b>17.2</b>   | <b>46.0</b>   |
|              |               | <b>Creditors</b>  |               |               |
| 0.0          | (56.7)        | Amortised Cost  | 0.0           | (97.3)        |
| <b>0.0</b>   | <b>(56.7)</b> | <b>Total Creditors</b>  | <b>0.0</b>    | <b>(97.3)</b> |
|              |               | <b>Long Term Liabilities</b>                                      |               |               |
| (4.0)        | 0.0           | Amortised Cost  | (3.1)         | 0.0           |
| <b>(4.0)</b> | <b>0.0</b>    | <b>Total Long Term Liabilities</b>                                | <b>(3.1)</b>  | <b>0.0</b>    |

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



### 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                                |
| <b>Reclassified amounts at 1 April 2018</b>         | <b>686.2</b>                               | <b>471.5</b>                        | <b>0.2</b>                                    | <b>214.5</b>                       |
| Remeasurements at 1 April 2018                      | 0.0  | 0.0                                 | (0.2)   | 0.0                                |
| <b>Remeasured carrying amounts at 1 April 2018</b>  | <b>686.2</b>                               | <b>471.5</b>                        | <b>0.0</b>                                    | <b>214.5</b>                       |
| 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          |
| <b>0.0</b>   | <b>Total net (gains)/losses in Surplus or Deficit on the Provision of Services</b> | <b>0.2</b>   |
| (4.2)        | Interest revenue from financial assets   | (8.6)        |
| <b>(4.2)</b> | <b>Total interest revenue in Surplus or Deficit on the Provision of Services</b>   | <b>(8.6)</b> |

### 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             |
|                 |               | <b>Financial assets</b>                   |                 |                |
| 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           |
| <b>703.6</b>    | <b>704.1</b>  | <b>Total financial assets</b>             | <b>705.9</b>    | <b>705.7</b>   |
|                 |               | <b>Financial liabilities</b>              |                 |                |
| (56.7)          | (56.7)        | Short Term Creditors                      | (97.3)          | (97.3)         |
| (4.0)           | (4.0)         | Long Term Liabilities                     | (3.1)           | (3.1)          |
| <b>(60.7)</b>   | <b>(60.7)</b> | <b>Total financial liabilities</b>        | <b>(124.5)</b>  | <b>(124.5)</b> |

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 AA+mmf (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        |
| <b>2.4</b> | <b>Total</b>  | <b>3.4</b> |

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)         |
| <b>92.8</b>   | <b>Total</b>  | <b>184.0</b>  |

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)         |
| <b>(360.7)</b> | <b>Total</b>   | <b>(363.1)</b> |

## 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            |
| <b>Balance at 1 April 2018</b>  | <b>(56.4)</b>           | <b>(1.6)</b>                        | <b>(58.0)</b> |
| Appeals settled in 2018-19      | 48.7                    | 0.8                                 | 49.5          |
| Provisions made in 2018-19      | (64.0)                  | (0.2)                               | <b>(64.2)</b> |
| <b>Balance at 31 March 2019</b> | <b>(71.7)</b>           | <b>(1.0)</b>                        | <b>(72.7)</b> |

## 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                 |
| <b>(1,493.3)</b>           | <b>(761.5)</b>      | <b>31 March</b>  | <b>(1,578.0)</b>           | <b>(804.7)</b>      |

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                 |
| <b>900.7</b>               | <b>459.3</b>        | <b>31 March</b>                             | <b>969.4</b>               | <b>494.3</b>        |

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            |  |
| <b>100</b>    |                           | <b>100</b>    |  |

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



## c. Overall net deficit

| CITY OF LONDON<br>CORPORATION | CITY FUND SHARE<br>51% |                       | CITY OF LONDON<br>CORPORATION | CITY FUND SHARE<br>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                   |
| <b>(592.6)</b>                | <b>(302.2)</b>         | <b>31 March</b>       | <b>(608.6)</b>                | <b>(310.4)</b>         |

*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:

| 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<br>2018 |  | 31 March<br>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<br>2018 |  | 31 March<br>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              |
| <b>(2.6)</b>     | <b>31 March</b>  | <b>(2.9)</b>     |

### *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:

Page 67

| 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)           |
|                  |   |                  |
| <b>(1,260.7)</b> | <b>Net liability on balance sheet</b>           | <b>(1,299.2)</b> |

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   | <b>Total Retirement Benefit Charged to the Surplus or Deficit on the Provision of Services</b> | 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    | <b>Total Other Comprehensive Income &amp; Expenditure</b>                                      | 20.9    | 0.1    | (7.6)                    | 13.4   |
| 67.8    | 0.2    | 11.4                     | 79.4   | <b>Total Retirement Benefit Charged/(Credited) to the CIES</b>                                 | 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   | <b>Actual amount charged against the City Fund and HRA Balances</b>                            | 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          |
| <b>49.5</b>   |                               | <b>65.0</b>   |

| 31 March 2018 |                              | 31 March 2019 |
|---------------|------------------------------|---------------|
| £m            |                              | £m            |
| 3.1           | Investment Property          | 3.7           |
| 0.9           | Cleansing Vehicles           | 0.1           |
| <b>4.0</b>    | <b>Long Term Liabilities</b> | <b>3.8</b>    |

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                                    |
| <b>14.0</b>                         | <b>3.7</b>                             |   | <b>13.9</b>                         | <b>3.7</b>                             |

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           |
| <b>44.7</b>   | <b>Gross investment in the lease</b>                               | <b>43.8</b>   |

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  |
| <b>44.5</b>               | <b>13.7</b>                                 |   | <b>43.8</b>               | <b>13.1</b>                                 |

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          |
| <b>19.4</b>   |   | <b>17.1</b>   |

**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        |
| <b>3,133.0</b> |   | <b>3,219.0</b> |

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              |
| <b>(1,158.1)</b> | <b>Total Unusable Reserves</b>           | <b>(1,229.0)</b> |

### A. Revaluation Reserve

Page 72

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           |
| <b>(325.4)</b> | <b>Balance at 31 March</b>   |         | <b>(342.4)</b> |

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     |                  |
| <b>43.6</b>      | <b>Total reversal of items relating to capital expenditure debited or credited to the CIES:</b>                |         | <b>52.7</b>      |
| (7.6)            | Adjusting amounts written out of the Revaluation Reserve   | (10.5)  |                  |
| <b>36.0</b>      | <b>Net written out amount of the cost of non-current assets consumed in the year</b>                           |         | <b>42.2</b>      |
|                  | 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)  |                  |
| <b>(45.5)</b>    | <b>Total Capital financing applied in the year:</b>  |         | <b>(79.0)</b>    |
| (72.0)           | Movements in the market value of Investment Properties debited or credited to the CIES                         | (32.9)  |                  |
| <b>(2,076.0)</b> | <b>Balance at 31 March</b>   |         | <b>(2,145.7)</b> |



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)         |
| <b>1,260.7</b> | <b>Balance at 31 March</b>   | <b>1,299.2</b> |

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)          |
| <b>17.1</b> | <b>Total</b>  | <b>(114.0)</b> |

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        |
| <b>29.5</b> | <b>Total</b>   | <b>33.0</b> |

### 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)      |
| <b>(12.5)</b> | <b>Net cash outflows/(inflows) from investing activities</b>                                       | <b>34.1</b> |

### 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          |
| <b>36.7</b> | <b>Net cash inflows from financing activities</b>      | <b>116.9</b> |





# 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](http://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 Dawney 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.

| <b>Business Rate Pool Balances</b> |  | <b>Balance as at<br/>31 March 2019<br/>£m</b> |
|------------------------------------|--|---|
| 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          |
|                                  | <b>Expenditure</b>   |       |         |             |
| 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                             | <b>Total Expenditure</b>   |       |         | 28.3        |
|                                  | <b>Income</b>  |       |         |             |
| (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)                           | <b>Total Income</b>  |       |         | (16.1)      |
| 6.2                              | <b>Net Expenditure/(Income) of HRA Services as included in the City Fund CIES cost of services</b> |       |         | <b>12.2</b> |
|                                  | <b>HRA share of other income and expenditure included in the City Fund CIES</b>                    |       |         |             |
| (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                              | <b>(Surplus)/deficit for the year on HRA Services</b>  |       |         | <b>10.9</b> |

| 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)                         | <b>Balance on the HRA at the end of the current year</b>                   |       |         | <b>3.8</b> |

## 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)      |
| <b>0.23</b> | Provision at 31 March | <b>0.17</b> |

## 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         |
| <b>1,930</b>  | <b>Total</b>         | <b>1,926</b>  |

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

### 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           |
| <b>3.7</b>    | <b>Total arrears</b>        | <b>4.7</b>    |



## 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        |
| <b>4.7</b> | <b>Balance at end of the year</b>     | <b>4.7</b> |

## 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          |
| <b>(8.5)</b> | <b>Balance 31 March</b>                 | <b>(3.2)</b> |

