

Committee(s):	Date(s):	Item no.
Audit and Risk Management Committee	6 November 2018	
Finance Committee	13 November 2018	
<b>Subject:</b> City’s Cash Financial Statements 2017/18		<b>Public</b>
<b>Report of:</b> The Chamberlain		<b>For Decision</b>
<b>Report Author:</b> Philip Gregory, Deputy Director, Financial Services		
<div>Summary</div> <p>The Annual Report and Financial Statements for City’s Cash for the year ended 31 March 2018 are attached at Annex 2 for approval.</p> <p>The external auditor, Moore Stephens LLP is intending to issue an unqualified audit opinion and their report, including recommendations, is attached at Annex 3. No accounting changes have been identified from the audit.</p> <p>The key points in the financial statements are:</p> <ul style="list-style-type: none"><li>• a net surplus of £72.3m which includes gains in fair value on property investments of £81.0m and non-property investments of £17.7m <i>(these figures can be seen in the Consolidated Statement of Comprehensive Income on page 15)</i>;</li><li>• total net assets of £2,611.5m, an increase of £91.5m (3.6%) since last year. The net asset position is after deducting the total pensions liability of £291.0m <i>(the £91.5m is shown in the Consolidated Statement of Changes in Equity on page 17)</i>;</li><li>• there are two financial commitments relating to City’s Cash that are disclosed in the notes to the financial statements:<ol style="list-style-type: none"><li>1. the potential contribution of £50m from City’s Cash towards the Crossrail Project <i>(page 57)</i>; and</li><li>2. £18.9m relating to the purchase of the freehold of an operational property <i>(page 57)</i>. This commitment was paid in full in October 2018 <i>(page 61)</i>.</li></ol></li><li>• premiums of £23.0m were received in 2017/18 <i>(para 6 of this report)</i>.</li></ul>		

## **Recommendations**

The Audit and Risk Management Committee is requested to:

- consider the contents of the Audit Management Report issued by Moore Stephens LLP; and
- recommend approval of the City's Cash Financial Statements for the year ended 31 March 2018 to the Finance Committee.

The Finance Committee is requested to:

- consider the contents of the Audit Management Report issued by Moore Stephens LLP;
- approve the City's Cash Financial Statements for the year ended 31 March 2018 taking account of any observations from the Audit and Risk Management Committee; and
- agree that the Financial Statements are signed by the Chairman and Deputy Chairman of the Finance Committee on behalf of the Court of Common Council.

## **Main Report**

### **Introduction**

1. The 2017/18 Annual Report and Financial Statements for City's Cash are attached at Annex 2 for approval. A complete draft of the 2017/18 Annual Report and Financial Statements was presented to the external auditor, Moore Stephens LLP in accordance with the agreed closing timetable on the 17<sup>th</sup> of August 2017 and the audit commenced as arranged on the 20<sup>th</sup> of August 2017.
2. Moore Stephens LLP intends to give an unqualified opinion on the City's Cash Financial Statements and has issued the Audit Management Report set out in Annex 3. We are very pleased to report that no accounting changes were required to the financial statements.
3. The Audit Management Report will be distributed to all Members of the Court of Common Council for information. Representatives from Moore Stephens LLP will be in attendance at the Audit and Risk Management Committee to present their report and to clarify any points or issues.
4. The report from Moore Stephens LLP notes in section 6 that no accounting system or internal control weaknesses were identified in 2017/18. However, section 7 shows six recommendations were made in the prior year 2016/17, of which 3 have been fully implemented in 2017/18 and 3 where implementation will be completed in 2018/19.

5. The Audit Review Panel of the Chamberlain's and Bridgemasters' Accounts met on 1 October 2018 to review the processes adopted by Moore Stephens LLP and the Panel intends to certify that those processes were in accordance with the prescribed auditing standards.

### **Significant items in the financial statements – Statement of Financial Position**

#### **Premiums received for long leases**

6. During 2017/18 lease premia totalling £23.0m were received in respect of leases granted by the City on investment property land. As land generally has an indefinite life (i.e. the risks and rewards of ownership are shared with the City as lessor) they have been classified as operating leases and, in accordance with FRS102, the premia have been treated as deferred income to be released to revenue over the lease lives which range from 150-200 years.

#### **Finance lease**

7. A new leasehold investment property acquired during the year has been classified as a finance lease arising from a £2.4m obligation to pay the lessor. Payments will be made over the term of the lease to meet the costs of the long-term liability and the finance costs payable.

#### **Impairment of heritage asset**

8. During the year a painting in the City's art collection was identified as having been stolen by the Nazis during world war two. The City returned the painting to members of the original owner's family during the year and the painting's carrying value of £1.2m has been treated as an impairment.

