

<b>Committee(s):</b>	<b>Date(s):</b>
Audit and Risk Management Committee	22 July 2014
Finance Committee	22 July 2014
<b>Subject:</b>	<b>Public</b>
Bridge House Estates, City's Cash Trust Funds and Sundry Trust Funds Annual Reports and Financial Statements 2013/14	
<b>Report of:</b>	<b>For Decision</b>
The Chamberlain	
<p style="text-align: center;"><b><u>Summary</u></b></p> <p>This report:</p> <ul style="list-style-type: none"> <li>• attaches at Annex 1 the Annual Report and Financial Statements for Bridge House Estates for the year ended 31 March 2014 for approval;</li> <li>• seeks approval to the Annual Reports and Financial Statements for the City's Cash Trust Funds for the year ended 31 March 2014, these are listed at Annex 2 and have been placed in the Members Reading Room;</li> <li>• seeks approval to the Annual Report and Financial Statements for the Sundry Trust Funds for the year ended 31 March 2014, these are listed at Annex 3 and have also been placed in the Members' Reading Room; and</li> <li>• attached at Annex 4, Moore Stephen's Management Letter for consideration.</li> </ul> <p>The key points relating to Bridge House Estates are:</p> <ul style="list-style-type: none"> <li>• inclusion for the first time of an estimated share of the net liability in the City of London Pension Scheme. The estimated Bridge House Estates share is 2% which was £8.0m at 31 March 2014 (£6.8m at 31 March 2013) (<i>the £8.0m is shown in the Balance Sheet on page 35 and analysed further in note 14 on pages 52-57</i>);</li> <li>• a change in the accounting treatment for 'non-property' investments following the transfer on 31 January 2014 of four of the six equity funds to pooled investment vehicles. From 31 January 2014 the income generated by these funds remains within those funds to be reinvested, with Bridge House Estates drawing down income as required. As a consequence, incoming resources within the Statement of Financial Activities now</li> </ul>	

includes the gain or loss in fair value of all non-property investments rather than the dividend income. This has a part-year effect in 2013/14 but will have greater impact from 2014/15. Even relatively small movements in the markets from one year to the next will produce large values to be reported as operating gains or losses in the Statement of Financial Activities;

- taking account of the two points above, the Statement of Financial Activities indicates a net surplus of £1.6m was achieved in the year (*the £1.6m surplus can be seen on the Statement of Financial Activities on page 34 and in note 15 on page 58*);
- total Bridge House Estates net assets of £1,023.9m, an increase of £71.1m (7%) since last year. This favourable movement comprises net gains on property investments of £49.3m and managed investments of £21.2m, along with net incoming resources of £1.6m on general and designated funds, partially offset by the pension scheme deficit increasing, of which the Bridge House Estates share of the increase is £1.0m (*the £1,023.9m is shown on the Balance Sheet on page 35 and analysed in more detail in note 15 on page 58*);
- the outturn for the year was a better than budget position of £4.6m which will reduce by £4.3m to £0.3m (1%) if all budget carry forward requests are agreed (*further details can be found in the main body of this report - paragraphs 16-19*).

With regard to the City's Cash Trust Funds, these held total funds of £39.1m as at 31 March 2014, an increase of £3.3m (9%) from a year earlier.

The Sundry Trust Funds held total funds of £50.3m as at 31 March 2014, an increase of £3.6m (8%) from a year earlier.

## **Recommendations**

The Audit and Risk Management Committee is requested to:

- consider the contents of Moore Stephens Management Letter; and
- recommend approval of the Annual Reports and Financial Statements for Bridge House Estates, City's Cash Trust Funds and the Sundry Trust Funds for the year ended 31 March 2014 to the Finance Committee.

The Finance Committee is requested to:

- consider the contents of Moore Stephens Management Letter;
- approve the Annual Reports and Financial Statements for Bridge House Estates, City's Cash Trust Funds and the Sundry Trust Funds taking account of any observations from the Audit and Risk Management Committee; and
- agree that the Annual Reports and Financial Statements are signed by the Chairman and Deputy Chairman of the Finance Committee on behalf of the Court of Common Council.

## Main Report

### **Background**

1. The 2013/14 Annual Report and Financial Statements for Bridge House Estates are attached at Annex 1. The document is prepared in accordance with the Statement of Recommended Practice (SORP) issued by the Charity Commission and with UK GAAP.
2. The 2013/14 Annual Reports and Financial Statements for City's Cash Trust Funds and the Sundry Trust Funds have been placed in the Members' Reading Room and are listed at Annexes 2 and 3 respectively.
3. Moore Stephens commenced its audit of the 2013/14 Annual Reports and Financial Statements of Bridge House Estates, City's Cash Trust Funds and the Sundry Trust Funds on 19 May 2014. The Audit Review Panel of the Chamberlain's and Bridgemasters' Accounts, which met on 7 July 2014, have certified that they have reviewed the processes adopted by Moore Stephens and that those processes were in accordance with the prescribed auditing standards.