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          |
|            | <b>Expenditure in year</b>                            |             |
|            | 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         |
| <b>7.0</b> | <b>Total Expenditure</b>                              | <b>10.9</b> |
|            | <b>Methods of financing</b>                           |             |
| 0.5        | Capital Receipts                                      | 1.0         |
| 3.0        | Major Repairs Reserve                                 | 5.8         |
| 3.5        | Reimbursements and Donations                          | 4.1         |
| <b>7.0</b> | <b>Total Financing</b>                                | <b>10.9</b> |

## 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               |
|                      |                  |                  | <b>INCOME</b>  |              |                  |                  |
| (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)           |
| <b>(7.2)</b>         | <b>(1,119.7)</b> | <b>(1,126.9)</b> | <b>TOTAL INCOME</b>                                      | <b>(8.2)</b> | <b>(1,178.0)</b> | <b>(1,186.2)</b> |
|                      |                  |                  | <b>EXPENDITURE</b>                                       |              |                  |                  |
|                      |                  |                  | 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            |
| <b>7.2</b>           | <b>1,100.2</b> | <b>1,107.4</b> | <b>Total Expenditure</b>  | <b>7.3</b>   | <b>1,151.5</b> | <b>1,158.8</b> |
| 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)         |
| <b>(0.9)</b>         | <b>(19.0)</b>  | <b>(19.9)</b>  | <b>Balance 31 March</b>   | <b>(1.8)</b> | <b>(45.5)</b>  | <b>(47.3)</b>  |



## 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              |
| <b>(1,067.6)</b> | <b>Net income from national business rates</b> | <b>(1,113.2)</b> |

## 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<br>TEMPLE | INNER<br>TEMPLE | CITY AREA<br>EXCLUDING<br>TEMPLES | TOTAL<br>CITY<br>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<br>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)   |               |
| <b>(10.0)</b> |  |         | <b>(10.5)</b> |
|               |  |         |               |
| (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     |               |
| <b>29.3</b>   |  |         | <b>31.0</b>   |
|               | Payments to and on account of leavers  |         |               |
| 0.0           | - Transfers out to other Police Authorities                                      | 0.0     |               |
|               | - Other  | 0.0     |               |
| <b>0.0</b>    |  |         | <b>0.0</b>    |
| <b>19.2</b>   | Sub-total: Net amount payable for the year before transfer from Police Authority |         | <b>20.3</b>   |
| (19.2)        | Additional contribution from Police Authority                                    |         | (19.4)        |
|               |  |         |               |
| <b>0.0</b>    | <b>Net amount payable/receivable for the year</b>                                |         | <b>0.0</b>    |

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

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              |
| <b>(988.3)</b> | <b>Net assets</b>         | <b>(1,063.1)</b> |

## 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.           |
|               | <b>ADMINISTERING AUTHORITY</b> |                      |                                     |                   |               |
| 11,909        | City of London Corporation     | 4,328                | 3,830                               | 4,063             | 12,221        |
|               |                                |                      |                                     |                   |               |
|               | <b>SCHEDULED BODIES:</b>       |                      |                                     |                   |               |
| 1,083         | Museum of London               | 267                  | 247                                 | 603               | 1,117         |
| 36            | Magistrates Court              | -                    | 18                                  | 16                | 34            |
| 3             | Multi Academy Trust*           | 3                    | -                                   | -                 | 3             |
| <b>1,122</b>  |                                | <b>270</b>           | <b>265</b>                          | <b>619</b>        | <b>1,154</b>  |
|               | <b>ADMITTED BODIES:</b>        |                      |                                     |                   |               |
| 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             |
| <b>301</b>    |                                | <b>104</b>           | <b>41</b>                           | <b>170</b>        | <b>315</b>    |
| <b>13,332</b> | <b>GRAND TOTAL</b>             | <b>4,702</b>         | <b>4,136</b>                        | <b>4,852</b>      | <b>13,690</b> |

### 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"> <li>a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £31m</li> <li>a 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £3m</li> </ul> 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)         |
| <b>(28.8)</b> |                            |                          | <b>(30.8)</b> |
|               | <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)         |
| <b>(10.4)</b> |                            |                          | <b>(11.0)</b> |
| <b>(39.2)</b> | <b>Total contributions</b> |                          | <b>(41.8)</b> |

## 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         |
| <b>40.9</b> |                               | <b>46.1</b> |

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

## 9. Payments to and on account of leavers

| 2017-18    |                          | 2018-19    |
|------------|--------------------------|------------|
| £m         |                          | £m         |
| <b>2.1</b> | Individual transfers out | <b>1.7</b> |

## 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<br>at 01-04-2017 | Purchases<br>at Cost | Sales<br>Proceeds | Net<br>(gain)/loss | Market Value<br>at 31-03-2018 |                                     | Market Value<br>at 01-04-2018 | Purchases<br>at Cost | Sales<br>Proceeds | Net<br>(gain)/loss | Market Value<br>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<br>(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)                        |
| <b>(964.7)</b>                | <b>(19.7)</b>        | <b>24.0</b>       | <b>(22.1)</b>      | <b>(982.5)</b>                | <b>Total Managed Investments</b>    | <b>(982.5)</b>                | <b>185.9</b>         | <b>(197.4)</b>    | <b>80.9</b>        | <b>(913.1)</b>                |
| (0.5)                         |                      |                   |                    | (0.1)                         | Accrued Income                      | (0.1)                         |                      |                   |                    | -                             |
| -                             |                      |                   |                    | -                             | Investment Receivable               | -                             |                      |                   |                    | -                             |
| -                             |                      |                   |                    | -                             | Investment Liability                | -                             |                      |                   |                    | -                             |
| <b>(965.2)</b>                | <b>(19.7)</b>        | <b>24.0</b>       | <b>(22.1)</b>      | <b>(983.0)</b>                | <b>Total Investment assets</b>      | <b>(983.0)</b>                | <b>185.9</b>         | <b>(197.4)</b>    | <b>80.9</b>        | <b>(913.6)</b>                |

**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                  |
| <b>Managed Investments</b>          |                     |                   |                |                 |                     |
| 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)           | -                   |
| <b>Multi-Asset Pooled Vehicles:</b> |                     |                   |                |                 |                     |
| 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             | -                   |
| <b>Long Term Investments</b>        |                     |                   |                |                 |                     |
| London CIV                          | (0.2)               | -                 | -              | -               | (0.2)               |
| <b>Private Equity Funds:</b>        |                     |                   |                |                 |                     |
| 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)               |
| <b>Infrastructure Funds:</b>        |                     |                   |                |                 |                     |
| DIF                                 | (22.6)              | (0.6)             | 2.6            | (0.5)           | (21.1)              |
| IFM                                 | (35.3)              | -                 | 3.5            | (6.2)           | (38.0)              |
| <b>Total Investments</b>            | <b>(982.5)</b>      | <b>(185.9)</b>    | <b>197.4</b>   | <b>(80.9)</b>   | <b>(1,051.9)</b>    |

\*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<br>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<br>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                     | -                   | -                       | -                                    | -                |
| <b>(0.1)</b>        | <b>(895.2)</b>          | <b>(87.3)</b>                        | <b>(982.6)</b> | <b>Net Financial Assets</b>        | <b>-</b>            | <b>(958.0)</b>          | <b>(93.9)</b>                        | <b>(1,051.9)</b> |

**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)                     |
| <b>Total Level 3</b>    | <b>(87.3)</b>              | <b>0.0</b>             | <b>0.0</b>               | <b>(6.6)</b>      | <b>13.0</b> | <b>(9.1)</b>              | <b>(3.9)</b>            | <b>(93.9)</b>             |



## 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              |
| <b>982.5</b>        |        | <b>1125.6</b>     | <b>839.4</b>      | <b>Total Assets</b>                       | <b>1051.9</b>       |        | <b>1209.6</b>     | <b>894.5</b>      |

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             |
| <b>136.2</b>        |        | <b>137.5</b>      | <b>134.9</b>      | <b>Total</b>                         | <b>201.6</b>        |        | <b>183.8</b>      | <b>206.0</b>      |

**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             |
| <b>549.1</b>        |        | <b>565.3</b>      | <b>532.9</b>      | <b>Overseas sub-total</b> | <b>597.5</b>        |        | <b>614.2</b>      | <b>580.8</b>      |
| 1.7                 |        |                   |                   | Other overseas            | 3.4                 |        |                   |                   |
| <b>550.8</b>        |        |                   |                   | <b>Overseas total</b>     | <b>600.9</b>        |        |                   |                   |
| 431.7               |        |                   |                   | UK investments            | 451.0               |        |                   |                   |
| <b>982.5</b>        |        |                   |                   | <b>Overall</b>            | <b>1,051.9</b>      |        |                   |                   |

## 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 %<br>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<br>Fund | Return<br>Assumption | Real<br>(relative to<br>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 |                       | <b>6.7</b>           | <b>4.3</b>                   |
| Prudence Allowance   |                       | (1.0)                |                              |
| Discount Rate  |                       | <b>5.7</b>           | <b>3.3</b>                   |

### 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                    | <b>945.6</b> |
| Assets                   | (796.3)      |
| Deficit                  | <b>149.3</b> |
| Funding Liabilities      | <b>84%</b>   |

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     | <b>21.0</b>         |