### **Significant items in the financial statements – disclosure notes (pages 28 to 61)**

#### **Financial Commitments:**

9. Contribution to Crossrail - the potential contribution of £50m from City's Cash towards the Crossrail Project has been disclosed as a financial commitment in both the annual report and the notes to the financial statements. The reason for this treatment, rather than the inclusion of a long-term liability on the balance sheet, is that the arrangement with Crossrail is considered to be an executory contract (i.e. a contract made by two parties in which the terms are set to be fulfilled at a later date - both sides still have duties to perform before it becomes fully executed). Subject to completion of the works, the contributions could be made in two equal instalments of £25m in 2018/19 and 2019/20.
10. Purchase of the freehold of an operational property - at the balance sheet date this was recognised as a contractual capital commitment of £18.9m but not provided for and was disclosed in note 20 on page 57. The purchase was completed in October 2018 with a final payment of £18.9m.

#### **Subsequent Events:**

11. Vote to leave the European Union - as stated in the annual report and the notes to the financial statements, there are risks to City's Cash from the vote to leave the EU. In particular, the future levels of demand for office accommodation in the City and surrounding areas and the consequential impacts on rent incomes. A

close watching brief continues to be kept on this and other implications as events unfold with financial forecasts being refreshed when the picture becomes clearer.

12. As noted at para 10 above, a commitment at the balance sheet date of £18.9m for the purchase of an operational building was settled in full in October 2018.

## Key highlights from the financial statements

### Consolidated Statement of Comprehensive Income

#### Comparison with Previous Year

13. The Consolidated Statement of Comprehensive Income for the year ending 31 March 2018 shows a net surplus of £72.3m, £153.3m lower than in the previous year, as summarised in the following table. The operating deficit, before gains and losses in the fair value of investments, is £10.3m higher as shown:

	31/3/18 £m	31/3/17 £m	Variance £m
Operating surplus/(deficit) before gain/(loss) in fair value of investments	(25.1)	(14.8)	(10.3)
Gain in fair value of property investments	81.0	122.2	(41.2)
Gain/(loss)/ in fair value of non-property investments	17.7	121.8	(104.1)
<b>Operating surplus</b>	<b>73.6</b>	<b>229.2</b>	<b>(155.6)</b>
Profit on sale of fixed assets	7.5	4.7	2.8
Net financing income / (costs) attributable to the pension schemes	(7.6)	(8.3)	0.7
Impairment of heritage assets	(1.2)	-	(1.2)
<b>Surplus for the year</b>	<b>72.3</b>	<b>225.6</b>	<b>153.3</b>

14. The unfavourable movement in the operating deficit for the year of £10.3m (from £14.8m in the prior year to £25.1m) is largely due to:
  - net pension scheme costs increasing by £4.5m, from £3.6m in 2016/17 to £8.1m in 2017/18, due to an increase in current service costs of £7.3m, from £13.3m in 2016/17 to £20.6m in 2017/18, which are calculated using an estimate of the average total pensionable pay during the year. This was partly offset by an increase in employer contributions of £2.7m, from £10.0m in 2016/17 to £12.7m in 2017/18. This is attributable to a rise in the percentage of the employer contribution from 17.5% in 2016/17 to 21.0% in 2017/18;

- net expenditure on education increasing by £2.2m, mainly due to one-off income in the prior year 2016/17 from an insurance claim for fire damage;
- net expenditure on grants and other activities increasing by £2.1m largely due to works on the site of Smithfield Market and Annexe to facilitate the relocation of the Museum of London;
- net expenditure on open spaces being £1.7m higher mainly due to increased spending on repairs and maintenance across the open spaces and funding towards the Kenley Revival Project;
- net expenditure on City representation increasing by £1.0m due to repairs and maintenance works at Mansion House and on the Lord Mayor's coach, and costs incurred reorganising the operation of the Mansion House and Central Criminal Court;
- net expenditure on Economic Development increasing by £0.8m due to the City of London Corporation strengthening its support and promotion of the City in what is an increasingly complex and competitive environment, with new opportunities and challenges;
- net expenditure on markets increased by £0.8m largely due to higher premises costs, principally energy and rates, and costs incurred undertaking a Strategic Review of the Markets.

Partly offset by:

- net income from property investments increasing by £3.2m, from £47.2m in 2016/17 to £50.4m in 2017/18 due to increased rental income arising from the completion of rent reviews and new lettings during the year.

#### Comparison with Budget

15. The financial statements and the budget are not directly comparable due to differences in the way in which the two documents are constructed\*. However, compared to a budgeted net deficit of £32.4m as detailed in Annex 1, the outturn on a like for like basis is a net deficit of £19.3m, a favourable movement of £13.1m.

\* the budget includes the draw-down from non-property investments, whereas the Consolidated Statement of Comprehensive Income (CSoCI) does not as this is a transfer between investments and cash, however, the CSoCI includes the movements in fair value of investments but the budget does not account for such movements in the market value of assets. The budget also does not include accounting adjustments for holiday pay accruals and pension scheme actuarial gains or losses.

