

<b>Committees:</b>	<b>Dates:</b>
Audit and Risk Management Committee	8 November 2016
Finance Committee	15 November 2016
<b>Subject:</b> Bridge House Estates, City's Cash Trust Funds and Sundry Trust Funds Annual Reports and Financial Statements 2015/16	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Decision</b>
<b>Report Author:</b> John James, Interim Deputy Financial Services Director	

### Summary

This report seeks approval for:

- the Annual Report and Financial Statements for Bridge House Estates for the year ended 31 March 2016 (Annex 2);
- the Annual Reports and Financial Statements for the City's Cash Trust Funds (not City's Cash itself which will be covered under a separate report) for the year ended 31 March 2016, these are listed at Annex 3 and have been placed in the Members' Reading Room; and
- the Annual Reports and Financial Statements for the Sundry Trust Funds for the year ended 31 March 2016, these are listed at Annex 4 and have also been placed in the Members' Reading Room.

The auditors Moore Stephens LLP intend to issue an unqualified audit and their Audit Management Report, including recommendations, is attached at Annex 5, which includes a comment from the Audit Review Panel. The City's action plan to address the audit recommendations is attached at Annex 6.

The financial statements of Bridge House Estates, City's Cash Trust Funds and the Sundry Trusts for the year ended 31 March 2016 have been prepared in accordance with the Charities Statement of Recommended Practice (SORP) in accordance with the Financial Reporting Standard 102 (FRS 102) as issued by the Financial Reporting Council effective from 1 January 2015.

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Previously, the financial statements of BHE and all other trusts were prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP), now referred to as ‘previous UK GAAP’ (*paragraphs 6 to 8 of this report*).

The key points relating to Bridge House Estates are:

- the Statement of Financial Activities shows that net income of £41.0m was achieved in the year, which includes a gain in fair value on property investments of £55.9m and a loss on managed investments of £1.9m (*these figures can be seen on the Statement of Financial Activities on page 40*);
- Bridge House Estates net assets total £1,183.5m, an increase of £41.9m (3.7%) since last year, reflecting the surplus above and Bridge House Estates share of the actuarial gain on the City of London pension scheme (£0.9m) (*the £1,183.5m is shown on the Balance Sheet on page 41*);

With regard to the City’s Cash Trust Funds, these held total funds of £51.5m as at 31 March 2016, an increase of £6.5m (14.4%) from a year earlier (*paragraphs 17 to 20*).

The Sundry Trust Funds held total funds of £50.4m as at 31 March 2016, a decrease of £2.8m (5.3%) from a year earlier (*paragraph 21*).

## **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 2016 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**

### **Introduction**

1. The 2015/16 Annual Report and Financial Statements for Bridge House Estates are attached at Annex 2.
2. The 2015/16 Annual Reports and Financial Statements for City's Cash Trust Funds (not City's Cash itself which will be covered under a separate report) and the Sundry Trust Funds have been placed in the Members' Reading Room and are listed at Annexes 3 and 4 respectively.
3. The external auditor, Moore Stephens LLP intends to give an unqualified opinion on the Annual Reports and Financial Statements of Bridge House Estates, City's Cash Trust Funds and the Sundry Trust Funds and has issued the Audit Management Report set out in Annex 5. 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. Moore Stephens report includes recommendations in sections 6 and 7 which cover all entities including City's Cash. Some of these recommendations only relate to one entity, whilst some apply to all entities. Seven recommendations apply to Bridge House Estates and the City's other trusts and an action plan to address these is attached at Annex 6.
5. The Audit Review Panel of the Chamberlain's and Bridgemasters' Accounts met on 10 October 2016 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.

### **Change to the financial statements - transition to FRS102**

6. The financial statements of Bridge House Estates, City's Cash Trust Funds and the Sundry Trust Funds for the year ended 31 March 2016 have been prepared in accordance with the Charities Statement of Recommended Practice (SORP) in accordance with the Financial Reporting Standard 102 (FRS 102) as issued by the Financial Reporting Council effective from 1 January 2015.
7. Prior to the adoption of FRS102 the financial statements of Bridge House Estates, City's Cash Trust Funds and the Sundry Trust Funds were prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP), now referred to as 'previous UK GAAP'. The last

financial statements of Bridge House Estates, City's Cash Trust Funds and the Sundry Trust Funds prepared in accordance with previous UK GAAP were for the year ended 31 March 2015.

8. Bridge House Estates and each of the other Trusts have disclosed a transition statement to FRS102 setting out any changes to funds and net income/expenditure as a result of this change. For City's Cash Trusts and the Sundry Trusts changes arising from the implementation of FRS102 were minimal and did not result in a change to the funds held by each of the charities. For Bridge House Estates, the transition to FRS102 resulted in some presentational adjustments and minor changes as set out on pages 75 to 78 of the financial statements and summarised below.