### 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<br>£m | Past-service<br>Deficit Funding<br>£m | Total Contributions<br>£m |
|--------------------------------|----------------------|---------------------------------------|---------------------------|
| <b>Administering Authority</b> |                      |                                       |                           |
| City of London                 | 17.64                | 11.08                                 | 28.72                     |
| <b>Scheduled Bodies</b>        |                      |                                       |                           |
| Museum of London               | 0.92                 | 0.43                                  | 1.35                      |
| Multi-Academy Trust            | 0.02                 | 0.01                                  | 0.03                      |
| <b>Admitted Bodies</b>         |                      |                                       |                           |
| 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                      |
| <b>Other</b>                   | 0.01                 | 0.01                                  | 0.02                      |
|                                | <b>19.05</b>         | <b>11.75</b>                          | <b>30.80</b>              |

## 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<br>31 March 2018 |                           | Market Value<br>31 March 2019 |
|-------------------------------|---------------------------|-------------------------------|
| £m                            |                           | £m                            |
| 1.6                           | Prudential                | 1.7                           |
| 0.5                           | Standard life Investments | 0.5                           |
| 0.3                           | Equitable Life            | 0.2                           |
| <b>2.4</b>                    |                           | <b>2.4</b>                    |

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           |
| <b>0.2</b>    |                     | <b>0.2</b>    |

## 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 <sup>2</sup>Framework *Delivering Good Governance in Local Government*. A copy of the code is on the City Corporation’s website, [www.cityoflondon.gov.uk](http://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.

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<sup>2</sup> 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 31<sup>st</sup> 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

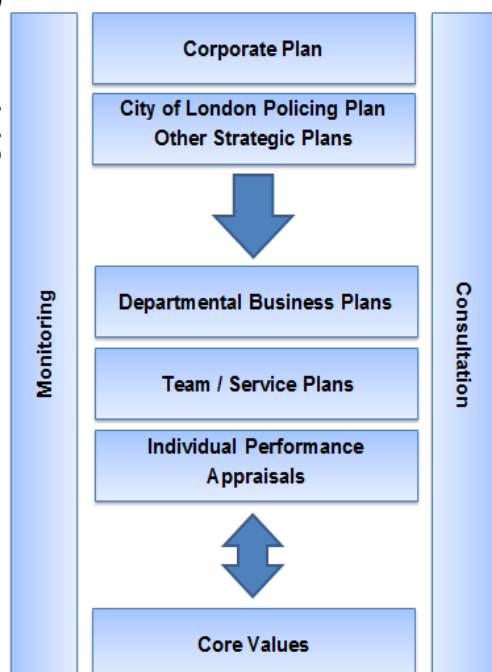
#### Standards Committee

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 8<sup>th</sup> 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 19<sup>th</sup> 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.

Page 140



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 8<sup>th</sup> March 2018 and introduced on 1<sup>st</sup> 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 1<sup>st</sup> 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 25<sup>th</sup> 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*"<sup>3</sup> 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;

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<sup>3</sup> 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 7<sup>th</sup> May 2019.



John Barradell

Town Clerk and Chief Executive

Date: 20<sup>th</sup> May 2019



Catherine McGuinness

Chairman, Policy and Resources Committee

Date: 20<sup>th</sup> May 2019





**Further Information**



|  |   |
|--|---|
| <b>City's Cash</b>                     | 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. |
| <b>Creditors</b>                       | Individuals or organisations to which the City Fund owes money at the end of the financial year.  |
| <b>Collection Fund</b>                 | 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.   |
| <b>Community assets</b>                | 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.  |
| <b>Current asset</b>                   | An asset which will be consumed or cease to have value within the next accounting period; examples are stock and debtors.   |
| <b>Current liability</b>               | An amount which will become payable or could be called in within the next accounting period; examples are creditors and cash overdrawn.   |
| <b>Current service cost (pensions)</b> | The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.  |
| <b>Curtailment (pensions)</b>          | 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"> <li>• termination of employees' services earlier than expected, for example as a result of discontinuing an activity, and</li> <li>• 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.</li> </ul>  |
| <b>Debtors</b>                         | Individuals or organisations that owe the City Fund money at the end of the financial year.   |
| <b>Deferred capital receipts</b>       | 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.  |



|   |  |
|---|--|
| <b>Defined benefit scheme</b>                     | 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.   |
| <b>Defined contribution scheme</b>                | 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. |
| <b>Depreciation</b>                               | The loss in value of an asset due to age, wear and tear, deterioration or obsolescence.  |
| <b>Direct revenue financing</b>                   | Expenditure on the provision or improvement of capital assets met directly from revenue account.   |
| <b>Donated assets</b>                             | Assets transferred at nil value or acquired at less than fair value.   |
| <b>Expected rate of return on pensions assets</b> | 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.   |
| <b>Experience gains or losses</b>                 | 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.  |
| <b>Fair value</b>                                 | 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.  |
| <b>Heritage assets</b>                            | 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.   |
| <b>Impairment</b>                                 | A reduction in the value of an asset below its carrying amount on the balance sheet.   |
| <b>Infrastructure assets</b>                      | 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.   |

|  |   |
|--|---|
| <b>Intangible assets</b>                 | A non-physical item where access to future economic benefits is controlled by the local authority. An example is computer software.   |
| <b>Pensions interest cost</b>            | 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.  |
| <b>Investment properties</b>             | Interest in land or buildings that are held for investment potential.   |
| <b>Levies</b>                            | 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.  |
| <b>National Non-Domestic Rate (NNDR)</b> | 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).  |
| <b>Net current replacement cost</b>      | The cost of replacing a particular asset in its existing condition and in its existing use.   |
| <b>Net realisable value</b>              | 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.   |
| <b>Non-operational assets</b>            | Long-term assets held but not directly occupied, used or consumed in the delivery of service. Examples are investment properties.   |
| <b>Past service cost (pensions)</b>      | 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.  |
| <b>Projected unit method</b>             | <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"> <li>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.</li> </ul> |

|  |   |
|--|---|
| <b>Provision</b>   | <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"> <li>• the City of London has a present obligation (legal or constructive) as a result of a past event;</li> <li>• it is probable that a transfer of economic benefits will be required to settle the obligation; and</li> <li>• a reliable estimate can be made of the amount of the obligation.</li> </ul>  |
| <b>Reserves</b>  | <p>Reserves are reported in two categories in the Balance Sheet of local authorities:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul> |
| <b>Revaluation Reserve</b>                                   | 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.   |
| <b>Revenue expenditure</b>                                   | 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.  |
| <b>Revenue expenditure funded from capital under statute</b> | 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.  |
| <b>Scheme liabilities</b>                                    | 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.   |

|              |   |
|--------------|---|
| 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   |

**NOTES TO THE CITY FUND CORE FINANCIAL STATEMENTS**

|   |    |
|---|----|
| 1. Critical Judgements in Applying Accounting Policies .....                                    | 25 |
| 2. Assumptions Made About the Future and Other Major Sources of Estimation and Uncertainty..... | 25 |
| 3. Expenditure and Funding Analysis .....   | 28 |
| 4. Note to the Expenditure and Funding Analysis.....  | 29 |
| 5. Expenditure and Income Analysed by Nature .....  | 31 |
| 6. Grant Income .....   | 32 |
| 7. Income and Expenditure below Cost of Services .....  | 33 |
| 8. Dedicated Schools Grants.....  | 34 |
| 9. Remuneration and Exit Packages of Employees .....  | 35 |
| 10. Audit Fees.....   | 38 |
| 11. Adjustments between Accounting Basis and Funding Basis under Regulations .....              | 40 |
| 12. Transfers (to)/from Earmarked Revenue Reserves.....   | 43 |
| 13. Property, Plant and Equipment .....   | 45 |
| 14. Heritage Assets .....   | 49 |
| 15. Capital Expenditure and Finance.....  | 49 |
| 16. Long Term Debtors.....  | 50 |
| 17. Investment Properties.....  | 50 |
| 18. Financial Instruments.....  | 51 |
| 19. Nature and Extent of Risks arising from Financial Instruments .....                         | 54 |
| 20. Debtors and Payments in Advance falling due within a year .....                             | 56 |
| 21. Creditors and Receipt in Advance .....  | 57 |
| 22. Provisions .....  | 57 |
| 23. Pension Schemes .....   | 58 |
| 24. The Police Pension Scheme .....   | 63 |
| 25. Judges' Pension Scheme.....   | 65 |
| 26. Transactions Relating to Post-employment Benefits within the Financial Statements.....      | 67 |
| 27. Grants and Contributions Received in Advance.....   | 69 |
| 28. Deferred Credits.....   | 69 |
| 29. Other Long-term Liabilities .....   | 69 |



|  |    |
|--|----|
| 30. Leases .....                                     | 69 |
| 31. Unusable Reserves .....                          | 72 |
| 32. Cash Flow Statement – Operating Activities.....  | 77 |
| 33. Cash Flow Statement – Investing Activities ..... | 78 |
| 34. Cash Flow Statement – Financing Activities ..... | 78 |
| 35. Related Party Transactions .....                 | 80 |
| 36. Members Allowances.....                          | 83 |
| 37. Contingent Liabilities.....                      | 83 |
| 38. Trust Funds .....                                | 83 |
| 39. Agency Transactions.....                         | 84 |

