

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

Summary

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

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

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

Recommendation(s)

The Audit and Risk Management Committee are asked to:

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

The Finance Committee are asked to:

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

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

Main Report

Background

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

Summary of 2018-19 City Fund Accounts

Revenue

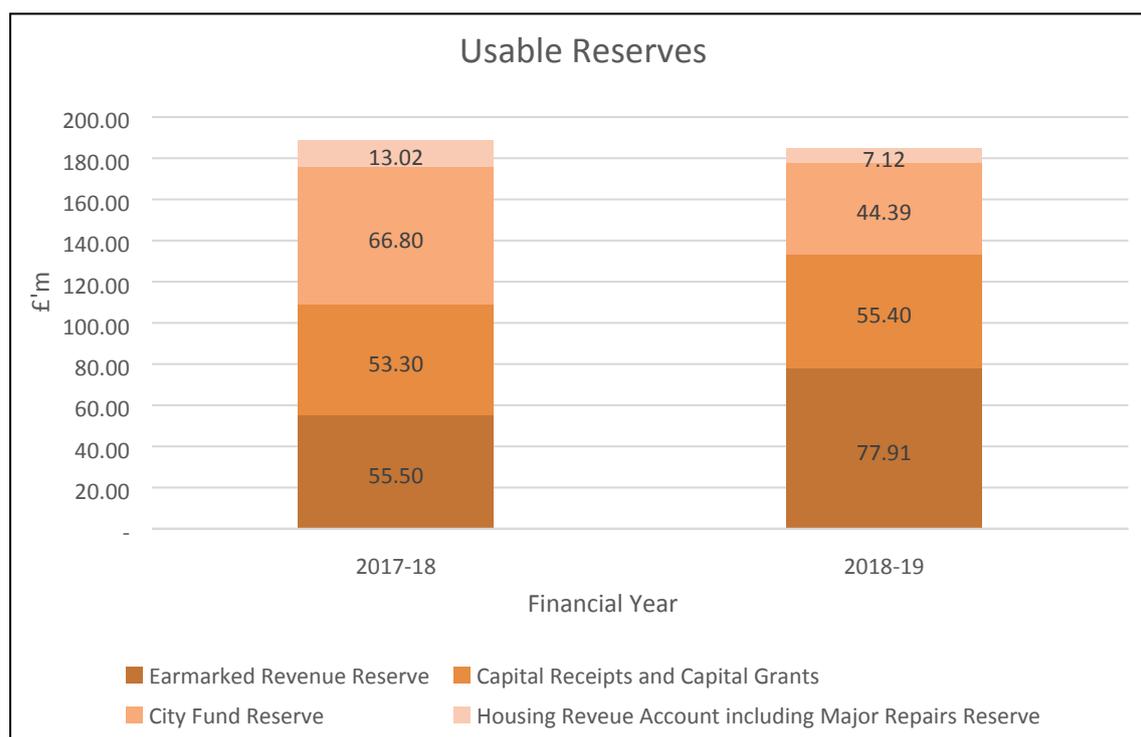
5. The provisional net expenditure for spend against Committee budgets is £7.5m better than budget. More detailed analysis of the outturn compared to budget is currently being submitted to spending committees. Bringing in funding from taxation and grants, the City Fund was £24.3m better than budget.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

Balance Sheet

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

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

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



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

Pension Liability

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

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

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

McCloud Judgement

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

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

Audit Progress

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

Conclusion

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

Appendices

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

Appendix 2 - BDO's City Fund Progress Report

Appendix 3 - BDO's Pension Fund Progress Report

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