16. The budget and outturn can also be analysed on a Committee basis as shown in Annex 1.
17. The net £13.1m better than budget position includes:
- £5.5m cash limited local risk budget favourable movement, comprising:
    - £2.9m reduction in operating costs across services;
    - £2.4m additional income at GSMD from hire of facilities and government grants totalling £3.1m, partly offset by additional costs of £0.7m;
    - £0.2m additional income from increased hire higher of facilities at the Mansion House;
  - £3.3m supplementary projects re-phased to 2018/19;
  - £2.6m of central contingencies not required;
  - £2.2m lower recharges as central costs have reduced; and
  - £2.0m higher investment property rental income.
18. In accordance with the City's budget management arrangements, requests for the carry forward of City's Cash local risk resources totalling £0.550m have been agreed by the Chamberlain in consultation with the Chairman and Deputy Chairman of the Resource Allocation Sub-Committee. In addition, £3.3m of projects and works programmes have slipped and/or been re-phased to 2018/19. These carry forwards and re-phased projects will increase the call on City's Cash reserves in 2018/19.

### **Consolidated Statement of Financial Position**

19. City's Cash net assets total £2,611.5m at 31 March 2018 compared to £2,520.0m a year earlier reflecting the £91.5m total gain recognised for the year as set out below.

<b>Changes in Equity</b>	<b>31/3/18 £m</b>	<b>31/3/17 £m</b>	<b>Variance £m</b>
Surplus for the financial year	72.3	225.6	(153.3)
<b>Unrealised gains/(losses):</b>			
(Loss)/gain on revaluation of non-property investments	0.3	3.5	(3.2)
Actuarial gain/(loss) on defined benefit pension schemes	18.9	(38.1)	57.0
<b>Net increase in funds</b>	<b>91.5</b>	<b>191.0</b>	<b>(99.5)</b>

## **Approval of the Financial Statements**

20. The Chairman and Deputy Chairman of the Finance Committee will be requested to approve and sign the financial statements on behalf of the Court of Common Council.

## **Annexes**

Annex 1 – City's Cash - comparison of outturn with budget

Annex 2 – Annual Report and Financial Statements of City's Cash

Annex 3 – Moore Stephens Audit Management Report

## **Contacts:**

Philip Gregory, Deputy Director Financial Services

020 7332 1284

[Philip.gregory@cityoflondon.gov.uk](mailto:Philip.gregory@cityoflondon.gov.uk)

Steven Reynolds, Group Accountant

020 7332 1382

[Steven.Reynolds@cityoflondon.gov.uk](mailto:Steven.Reynolds@cityoflondon.gov.uk)

## City's Cash - Comparison with Budget

City's Cash Outturn 2017/18			
	Budget	Outturn	Variation Better/ (Worse)
	£m	£m	£m
1. Net expenditure on services	(83.6)	(69.4)	14.2
2. Supplementary revenue projects	(11.3)	(10.7)	0.6
3. Estate rent income	58.0	60.1	2.1
4. Non-property investment income (net)	1.2	0.9	(0.3)
5. Interest on balances	0.3	(0.2)	(0.5)
6. <b>Operating deficit</b>	<b>(35.4)</b>	<b>(19.3)</b>	<b>16.1</b>
7. Profit on asset sales	3.0	0.0	(3.0)
8. <b>(Deficit) Surplus (from) to reserves</b>	<b>(32.4)</b>	<b>(19.3)</b>	<b>13.1</b>

## City's Cash - Comparison with Budget on a Committee Basis

2017/18 Budget v Outturn – City's Cash Summary by Committee					
Committee	Budget Net	Outturn	Variation Better / (Worse)		
			Total	Local Risk	Central Risk/ Support Services
	£m	£m	£m	£m	£m
Culture, Heritage & Libraries	(0.4)	(0.4)	-	-	-
Education Board	(1.3)	(1.3)	-	-	-
Finance	(23.4)	(15.2)	8.2	0.4	7.8
G.P Committee of Aldermen	(3.8)	(3.5)	0.3	0.4	(0.1)
Guildhall School of Music and Drama	(11.3)	(11.2)	0.1	-	0.1
Markets	(0.6)	(0.2)	0.4	0.4	-
Open Spaces :- Open Spaces Directorate	-	-	-	0.1	(0.1)
Epping Forest and Commons	(7.4)	(7.6)	(0.2)	-	(0.2)
Hampstead, Queen's Park and Highgate	(7.9)	(7.6)	0.3	0.4	(0.1)
Bunhill Fields	(0.4)	(0.3)	0.1	0.1	-
West Ham Park	(1.2)	(1.2)	-	-	-
Policy and Resources	(16.0)	(14.9)	1.1	-	1.1
Property Investment Board	46.6	49.0	2.4	(0.2)	2.6
Schools :- City of London School	(1.6)	(1.6)	-	-	-
City of London Freeman's School	(1.8)	(1.5)	0.3	0.1	0.2
City of London School for Girls	(1.9)	(1.8)	0.1	0.1	-
<b>(Deficit) Surplus (from) to reserves</b>	<b>(32.4)</b>	<b>(19.3)</b>	<b>13.1</b>	<b>1.8</b>	<b>11.3</b>