#### NOTES TO THE HOUSING REVENUE ACCOUNT

|  |    |
|--|----|
| 1. Provision for Bad and Doubtful Debts.....                                 | 87 |
| 2. Adjustments between Accounting Basis and Funding Basis under Statute..... | 87 |
| 3. Housing Stock .....   | 88 |
| 4. Arrears of Rent, Service and Other Charges .....                          | 88 |
| 5. HRA Property, Plant and Equipment.....                                    | 89 |
| 7. Investment Property .....   | 90 |
| 8. Major Repairs Reserve .....   | 91 |
| 9. HRA Capital Expenditure .....   | 91 |
| 6. Housing Asset Valuation .....   | 90 |

#### NOTES TO THE COLLECTION FUND

|                                     |    |
|-------------------------------------|----|
| 1. Income from Business Rates.....  | 94 |
| 2. Calculation of Council Tax ..... | 94 |
| 3. Tax Bases .....                  | 95 |
| 4. City Fund Offset .....           | 95 |
| 5. Surplus for the year.....        | 95 |

|   |    |
|---|----|
| <u>NOTES TO THE POLICE PENSION FUND</u> ..... | 96 |
|---|----|

**NOTES TO THE CITY OF LONDON PENSION FUND**

|  |     |
|--|-----|
| 1. Description of the City of London Pension Fund .....                                      | 98  |
| 2. Membership of the Fund .....  | 98  |
| 3. Accounting Policies .....   | 100 |
| 4. Critical Judgements in applying Accounting Policies .....                                 | 101 |
| 5. Assumptions made about the future and other major sources of Estimation Uncertainty ..... | 101 |
| 6. Events after the reporting date .....   | 102 |
| 7. Contributions Receivable .....  | 102 |
| 8. Benefits Payable .....  | 102 |
| 9. Payments to and on account of leavers .....   | 102 |
| 10. Management Expenses .....  | 103 |
| 11. Income from Investments .....  | 103 |
| 12. Investment Assets .....  | 104 |
| 13. Fair Value- Basis for Valuation .....  | 106 |
| 14. Financial Instruments .....  | 109 |
| 15. Risk and Risk Management .....   | 110 |
| 16. Market Risks .....   | 110 |
| 17. Funding Arrangements .....   | 113 |
| 18. Funded Obligation of the Overall Pension Fund .....                                      | 115 |
| 19. Current assets .....   | 115 |
| 20. Current liabilities .....  | 115 |
| 21. Additional Voluntary Contributions .....   | 116 |
| 22. Related Party Transactions .....   | 116 |
| 23. Key Management Personnel .....   | 116 |
| 24. Contingent Liabilities and Contractual Commitments .....                                 | 116 |



Report to the Audit and Risk Management Committee

# CITY OF LONDON CORPORATION CITY FUND

Audit Completion Report: Year ended 31 March 2019

Page 161

# CONTENTS

|   |  |    |
|---|--|----|
| 1 | Introduction                               | 3  |
|   | Welcome                                    | 3  |
| 2 | Executive summary                          | 4  |
|   | Overview                                   | 4  |
|   | The numbers                                | 5  |
|   | Other matters                              | 6  |
| 3 | Financial statements                       | 7  |
|   | Audit risks overview                       | 7  |
| 4 | Significant risks                          | 9  |
|   | Management override of controls            | 9  |
|   | Revenue recognition                        | 10 |
|   | PPE and investment property                | 11 |
|   | Pension liability valuation                | 15 |
| 5 | Other risks                                | 19 |
|   | Financial instruments                      | 19 |
|   | Accounting for leases                      | 20 |
|   | Revenue from contracts                     | 21 |
|   | Non-collection allowances                  | 22 |
|   | Related party transactions                 | 23 |
|   | Pension contributions                      | 24 |
|   | NDR appeals provision                      | 25 |
|   | NDR pooling                                | 27 |
|   | Matters requiring additional consideration | 28 |

|    |  |    |
|----|--|----|
| 6  | Audit differences                                | 29 |
|    | Unadjusted audit differences: summary            | 29 |
|    | Unadjusted audit differences: detail             | 30 |
|    | Unadjusted disclosure omissions and improvements | 31 |
|    | Adjusted audit differences: summary              | 32 |
|    | Adjusted audit differences: detail               | 33 |
|    | Adjusted disclosure omissions and improvements   | 34 |
| 7  | Other reporting matters                          | 35 |
|    | Reporting on other information                   | 35 |
|    | Whole of Government Accounts                     | 36 |
| 8  | Use of resources                                 | 37 |
|    | Audit risks overview                             | 37 |
|    | Police financial management                      | 38 |
|    | Sustainable finances                             | 39 |
| 9  | Control environment                              | 40 |
|    | Significant deficiencies                         | 40 |
|    | Follow up of prior year deficiencies             | 41 |
| 10 | Audit report                                     | 42 |
|    | Overview   | 42 |
| 11 | Independence and fees                            | 43 |
|    | Independence                                     | 43 |
|    | Fees   | 44 |
| 12 | Appendices contents                              | 45 |

# WELCOME

## Introduction

### Contents

#### Introduction

#### Welcome

#### Executive summary

#### Financial statements

#### Significant risks

#### Other risks

#### Audit differences

#### Other reporting matters

#### Use of resources

#### Control environment

#### Audit report

#### Independence and fees

#### Appendices contents

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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# OVERVIEW

## Executive summary

### Contents

Introduction

Executive summary

Overview

The numbers

Other matters

Financial statements

Significant risks

Other risks

Audit differences

Other reporting matters

Use of resources

Control environment

Audit report

Independence and fees

Appendices contents

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.

# THE NUMBERS

## Executive summary

### Contents

Introduction

Executive summary

Overview

The numbers

Other matters

Financial statements

Significant risks

Other risks

Audit differences

Other reporting matters

Use of resources

Control environment

Audit report

Independence and fees

Appendices contents

### 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.

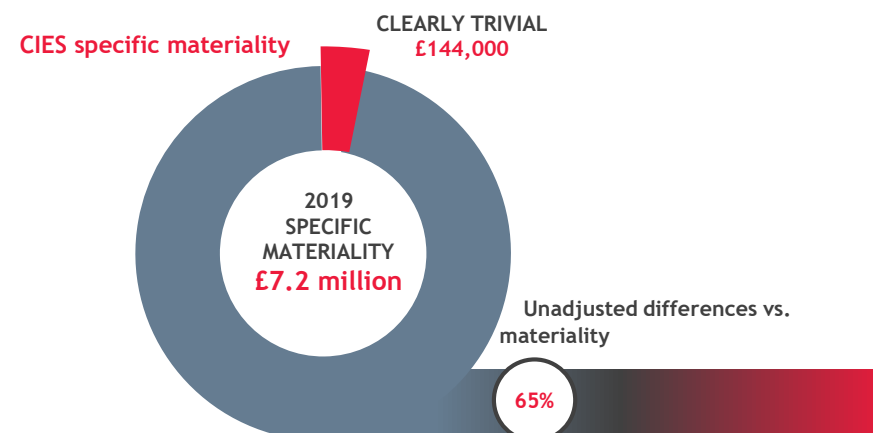
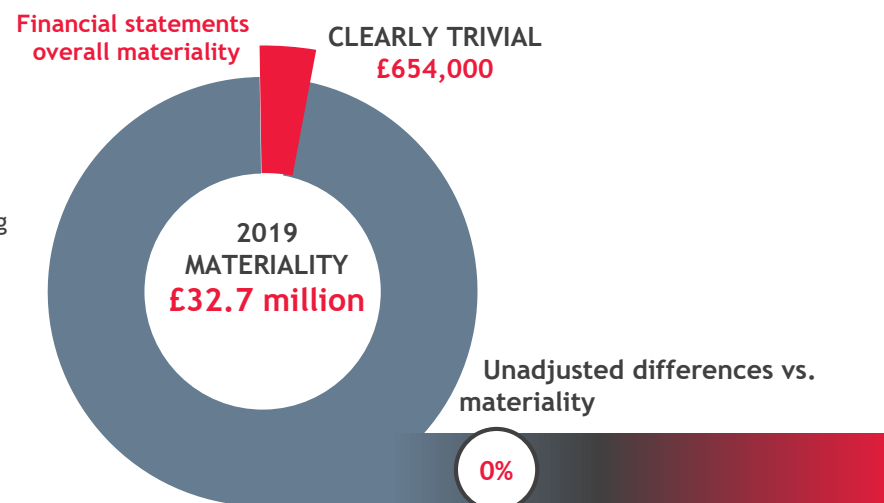
The financial statements were also amended to eliminate internal recharges between Committees of £11.5 million.

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.



