

Committees:	Dates:
Audit and Risk Management Committee Finance Committee	20 July 2015 21 July 2015
Subject: Bridge House Estates, City's Cash Trust Funds and Sundry Trust Funds Annual Reports and Financial Statements 2014/15	Public
Report of: The Chamberlain	For Decision

Summary

This report:

- attaches at Annex 1 the Annual Report and Financial Statements for Bridge House Estates for the year ended 31 March 2015 for approval;
- seeks approval to the Annual Reports and Financial Statements for the City's Cash Trust Funds (not City's Cash itself which will be reported in the autumn) for the year ended 31 March 2015, these are listed at Annex 2 and have been placed in the Members' Reading Room;
- seeks approval to the Annual Reports and Financial Statements for the Sundry Trust Funds for the year ended 31 March 2015, these are listed at Annex 3 and have also been placed in the Members' Reading Room; and
- attaches at Annex 4, Moore Stephen's Management Letter for consideration.

The key points relating to Bridge House Estates are:

- the Statement of Financial Activities indicates a net surplus of £51.0m was achieved in the year which includes a gain in fair value on managed investments of £65.1m (**these figures can be seen on the Statement of Financial Activities on page 38**);
- total Bridge House Estates net assets of £1,141.7m, an increase of £117.8m (12%) since last year. This favourable movement comprises the net surplus of £51.0m above and net gains on property investments of £68.6m partly offset by Bridge House Estates share, £1.8m, of the increase in the City of London pension scheme deficit (**the £1,141.7m is shown on the Balance Sheet on page 39**);
- the outturn for the year was a better than budget position of £3.3m which will reduce by £0.8m to £2.5m if all budget carry forward requests are agreed (**paragraphs 10 to 13 of this report**).

With regard to the City's Cash Trust Funds, these held total funds of £44.9m as at 31 March 2015, an increase of £5.8m (15%) from a year earlier (**paragraphs 15 to 18**).

The Sundry Trust Funds held total funds of £53.2m as at 31 March 2015, an increase of £2.9m (6%) from a year earlier (**paragraph 19**).

Recommendations

The **Audit and Risk Management Committee** is requested to:

- a) consider the contents of Moore Stephens Management Letter; and
- b) 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 2015 to the Finance Committee.

The **Finance Committee** is requested to:

- a) consider the contents of Moore Stephens Management Letter;
- b) 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
- c) 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 2014/15 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 2014/15 Annual Reports and Financial Statements for City's Cash Trust Funds (not City's Cash itself which will be reported in the autumn) 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 2014/15 Annual Reports and Financial Statements of Bridge House Estates, City's Cash Trust Funds and the Sundry Trust Funds on 18 May 2015. The Audit Review Panel of the Chamberlain's and Bridgemasters' Accounts, which met on 15 July 2015, 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

Non-Property Investments – full year effect of a change in Accounting Treatment on 31 January 2014

4. As explained in last year's report, four of the six equity funds transferred to pooled investment vehicles on 31 January 2014. Consequently, income generated by those funds remained 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 included the gain or loss in fair value of all non-property investments rather than the dividend income.
5. In 2013/14 this change had a part year effect:
 - For the period prior to the accounting change, from 1 April 2013 to 31 January 2014, the Statement of Financial Activities recorded dividend income of £10.9m within net incoming resources and, as part of other recognised gains and losses, a net gain on managed investments of £21.2m; and
 - For the period following the accounting change from 1 February 2014 to 31 March 2014, the Statement of Financial Activities recorded an overall gain in fair value of £1.6m within net incoming resources.
6. For 2014/15, this change had a full year effect. The Statement of Financial Activities records the gain in fair value of managed investments of £65.1m, which is the main reason for the net operating position increasing from a surplus of £1.6m in 2013/14 to a surplus of £51.0m. This accounting change has led to even relatively small movements in the markets from one year to the next producing significant volatility in the value to be reported as operating gains or losses in the Statement of Financial Activities.

Statement of Financial Activities

7. On page 38 of the financial statements, the Statement of Financial Activities for the year shows a net increase in funds of £117.8m (12%). This comprises the net incoming resources of £51.0m on general and designated funds (which includes the gain in fair value of managed investments of £65.1m) and net gains on property investments of £68.6m, partly offset by Bridge House Estates share, £1.8m, of the City of London pension scheme deficit.

Comparison with Previous Year

8. The first line on the table below indicates the underlying position before taking account of the movement on investments (i.e. an increase of £3.2m in net expenditure, from £10.9m to £14.1m). Subsequent lines show the various movements on investments (both managed funds and property investments) together with BHE's share of the increased deficit on the City of London

Pension Scheme. This results in an overall net increase in funds of £117.8m compared to an increase in funds of £71.1m during the previous year.

	31/3/15 £m	31/3/14 £m
Net outgoing resources before managed investments gains and income	(14.1)	(10.9)
Gain in fair value of managed investments (part year impact in 2013/14)	65.1	1.6
Managed investment income (part year impact in 2013/14)	-	10.9
Net incoming resources before other recognised gains and losses	51.0	1.6
Gain on managed investments	-	21.2
Gain on property investments	68.6	49.3
Gain/(loss) on defined benefit pension scheme	(1.8)	(1.0)
Net increase in funds	117.8	71.1

9. The net increase in funds was £46.7m higher than in 2013/14. The main reasons for this increased position were:
- a net increase in the gain on managed investments and investment income of £31.4m due to favourable market conditions;
 - a net increase in the gain on property investments of £19.3m;
 - a reduction in investment property income of £1.1m;
 - an increase in grants to voluntary organisations £1.0m;
 - an increase in managed investment expenses £0.8m;
 - an increase in the actuarial loss on the pension scheme £0.8; and
 - a reduction in interest receivable of £0.7m.