### **Bridge House Estates**

#### **City of London Pension Scheme**

4. City of London staff, excluding police officers, teachers and judges, are eligible to join the Local Government Pension Scheme – a statutory scheme administered in accordance with Government regulations.
5. Previously the Bridge House Estates share of the estimated net deficit on the City of London Pension Scheme had not been included in the balance sheet. This exclusion arose because the estimated net deficit is the

responsibility of the City of London as a whole, as one employer, rather than the specific responsibility of any of its three funds. Thus Bridge House Estates does not have an exclusive relationship with the City of London Pension Fund and the proportion of the Pension Fund relating to City of London employee members engaged on Bridge House Estates activities is not separately identifiable. Consequently, in accordance with FRS17, the pension arrangements have been treated as a defined contribution scheme in the Bridge House Estates accounts. This meant that only the employer's contributions to the scheme have previously been included in the accounts as they become payable.

6. However, although the Pension Fund net deficit cannot be attributed precisely between the City Fund, City's Cash and Bridge House Estates, it is now considered that an apportionment of that deficit and inclusion in the respective balance sheets presents a fairer view of the funds' financial positions than if the deficit were to continue to be excluded. Accordingly an apportionment has been made which is based on employer's annual contributions to the fund.
7. Amounts included for 2012/13 have also been restated from those published last year to include Bridge House Estates estimated proportion of the net Pension Fund deficit. The total net deficit in the City of London Pension Fund was £401m at 31 March 2014 (2012/13: £342m). Bridge House Estates estimated proportion of this deficit is £8m or 2% (2012/13: £6.8m or 2%).
8. Pension fund deficits (or surpluses) are relatively sensitive to movements in the underlying assumptions. The main reasons for the increase in the City of London Pension Fund deficit are a reduction in the discount rate used for calculating the present day value of future payments from the fund – with a decrease in the rate resulting in higher liabilities and vice-versa – together with an increase in longevity; partly offset by an increase in the fund's assets.

### **Non-Property Investments – Change in Accounting Treatment**

9. On 31 January 2014, four of the six equity funds transferred to pooled investment vehicles. Consequently, income generated by these funds remains within those funds to be reinvested, with Bridge House Estates drawing down income as required. As a consequence, incoming resources within the Statement of Financial Activities now includes the gain or loss in fair value of all non-property investments rather than the dividend income.

10. In 2013/14 this change has a part year effect. Dividend income is £10.9m for the period from 1 April 2013 to 31 January 2014 and the gain in fair value from 31 January to 31 March is £1.6m. Both of these figures can be seen on the face of the Statement of Financial Activities under incoming resources (page 34 of the financial statements). The net gain on managed investments of £21.2m under the heading ‘other recognised gains and losses’ relates only to the period from 1 April to 31 January.
11. In subsequent years, the full effect of this change has the potential to dominate the net operating position. Even relatively small movements in the markets from one year to the next will produce large values to be reported as operating gains or losses in the Statement of Financial Activities.

### Statement of Financial Activities

12. On page 34 of the financial statements, the Statement of Financial Activities for the year shows a net increase in funds of £71.1m (7%). This comprises net gains on property investments of £49.3m, managed investments of £21.2m, net incoming resources of £1.6m from service provision, partially offset by an increase in the pension scheme deficit of £1.0m.

### Comparison with Previous Year

13. As set out in the table below, the net increase in funds of £71.1m compares with an increase in funds of £89.8m during the previous year.

	<b>31/3/14</b> <b>£m</b>	<b>31/3/13</b> <b>£m</b>
Gain on managed investments	21.2	49.6
Gain on property investments	49.3	31.1
Net gain on revenue activities	1.6	8.7
Gain/(loss) on defined benefit pension scheme	(1.0)	0.4
<b>Net increase in funds</b>	<b>71.1</b>	<b>89.8</b>

14. The net incoming resources of £1.6m were £7.1m lower than in 2012/13. The main reasons for this decreased position were:

- an increase in grant expenditure of £4.4m largely due to two additional one-off grant schemes; £3.2m for NEETS (young people Not in Employment, Education or Training) and £1.0m towards an employability initiative in partnership with Central London Forward;
- a reduction in investment income of £1.5m; a consequence of the transition and change in accounting treatment set out in paragraphs 9-11; and
- a reduction in interest receivable of £0.9m due to the net impact of lower interest rates and cash being transferred to stocks and shares.

### 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 with a budgeted net deficit of £3.9m the outturn on a like for like basis is a surplus of £0.7m, a favourable movement of £4.6m as summarised in the table below.