# OTHER MATTERS

## Executive summary

### Contents

Introduction

Executive summary

Overview

The numbers

Other matters

Financial statements

Significant risks

Other risks

Audit differences

Other reporting matters

Use of resources

Control environment

Audit report

Independence and fees

Appendices contents

### 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.



|                         |
|-------------------------|
| Contents                |
| Introduction            |
| Executive summary       |
| Financial statements    |
| Audit risks overview    |
| Audit risks overview 2  |
| Significant risks       |
| Other risks             |
| Audit differences       |
| Other reporting matters |
| Use of resources        |
| Control environment     |
| Audit report            |
| Independence and fees   |
| Appendices contents     |

# 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 <sup>[1]</sup>     | 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

<sup>[1]</sup>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

|                         |
|-------------------------|
| Contents                |
| Introduction            |
| Executive summary       |
| Financial statements    |
| Audit risks overview    |
| Audit risks overview 2  |
| Significant risks       |
| Other risks             |
| Audit differences       |
| Other reporting matters |
| Use of resources        |
| Control environment     |
| Audit report            |
| Independence and fees   |
| Appendices contents     |

| 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

|                                 |
|---------------------------------|
| Contents                        |
| Introduction                    |
| Executive summary               |
| Financial statements            |
| Significant risks               |
| Management override of controls |
| Revenue recognition             |
| PPE and investment property     |
| PPE and investment property 2   |
| PPE and investment property 3   |
| PPE and investment property 4   |
| Pension liability valuation     |
| Pension liability valuation 2   |
| Pension liability valuation 3   |
| Pension liability valuation 4   |
| Other risks                     |
| Audit differences               |
| Other reporting matters         |
| Use of resources                |
| Control environment             |
| Audit report                    |
| Independence and fees           |
| Appendices contents             |

|  |  |
|--|--|
| 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   |  |
| Significant Control Findings     |  |
| Letter of Representation point   |  |

## 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.

#### Contents

Introduction

Executive summary

Financial statements

Significant risks

Management override of controls

Revenue recognition

PPE and investment property

PPE and investment property 2

PPE and investment property 3

PPE and investment property 4

Pension liability valuation

Pension liability valuation 2

Pension liability valuation 3

Pension liability valuation 4

Other risks

Audit differences

Other reporting matters

Use of resources

Control environment

Audit report

Independence and fees

Appendices contents

# 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.

#### Contents

Introduction

Executive summary

Financial statements

Significant risks

Management override of controls

Revenue recognition

PPE and investment property

PPE and investment property 2

PPE and investment property 3

PPE and investment property 4

Pension liability valuation

Pension liability valuation 2

Pension liability valuation 3

Pension liability valuation 4

Other risks

Audit differences

Other reporting matters

Use of resources

Control environment

Audit report

Independence and fees

Appendices contents

# 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.

#### Contents

Introduction

Executive summary

Financial statements

Significant risks

Management override of controls

Revenue recognition

PPE and investment property

PPE and investment property 2

PPE and investment property 3

PPE and investment property 4

Pension liability valuation

Pension liability valuation 2

Pension liability valuation 3

Pension liability valuation 4

Other risks

Audit differences

Other reporting matters

Use of resources

Control environment

Audit report

Independence and fees

Appendices contents

# PENSION LIABILITY VALUATION

|                                 |
|---------------------------------|
| Contents                        |
| Introduction                    |
| Executive summary               |
| Financial statements            |
| Significant risks               |
| Management override of controls |
| Revenue recognition             |
| PPE and investment property     |
| PPE and investment property 2   |
| PPE and investment property 3   |
| PPE and investment property 4   |
| Pension liability valuation     |
| Pension liability valuation 2   |
| Pension liability valuation 3   |
| Pension liability valuation 4   |
| Other risks                     |
| Audit differences               |
| Other reporting matters         |
| Use of resources                |
| Control environment             |
| Audit report                    |
| Independence and fees           |
| Appendices contents             |

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.

#### Contents

Introduction

Executive summary

Financial statements

Significant risks

Management override of controls

Revenue recognition

PPE and investment property

PPE and investment property 2

PPE and investment property 3

PPE and investment property 4

Pension liability valuation

Pension liability valuation 2

Pension liability valuation 3

Pension liability valuation 4

Other risks

Audit differences

Other reporting matters

Use of resources

Control environment

Audit report

Independence and fees

Appendices contents

# 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.

#### Contents

Introduction

Executive summary

Financial statements

Significant risks

Management override of controls

Revenue recognition

PPE and investment property

PPE and investment property 2

PPE and investment property 3

PPE and investment property 4

Pension liability valuation

Pension liability valuation 2

Pension liability valuation 3

Pension liability valuation 4

Other risks

Audit differences

Other reporting matters

Use of resources

Control environment

Audit report

Independence and fees

Appendices contents

# PENSION LIABILITY VALUATION 4

## Significant estimate - McCloud impact

### Contents

Introduction

Executive summary

Financial statements

Significant risks

Management override of controls

Revenue recognition

PPE and investment property

PPE and investment property 2

PPE and investment property 3

PPE and investment property 4

Pension liability valuation

Pension liability valuation 2

Pension liability valuation 3

Pension liability valuation 4

Other risks

Audit differences

Other reporting matters

Use of resources

Control environment

Audit report

Independence and fees

Appendices contents

### 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.

|  |
|--|
| Contents                                   |
| Introduction                               |
| Executive summary                          |
| Financial statements                       |
| Significant risks                          |
| Other risks                                |
| Financial instruments                      |
| Accounting for leases                      |
| Revenue from contracts                     |
| Non-collection allowances                  |
| Related party transactions                 |
| Pension contributions                      |
| NDR appeals provision                      |
| NDR appeals provision 2                    |
| NDR pooling                                |
| Matters requiring additional consideration |
| Audit differences                          |
| Other reporting matters                    |
| Use of resources                           |
| Control environment                        |
| Audit report                               |
| Independence and fees                      |
| Appendices contents                        |

# 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     |
| Letter of Representation point   |



# 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                   |  |
| Additional disclosure required   |  |
| Significant Control Findings     |  |
| Letter of Representation point   |  |

# 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.

## 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.

Significant risk

Normal risk

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant Control Findings

Letter of Representation point

# 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   |  |
| Significant Control Findings     |  |
| Letter of Representation point   |  |

## NDR APPEALS PROVISION 2

### Significant estimate - Rateable value appeals provision to refund business rates

#### Contents

Introduction

Executive summary

Financial statements

Significant risks

Other risks

Financial instruments

Accounting for leases

Revenue from contracts

Non-collection allowances

Related party transactions

Pension contributions

NDR appeals provision

NDR appeals provision 2

NDR pooling

Matters requiring additional consideration

Audit differences

Other reporting matters

Use of resources

Control environment

Audit report

Independence and fees

Appendices contents

#### 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.

# NDR POOLING

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

## 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.



# MATTERS REQUIRING ADDITIONAL CONSIDERATION

## Contents

Introduction

Executive summary

Financial statements

Significant risks

Other risks

Financial instruments

Accounting for leases

Revenue from contracts

Non-collection allowances

Related party transactions

Pension contributions

NDR appeals provision

NDR appeals provision 2

NDR pooling

Matters requiring additional consideration

Audit differences

Other reporting matters

Use of resources

Control environment

Audit report

Independence and fees

Appendices contents

## 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

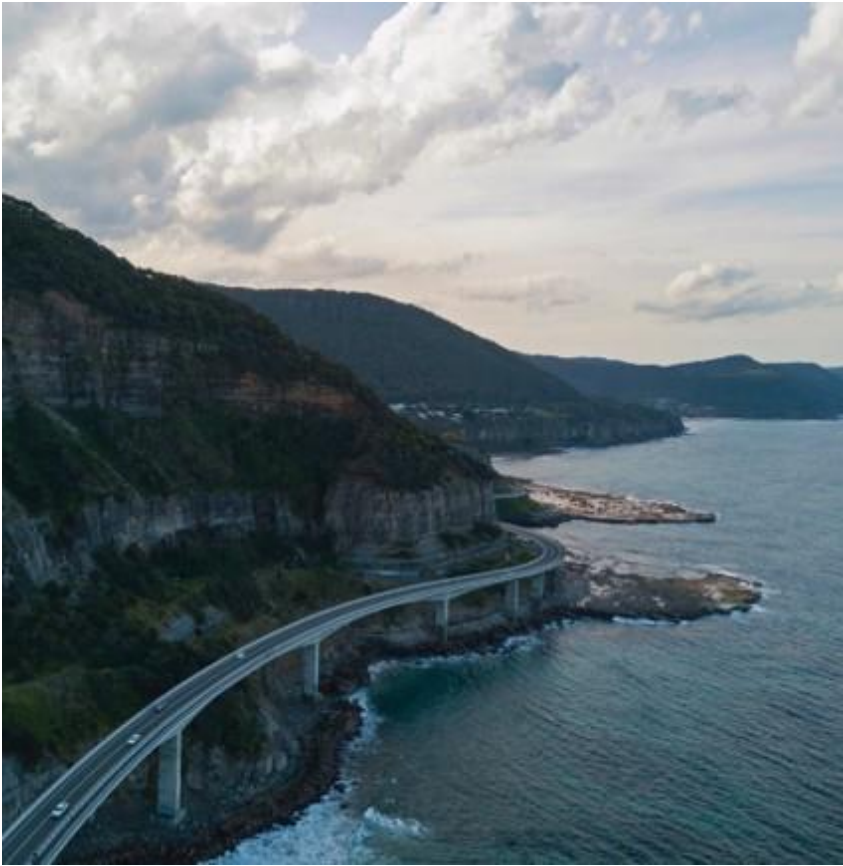
We reviewed the audit work of the Corporation's internal audit function to assist our risk scoping at the planning stage.