Comparison with Budget

10. 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 £0.9m the outturn on a like for like basis is a surplus of £2.4m, a favourable movement of £3.3m as summarised in the table below.

Bridge House Estates Outturn 2014/15			
	Budget	Outturn	Variation (Better)/ Worse
	£m	£m	£m
1. Net Expenditure on Services	10.1	9.1	(1.0)
2. Supplementary Revenue Projects	1.2	0.0	(1.2)
3. Bridges Repairs Fund Contribution	1.1	1.1	0.0
4. Estate Rent Income	(18.1)	(18.6)	(0.5)
5. Non-property investment income (net)	(13.8)	(13.8)	0.0
6. Interest on balances	(0.1)	(0.1)	0.0
7. Revenue Surplus	(19.6)	(22.3)	(2.7)
8. Charitable Grants	20.5	19.9	(0.6)
9. Deficit/(Surplus) from/(to) reserves	0.9	(2.4)	(3.3)

11. The favourable movement of £3.3m can also be analysed on a Committee basis as follows:

Bridge House Estates Net Expenditure					
	Budget	Actual	Variation (Better) / Worse		
			Total	Local Risk	Central Risk/ Support Services
Committee	£m	£m	£m	£m	£m
The City Bridge Trust	21.8	20.9	(0.9)	(0.1)	(0.8)
Culture, Heritage & Libraries	(1.0)	(1.6)	(0.6)	(0.7)	0.1
Finance	(9.8)	(11.3)	(1.5)	0.0	(1.5)
Planning and Transportation	3.6	3.7	0.1	0.0	0.1
Property Investment Board	(13.7)	(14.1)	(0.4)	(0.0)	(0.4)
Total BHE Requirement	0.9	(2.4)	(3.3)	(0.8)	(2.5)

12. The main items contributing to the better than budget position of £3.3m were:

- The BHE contribution of £1.2m to the construction of a new staircase at London Bridge has been deferred following a rephrasing of the works;
 - Tower Bridge Tourism – an increase in net income of £0.7m, due to a combination of visitor numbers exceeding forecasts and operating expenditure being below budget;
 - City Bridge Trust – £0.6m of the £20.5m grants budget was not utilised;
 - Central contingencies and provisions of £0.3m were not required;
 - Property Investment Estate – additional rent income of £0.3m; and
 - Other net reductions in operating costs across services of £0.2m.
13. However, this surplus is likely to be partly offset by budget carry forwards. In accordance with the City's budget management arrangements, requests to carry forward unspent budgets totalling £0.8m are being considered by the Chamberlain in consultation with the Chairman and Deputy Chairman of the Resource Allocation Sub-Committee including £0.6m for Bridge House Estates grants. If all such requests are approved, the favourable movement of £3.3m would effectively reduce to £2.5m.

Bridge House Estates – Balance Sheet

14. The Balance Sheet is shown on page 37 of the financial statements and reflects the net increase in funds of £117.8m indicated in paragraph 7.

City's Cash Trust Funds

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

16. These Trusts ended the year with net incoming resources of £4.0m (2013/14: net incoming resources of £1.2m) which comprised the following:

- Incoming resources of £24.6m:
 - funding from the City of London totalling £19.3m (2013/14: £15.6m) and;
 - income of £5.3m (2013/14: £6.5m) from investments and charitable and voluntary sources;
- Resources expended of £20.6m:
 - charitable expenditure of £19.1m (2013/14: £19.5m) on the running of the open spaces and Gresham Almshouses; and
 - governance and support services costs of £1.5m (2013/14: £1.4m).

17. Managed investments, held mainly by Hampstead Heath, benefited from an unrealised net gain in market value of £1.8m (2013/14: net gain of £2.1m).
18. At 31 March 2015, City's Cash Trust Funds held total reserves of £44.9m (2013/14: £39.1m) an increase of £5.8m (15%) compared to a year earlier.

Sundry Trust Funds

19. The Sundry Trust Funds comprise the separate charitable funds listed at Annex 3. Excluding the Charities Pool (which is an investment vehicle for the other charities), the remaining 18 Trusts:
 - received income of £3.4m (2013/14: £3.5m) of which £2.1m was from investments (2013/14: £2.1m);
 - had unrealised gains of £3.0m from managed investments (2013/14: £3.3m gains);
 - incurred charitable expenditure of £3.3m (2013/14: £3.0m) including:
 - £1.2m towards the running costs of Hampstead Heath (2013/14: £1.2m);
 - £1.3m (2013/14: £1.2m) comprising 636 grants and 63 bursaries paid to individuals or organisations (2013/14: 656 grants and 66 bursaries); and
 - £0.3m towards the running costs of the City of London Almshouses (2013/14: £0.2m);
 - incurred governance and administration costs of £0.2m mainly due to the costs of the fund managers (2013/14: £0.2m); and
 - held total funds of £53.2m as at 31 March 2015, an increase of £2.9m (6%) from a year earlier (2013/14: £50.3m increased funds).

Audit Opinion and Management Letter

20. 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 2014/15 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.
21. 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 2014/15 Bridge House Estates Annual Report and Financial Statements.

Signing of the Financial Statements

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

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