Bridge House Estates Outturn 2013/14			
	Budget	Outturn	Variation (Better)/ Worse
	£m	£m	£m
1. Net Expenditure on Services	12.6	11.1	(1.5)
2. Bridges Repairs Fund Contribution	1.0	1.0	0.0
3. Interest on Balances	(0.3)	(0.6)	(0.3)
4. Estate Rent Income	(18.4)	(18.6)	(0.2)
5. Investment Income	(13.3)	(12.4)	0.9
6. Sub-Total	(18.4)	(19.5)	(1.1)
7. Charitable Grants	22.3	18.8	(3.5)
8. B.H.E Net Surplus	3.9	(0.7)	(4.6)

16. The favourable movement of £4.6m can also be analysed on a Committee basis as follows:

Bridge House Estates Net Expenditure					
Committee	Budget £m	Actual £m	Variation (Better) / Worse		
			Total £m	Local Risk £m	Central Risk/ Support Services £m
The City Bridge Trust	23.4	19.9	(3.5)	0.0	(3.5)
Culture, Heritage & Libraries	0.0	(1.1)	(1.1)	(1.1)	0.0
Finance	(9.6)	(9.0)	0.6	0.0	0.6
Planning and Transportation	3.8	3.6	(0.2)	(0.1)	(0.1)
Property Investment Board	(13.7)	(14.1)	(0.4)	(0.3)	(0.1)
<b>Total BHE Requirement</b>	<b>3.9</b>	<b>(0.7)</b>	<b>(4.6)</b>	<b>(1.5)</b>	<b>(3.1)</b>

17. The main items contributing to the increased surplus of £4.6m were:

- lower than budgeted grant expenditure of £3.5m which included £2.8m brought forward from 2012/13. A quinquennial review of the grants programme was completed in 2013/14 which enabled an up-to-date new programme to be launched, however this also meant resources had to be diverted from the day-to-day grants assessments. There was also a transitional period between the old programmes closing and the new programmes launching; and
- Tower Bridge Tourism – an increase in net income of £1.1m, largely due to the re-phasing of various pre-approved projects (£0.7m), coupled with an increase in income of £0.2m from hospitality events and £0.2m from ticket sales to the exhibition.

18. However, this surplus is likely to be largely offset by budget carry forwards. In accordance with the City's budget management arrangements, requests to carry forward unspent budgets totalling £4.3m are being considered by the Chamberlain in consultation with the Chairman and Deputy Chairman of the Resource Allocation Sub-Committee including the £3.5m for Bridge House Estates grants. If all such requests are approved, the favourable movement of £4.6m would effectively reduce to £0.3m (1% of incoming resources).

## **Bridge House Estates – Balance Sheet**

19. The Balance Sheet is shown on page 35 of the financial statements and reflects the net increase in funds of £71.1m indicated in paragraph 13.

### **City's Cash Trust Funds**

20. The City's Cash Trust Funds comprise seven open space charitable funds and the Sir Thomas Gresham Trust Fund as listed in Annex 2.

21. These Trusts ended the year with net incoming resources of £1.2m (2012/13: net incoming resources of £0.4m) which comprised the following:

- Incoming resources of £22.1m:
  - funding from the City of London totalling £15.6m (2012/13: £14.7m) and;
  - income of £6.5m (2012/13: £6.4m) from investments and charitable and voluntary sources;
- Resources expended of £20.9m:
  - charitable expenditure of £19.5m (2012/13: £19.4m) on the running of the open spaces and Gresham Almshouses; and
  - governance and support services costs of £1.4m (2012/13: £1.3m).

22. Managed investments, held mainly by Hampstead Heath, benefited from an unrealised net gain in market value of £2.1m (2012/13: net gain of £3.4m).

23. At 31 March 2014, City's Cash Trust Funds held total reserves of £39.1m (2012/13: £35.8m) an increase of £3.3m (9%) compared to a year earlier.

### **Sundry Trust Funds**

24. The Sundry Trust Funds comprise the separate charitable funds listed at Annex 3. Excluding the Chamberlain's Banking Account and the Charities Pool, the remaining 19 Trusts:

- received income of £3.5m (2012/13: £2.7m) of which £2.1m was from investments (2012/13: £1.7m);
- had unrealised gains of £3.3m from managed investments (2012/13: £5.5m gains);



- incurred charitable expenditure of £3.0m (2012/13: £2.8m) including: £1.2m towards the running costs of Hampstead Heath (2012/13: £1.2m); £1.2m (2012/13: £1.2m) comprising 656 grants and 66 bursaries paid to individuals or organisations (2012/13: 635 grants and 68 bursaries); and £0.2m towards the running costs of the City of London Almshouses (2012/13: £0.3m);
- incurred governance and administration costs of £0.2m mainly due to the costs of the fund managers (2012/13: £0.2m); and
- held total funds of £50.3m as at 31 March 2014, an increase of £3.6m (8%) from a year earlier (2012/13: £5.2m increased funds).

### **Audit Opinion and Management Letter**

25. Moore Stephens intends to give unqualified opinions on the Bridge House Estates, City's Cash Trust Funds and the Sundry Trust Funds financial statements subject to clarification of any residual points and to issue its 2013/14 management letters for Bridge House Estates, City's Cash Trust Funds and the Sundry Trust Funds as set out in Annex 4. Representatives from Moore Stephens will be in attendance at the Audit and Risk Management Committee to present their report and to clarify any points or issues.
26. Moore Stephens Management Letter will be distributed to all Members of the Court of Common Council in October when they receive the published copy of the 2013/14 Bridge House Estates Annual Report and Financial Statements.

### **Signing of the Financial Statements**

27. The Chairman and Deputy Chairman of the Finance Committee will be requested to sign the financial statements.

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