|  |
|--|
| Contents   |
| Introduction                                     |
| Executive summary                                |
| Financial statements                             |
| Significant risks                                |
| Other risks                                      |
| Audit differences                                |
| Unadjusted audit differences: summary            |
| Unadjusted audit differences: detail             |
| Unadjusted disclosure omissions and improvements |
| Adjusted audit differences: summary              |
| Adjusted audit differences: detail               |
| Adjusted disclosure omissions and improvements   |
| Other reporting matters                          |
| Use of resources                                 |
| Control environment                              |
| Audit report                                     |
| Independence and fees                            |
| Appendices contents                              |

# 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

Details for the current year

|  | Income and expenditure |          |            | Statement of Financial Position |            |
|--|------------------------|----------|------------|---------------------------------|------------|
|  | NET DR/(CR)<br>£m      | DR<br>£m | (CR)<br>£m | DR<br>£m                        | (CR)<br>£m |
| <b>Unadjusted audit differences</b>  |                        |          |            |                                 |            |
| 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)    |
| <b>Impact on brought forward errors on current year surplus on the provision of services</b> | <b>4.470</b>           |          |            |                                 |            |
| 3: Balancing item in NDR Income  |                        |          |            |                                 |            |
| DR Business Rates Premium income   | 0.190                  | 0.190    |            |                                 |            |
| CR Receipts in advance   |                        |          |            |                                 | (0.190)    |
| <b>Total current year unadjusted audit differences</b>                                       | <b>0.190</b>           |          |            |                                 |            |
| <b>Total unadjusted audit differences</b>  | <b>4.660</b>           |          |            |                                 |            |
| 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

|  |
|--|
| Contents   |
| Introduction                                     |
| Executive summary                                |
| Financial statements                             |
| Significant risks                                |
| Other risks                                      |
| Audit differences                                |
| Unadjusted audit differences: summary            |
| Unadjusted audit differences: detail             |
| Unadjusted disclosure omissions and improvements |
| Adjusted audit differences: summary              |
| Adjusted audit differences: detail               |
| Adjusted disclosure omissions and improvements   |
| Other reporting matters                          |
| Use of resources                                 |
| Control environment                              |
| Audit report                                     |
| Independence and fees                            |
| Appendices contents                              |

# 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 n the provision of services.

# ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

|   | Income and expenditure |          |            | Statement of Financial Position |            |
|---|------------------------|----------|------------|---------------------------------|------------|
|   | NET DR/(CR)<br>£m      | DR<br>£m | (CR)<br>£m | DR<br>£m                        | (CR)<br>£m |
| <b>Adjusted audit differences</b>                       |                        |          |            |                                 |            |
| 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.

### Contents

Introduction

Executive summary

Financial statements

Significant risks

Other risks

Audit differences

Unadjusted audit differences:  
summary

Unadjusted audit differences:  
detail

Unadjusted disclosure omissions  
and improvements

Adjusted audit differences:  
summary

Adjusted audit differences: detail

Adjusted disclosure omissions and  
improvements

Other reporting matters

Use of resources

Control environment

Audit report

Independence and fees

Appendices contents

|                                |
|--------------------------------|
| Contents                       |
| Introduction                   |
| Executive summary              |
| Financial statements           |
| Significant risks              |
| Other risks                    |
| Audit differences              |
| Other reporting matters        |
| Reporting on other information |
| Whole of Government Accounts   |
| Use of resources               |
| Control environment            |
| Audit report                   |
| Independence and fees          |
| Appendices contents            |

# 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. |

# WHOLE OF GOVERNMENT ACCOUNTS

## Contents

Introduction

Executive summary

Financial statements

Significant risks

Other risks

Audit differences

Other reporting matters

Reporting on other information

Whole of Government Accounts

Use of resources

Control environment

Audit report

Independence and fees

Appendices contents

## 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.

|                             |
|-----------------------------|
| Contents                    |
| Introduction                |
| Executive summary           |
| Financial statements        |
| Significant risks           |
| Other risks                 |
| Audit differences           |
| Other reporting matters     |
| Use of resources            |
| Audit risk overview         |
| Police financial management |
| Sustainable finances        |
| Control environment         |
| Audit report                |
| Independence and fees       |
| Appendices contents         |

# 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

|                             |
|-----------------------------|
| Contents                    |
| Introduction                |
| Executive summary           |
| Financial statements        |
| Significant risks           |
| Other risks                 |
| Audit differences           |
| Other reporting matters     |
| Use of resources            |
| Audit risk overview         |
| Police financial management |
| Sustainable finances        |
| Control environment         |
| Audit report                |
| Independence and fees       |
| Appendices contents         |

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.**

# SUSTAINABLE FINANCES

|                             |
|-----------------------------|
| Contents                    |
| Introduction                |
| Executive summary           |
| Financial statements        |
| Significant risks           |
| Other risks                 |
| Audit differences           |
| Other reporting matters     |
| Use of resources            |
| Audit risk overview         |
| Police financial management |
| Sustainable finances        |
| Control environment         |
| Audit report                |
| Independence and fees       |
| Appendices contents         |

**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.



|                                      |
|--------------------------------------|
| Contents                             |
| Introduction                         |
| Executive summary                    |
| Financial statements                 |
| Significant risks                    |
| Other risks                          |
| Audit differences                    |
| Other reporting matters              |
| Use of resources                     |
| Control environment                  |
| Significant deficiencies             |
| Follow up of prior year deficiencies |
| Audit report                         |
| Independence and fees                |
| Appendices contents                  |

# 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.          |

|                         |
|-------------------------|
| Contents                |
| Introduction            |
| Executive summary       |
| Financial statements    |
| Significant risks       |
| Other risks             |
| Audit differences       |
| Other reporting matters |
| Use of resources        |
| Control environment     |
| Audit report            |
| Overview                |
| Independence and fees   |
| Appendices contents     |

# 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.

|                         |
|-------------------------|
| Contents                |
| Introduction            |
| Executive summary       |
| Financial statements    |
| Significant risks       |
| Other risks             |
| Audit differences       |
| Other reporting matters |
| Use of resources        |
| Control environment     |
| Audit report            |
| Independence and fees   |
| Independence            |
| Fees                    |
| Appendices contents     |

# 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.

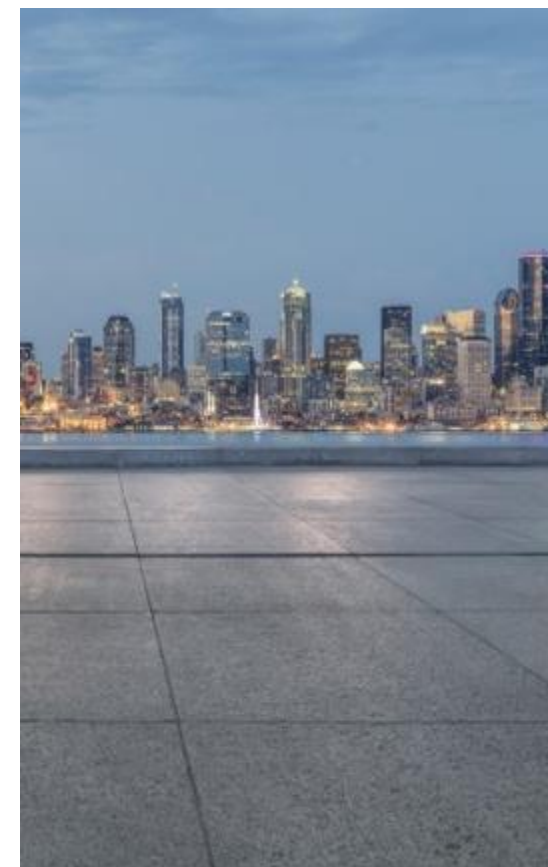
# FEES

## Fees summary

|   | 2018/19<br>Actual<br>£ | 2018/19<br>Planned<br>£ | 2017/18<br>Actual<br>£ |
|---|------------------------|-------------------------|------------------------|
| <b>Audit fee</b>                                |                        |                         |                        |
| • Code audit fee                                | TBC                    | 80,000                  | 106,275                |
| <b>Fees for reporting on government grants:</b> |                        |                         |                        |
| • 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                  |
| <b>Total fees</b>                               | <b>TBC</b>             |                         | <b>129,033</b>         |

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.



# APPENDICES CONTENTS

|   |  |    |
|---|--|----|
| A | Our responsibilities                         | 46 |
|   | Responsibilities and reporting               | 46 |
|   | Additional matters we are required to report | 47 |
|   | Communication and reports issued             | 48 |
| B | Outstanding matters                          | 49 |
|   | Outstanding matters                          | 49 |
| C | Audit report                                 | 50 |
|   | Audit report                                 | 50 |
| D | Audit quality                                | 51 |
|   | Audit quality                                | 51 |
| E | Letter of representation                     | 52 |
|   | Representation letter                        | 52 |



# 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.                                |

|  |
|--|
| Contents                                     |
| Appendices contents                          |
| Our responsibilities                         |
| Additional matters we are required to report |
| Communication and reports issued             |
| Outstanding matters                          |
| Audit report                                 |
| Audit quality                                |
| Letter of representation                     |
| Letter of representation 2                   |
| Letter of representation 3                   |

# 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 |

# OUTSTANDING MATTERS

|  |
|--|
| Contents                                     |
| Appendices contents                          |
| Our responsibilities                         |
| Additional matters we are required to report |
| Communication and reports issued             |
| Outstanding matters                          |
| Audit report                                 |
| Audit quality                                |
| Letter of representation                     |
| Letter of representation 2                   |
| Letter of representation 3                   |

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



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# AUDIT REPORT

## To follow

|  |
|--|
| Contents                                     |
| Appendices contents                          |
| Our responsibilities                         |
| Additional matters we are required to report |
| Communication and reports issued             |
| Outstanding matters                          |
| Audit report                                 |
| Audit quality                                |
| Letter of representation                     |
| Letter of representation 2                   |
| Letter of representation 3                   |

# AUDIT QUALITY

|  |
|--|
| Contents                                     |
| Appendices contents                          |
| Our responsibilities                         |
| Additional matters we are required to report |
| Communication and reports issued             |
| Outstanding matters                          |
| Audit report                                 |
| Audit quality                                |
| Letter of representation                     |
| Letter of representation 2                   |
| Letter of representation 3                   |



## 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](http://www.bdo.co.uk)



|  |
|--|
| Contents                                     |
| Appendices contents                          |
| Our responsibilities                         |
| Additional matters we are required to report |
| Communication and reports issued             |
| Outstanding matters                          |
| Audit report                                 |
| Audit quality                                |
| Letter of representation                     |
| Letter of representation 2                   |
| Letter of representation 3                   |

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.

|  |
|--|
| Contents                                     |
| Appendices contents                          |
| Our responsibilities                         |
| Additional matters we are required to report |
| Communication and reports issued             |
| Outstanding matters                          |
| Audit report                                 |
| Audit quality                                |
| Letter of representation                     |
| Letter of representation 2                   |
| Letter of representation 3                   |

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.

|  |
|--|
| Contents                                     |
| Appendices contents                          |
| Our responsibilities                         |
| Additional matters we are required to report |
| Communication and reports issued             |
| Outstanding matters                          |
| Audit report                                 |
| Audit quality                                |
| Letter of representation                     |
| Letter of representation 2                   |
| Letter of representation 3                   |

**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**

t: 020 7893 2616

e: [leigh.Lloyd-Thomas@bdo.co.uk](mailto: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.

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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

Page 217



# CONTENTS

|   |  |    |
|---|--|----|
| 1 | Introduction                               | 3  |
|   | Welcome                                    | 3  |
| 2 | Executive summary                          | 4  |
|   | Overview                                   | 4  |
|   | The numbers                                | 5  |
|   | Other matters                              | 6  |
| 3 | Financial statements                       | 7  |
|   | Audit risks overview                       | 7  |
|   | Management override of controls            | 8  |
|   | Pension liability valuation                | 9  |
|   | Valuation of investment assets             | 12 |
|   | Related party transaction disclosure       | 13 |
|   | Pensions Contributions                     | 14 |
|   | Pensions benefits                          | 15 |
|   | Other matters                              | 16 |
|   | Matters requiring additional consideration | 17 |
| 4 | Other reporting matters                    | 18 |
|   | Reporting on other information             | 18 |
| 5 | Control environment                        | 19 |
|   | Significant deficiencies                   | 19 |

|   |                       |    |
|---|-----------------------|----|
| 6 | Audit report          | 20 |
|   | Overview              | 20 |
| 7 | Independence and fees | 21 |
|   | Independence          | 21 |
|   | Fees                  | 22 |
| 8 | Appendices contents   | 23 |

# WELCOME

## Introduction

### Contents

#### Introduction

#### Welcome

#### Executive summary

#### Financial statements

#### Other reporting matters

#### Control environment

#### Audit report

#### Independence and fees

#### Appendices contents

Page 219

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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**Michael Asare Bediako**  
Audit Manager

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e: michael.asarebediako@bdo.co.uk

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.

# OVERVIEW

## Executive summary

### Contents

Introduction

Executive summary

Overview

The numbers

Other matters

Financial statements

Other reporting matters

Control environment

Audit report

Independence and fees

Appendices contents

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.

# THE NUMBERS

## Executive summary

### Contents

Introduction

Executive summary

Overview

The numbers

Other matters

Financial statements

Other reporting matters

Control environment

Audit report

Independence and fees

Appendices contents

Page 21

### 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

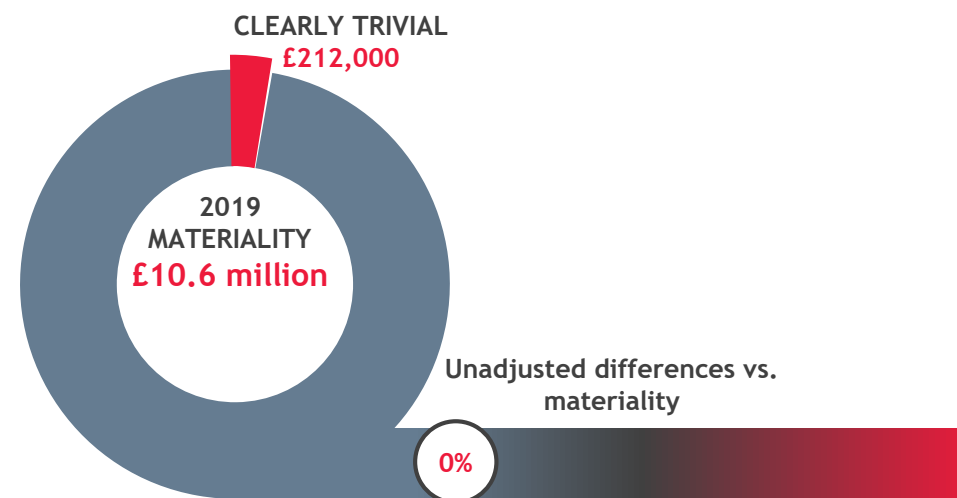
We identified one material misstatement in the disclosure for the actuarial value of promised future benefits that was understated by £12.9 million in respect of liability arising from the McCloud age discrimination judgment.

No adjustments were required to the Fund Account or Net Asset Statement.

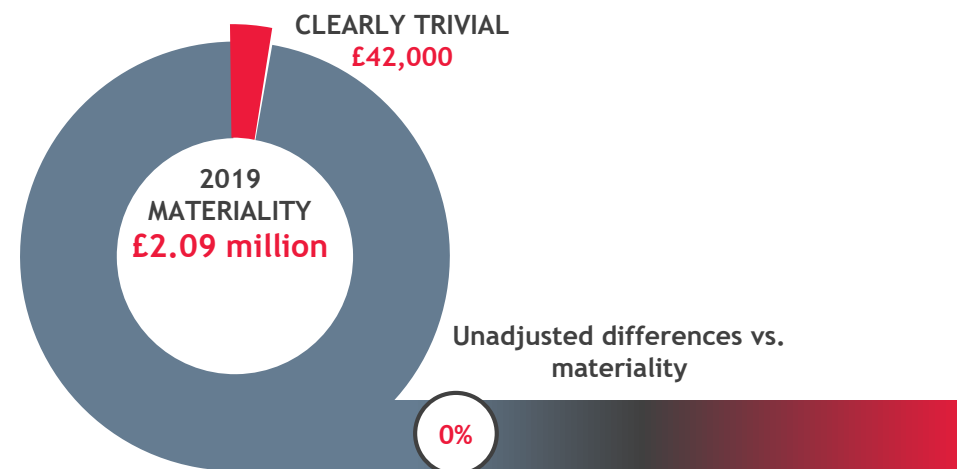
### Unadjusted audit differences

We did not identify any audit differences.

Financial statements  
overall materiality



Fund Account  
specific materiality



# OTHER MATTERS

## Executive summary

### Contents

Introduction

Executive summary

Overview

The numbers

Other matters

Financial statements

Other reporting matters

Control environment

Audit report

Independence and fees

Appendices contents

### 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.



|  |
|--|
| Contents                                   |
| Introduction                               |
| Executive summary                          |
| Financial statements                       |
| Audit risks overview                       |
| Management override of controls            |
| Pension liability valuation                |
| Pension liability valuation 1              |
| Pension liability valuation 2              |
| Valuation of investment assets             |
| Related party transaction disclosure       |
| Pensions Contributions                     |
| Pensions benefits                          |
| Other matters                              |
| Matters requiring additional consideration |
| Other reporting matters                    |
| Control environment                        |
| Audit report                               |
| Independence and fees                      |
| Appendices contents                        |

# 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

<sup>[1]</sup> 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

|  |
|--|
| Contents                                   |
| Introduction                               |
| Executive summary                          |
| Financial statements                       |
| Audit risks overview                       |
| Management override of controls            |
| Pension liability valuation                |
| Pension liability valuation 1              |
| Pension liability valuation 2              |
| Valuation of investment assets             |
| Related party transaction disclosure       |
| Pensions Contributions                     |
| Pensions benefits                          |
| Other matters                              |
| Matters requiring additional consideration |
| Other reporting matters                    |
| Control environment                        |
| Audit report                               |
| Independence and fees                      |
| Appendices contents                        |

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 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.

# 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.

# 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.

#### Contents

Introduction

Executive summary

Financial statements

Audit risks overview

Management override of controls

Pension liability valuation

Pension liability valuation 1

Pension liability valuation 2

Valuation of investment assets

Related party transaction disclosure

Pensions Contributions

Pensions benefits

Other matters

Matters requiring additional consideration

Other reporting matters

Control environment

Audit report

Independence and fees

Appendices contents

# VALUATION OF INVESTMENT ASSETS

|  |
|--|
| Contents                                   |
| Introduction                               |
| Executive summary                          |
| Financial statements                       |
| Audit risks overview                       |
| Management override of controls            |
| Pension liability valuation                |
| Pension liability valuation 1              |
| Pension liability valuation 2              |
| Valuation of investment assets             |
| Related party transaction disclosure       |
| Pensions Contributions                     |
| Pensions benefits                          |
| Other matters                              |
| Matters requiring additional consideration |
| Other reporting matters                    |
| Control environment                        |
| Audit report                               |
| Independence and fees                      |
| Appendices contents                        |

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                   |
| Additional disclosure required   |
| Significant Control Findings     |
| Letter of Representation point   |



# PENSIONS CONTRIBUTIONS

|  |
|--|
| Contents                                   |
| Introduction                               |
| Executive summary                          |
| Financial statements                       |
| Audit risks overview                       |
| Management override of controls            |
| Pension liability valuation                |
| Pension liability valuation 1              |
| Pension liability valuation 2              |
| Valuation of investment assets             |
| Related party transaction disclosure       |
| Pensions Contributions                     |
| Pensions benefits                          |
| Other matters                              |
| Matters requiring additional consideration |
| Other reporting matters                    |
| Control environment                        |
| Audit report                               |
| Independence and fees                      |
| Appendices contents                        |

**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 |  |
| Use of experts                   |  |
| Unadjusted error                 |  |
| Adjusted error                   |  |
| Additional disclosure required   |  |
| Significant Control Findings     |  |
| Letter of Representation point   |  |

## 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. |

### Contents

Introduction

Executive summary

Financial statements

Audit risks overview

Management override of controls

Pension liability valuation

Pension liability valuation 1

Pension liability valuation 2

Valuation of investment assets

Related party transaction disclosure

Pensions Contributions

Pensions benefits

Other matters

Matters requiring additional consideration

Other reporting matters

Control environment

Audit report

Independence and fees

Appendices contents

# MATTERS REQUIRING ADDITIONAL CONSIDERATION

## Contents

Introduction

Executive summary

Financial statements

Audit risks overview

Management override of controls

Pension liability valuation

Pension liability valuation 1

Pension liability valuation 2

Valuation of investment assets

Related party transaction disclosure

Pensions Contributions

Pensions benefits

Other matters

Matters requiring additional consideration

Other reporting matters

Control environment

Audit report

Independence and fees

Appendices contents

## 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.



|                                |
|--------------------------------|
| Contents                       |
| Introduction                   |
| Executive summary              |
| Financial statements           |
| Other reporting matters        |
| Reporting on other information |
| Control environment            |
| Audit report                   |
| Independence and fees          |
| Appendices contents            |

# 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. |

|                          |
|--------------------------|
| Contents                 |
| Introduction             |
| Executive summary        |
| Financial statements     |
| Other reporting matters  |
| Control environment      |
| Significant deficiencies |
| Audit report             |
| Independence and fees    |
| Appendices contents      |

# 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.



|                         |
|-------------------------|
| Contents                |
| Introduction            |
| Executive summary       |
| Financial statements    |
| Other reporting matters |
| Control environment     |
| Audit report            |
| Overview                |
| Independence and fees   |
| Appendices contents     |

# 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.

|                         |
|-------------------------|
| Contents                |
| Introduction            |
| Executive summary       |
| Financial statements    |
| Other reporting matters |
| Control environment     |
| Audit report            |
| Independence and fees   |
| Independence            |
| Fees                    |
| Appendices contents     |

# 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.

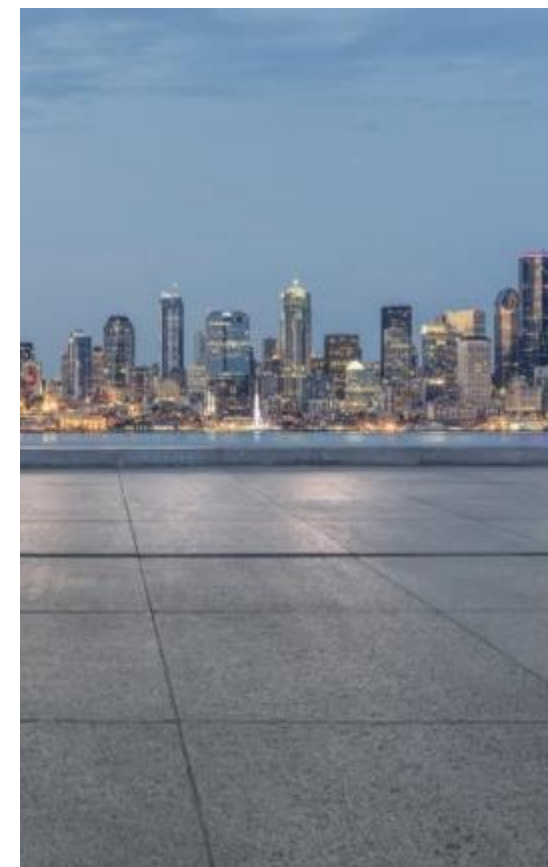
We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC’s Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Pension Fund.

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        |
| <b>Total fees</b> | <b>15,000</b> | <b>15,000</b> | <b>21,000</b> |



|                         |
|-------------------------|
| Contents                |
| Introduction            |
| Executive summary       |
| Financial statements    |
| Other reporting matters |
| Control environment     |
| Audit report            |
| Independence and fees   |
| Independence            |
| Fees                    |
| Appendices contents     |

## APPENDICES CONTENTS

|   |  |    |
|---|--|----|
| A | Our responsibilities                         | 24 |
|   | Responsibilities and reporting               | 24 |
|   | Additional matters we are required to report | 25 |
|   | Communication and reports issued             | 26 |
| B | Outstanding matters                          | 27 |
|   | Outstanding matters                          | 27 |
| C | Audit report                                 | 28 |
|   | Audit report                                 | 28 |
| D | Audit quality                                | 29 |
|   | Audit quality                                | 29 |
| E | Letter of representation                     | 30 |
|   | Representation letter                        | 30 |

# 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.                                |

|  |
|--|
| Contents                                     |
| Appendices contents                          |
| Our responsibilities                         |
| Additional matters we are required to report |
| Communication and reports issued             |
| Outstanding matters                          |
| Audit report                                 |
| Audit quality                                |
| Letter of representation                     |
| Letter of representation 2                   |
| Letter of representation 3                   |



# 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



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# AUDIT REPORT

## To follow

|  |
|--|
| Contents                                     |
| Appendices contents                          |
| Our responsibilities                         |
| Additional matters we are required to report |
| Communication and reports issued             |
| Outstanding matters                          |
| Audit report                                 |
| Audit quality                                |
| Letter of representation                     |
| Letter of representation 2                   |
| Letter of representation 3                   |

# AUDIT QUALITY

## Contents

### Appendices contents

Our responsibilities

Additional matters we are required to report

Communication and reports issued

Outstanding matters

Audit report

Audit quality

Letter of representation

Letter of representation 2

Letter of representation 3



## 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](http://www.bdo.co.uk)

|  |
|--|
| Contents                                     |
| Appendices contents                          |
| Our responsibilities                         |
| Additional matters we are required to report |
| Communication and reports issued             |
| Outstanding matters                          |
| Audit report                                 |
| Audit quality                                |
| Letter of representation                     |
| Letter of representation 2                   |
| Letter of representation 3                   |

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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| Contents                                     |
| Appendices contents                          |
| Our responsibilities                         |
| Additional matters we are required to report |
| Communication and reports issued             |
| Outstanding matters                          |
| Audit report                                 |
| Audit quality                                |
| Letter of representation                     |
| Letter of representation 2                   |
| Letter of representation 3                   |

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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| Contents                                     |
| Appendices contents                          |
| Our responsibilities                         |
| Additional matters we are required to report |
| Communication and reports issued             |
| Outstanding matters                          |
| Audit report                                 |
| Audit quality                                |
| Letter of representation                     |
| Letter of representation 2                   |
| Letter of representation 3                   |

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:

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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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