- a. Lease incentives - FRS102 requires lease incentives, which reduce rental income in the initial years of the lease, to be allocated over the term of the lease.

Previous UK GAAP required lease incentives to be allocated over the shorter of the lease term and the period ending on the date from which it is expected the prevailing market rental will be payable.

This change means that rental income is now 'smoothed' over a generally longer period which, at the transition date of 1 April 2014, led to an increase of £0.1m in the level of accrued rental income. The movement for the year ended 31 March 2015, was a further increase in accrued income of £0.1m.

- b. Lease incentives – as the valuation of investment properties is partly based on future rental income (see change noted at 1 above), a corresponding reduction was made to the value of investment properties reflecting that a lower level of income will be recognised in later years.
- c. Holiday pay accruals – previous UK GAAP had no specific requirement to make accruals for employee entitlement to paid holiday leave not yet taken as at year end. FRS102 explicitly requires accruals to be made for holiday pay as the employees earn the right to the paid leave. The initial provision recognised at the date of transition, 1 April 2014, was for the holiday entitlement arising in the year which was due but taken (£0.04m). The movement in the provision for the year ended 31 March 2015 was also recognised as an effect of transition (£0.06m).

## Key highlights from the financial statements

### Bridge House Estates - Statement of Financial Activities

9. On page 40 of the financial statements, the Statement of Financial Activities for the year shows a net increase in funds of £41.9m (3.7%). This comprises net incoming resources of £41.0m on general and designated funds (which includes a gain in fair value on property investments of £55.9m and a loss in fair value on managed investments of £1.9m) and Bridge House Estates share, £0.9m, of the decrease in the City of London pension scheme deficit.

### Comparison with Previous Year

10. The first line on the table below indicates the underlying position before taking account of the fair value movement on investments (i.e. a decrease of £1.1m in net expenditure, from £14.1m to £13.0m). Subsequent lines show the fair value movements on investments (both managed funds and property investments) together with BHE's share of the decreased deficit on the City of London Pension Scheme. This resulted in an overall net increase in funds of £41.9m compared to an increase in funds of £117.7m during the previous year.

	<b>31/3/16</b>	<b>31/3/15</b>
	<b>£m</b>	<b>£m</b>
Net outgoing resources before gain/(loss) in fair value of investments	(13.0)	(14.1)
Gain/(loss) in fair value of managed investments	(1.9)	65.1
Gain in fair value of property investments	55.9	68.5
Net incoming resources before other recognised gains and losses	41.0	119.5
Gain/(loss) on defined benefit pension scheme	0.9	(1.8)
<b>Net increase in funds</b>	<b>41.9</b>	<b>117.7</b>

11. The net increase in funds of £41.9m was £75.8m lower than in 2014/15, which is mainly due to:

- the gain in fair value on managed investments reducing by £67.0m, from a gain of £65.1m in 2014/15 moving to a loss in of £1.9m in 2015/16 due to less favourable market conditions;
- the gain in fair value on property investments reducing by £12.6m, from a gain of £68.5m in the 2014/15 to a gain of £55.9m in 2015/16;
- an increase in bridges expenditure of £1.9m, which is primarily due to funding a new staircase between London Bridge and the riverside walkway;

partly offset by:

- an increase in investment property income of £3.3m;
- the actuarial loss on the pension scheme in the prior year moving to a gain – an overall improvement of £2.7m; and
- a decrease in grants to voluntary organisations £1.4m.

#### Comparison with Budget

12. 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 surplus of £1.6m as detailed in Annex 1, the outturn on a like for like basis is a surplus of £3.5m, a favourable movement of £1.9m.
13. The budget and outturn can also be analysed on a Committee basis as shown in the second table in Annex 1.
14. The better than budget position of £1.9m comprises:
  - £1.5m of the £19.6m grants budget not being utilised;
  - £0.8m of additional income from Tower Bridge tourism due to visitor numbers exceeding forecasts;

\* the budget includes the draw-down from non-property investments, whereas the Statement of Financial Activities (SoFA) does not as this is a transfer between investments and cash, however, the SoFA 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.

- £0.7m of additional rent income from investment properties;
  - £0.3m of central contingencies and provisions not being required;
  - £0.1m of other net reductions in operating costs across services;
- partly offset by:
- £1.5m funding for the construction of a new staircase between London Bridge and the riverside walkway.

15. In accordance with the City's budget management arrangements, requests to carry forward unspent budgets totalling £1.6m have been agreed by the Chamberlain in consultation with the Chairman and Deputy Chairman of the Resource Allocation Sub-Committee including £1.5m for Bridge House Estates grants.

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

16. Bridge House Estates net assets total £1,183.5m as at 31 March 2016 compared to £1,141.6m a year earlier, reflecting the net increase in funds of £41.9m indicated in paragraph 9 (*these figures can be seen in the Balance Sheet on page 41*).

### **Subsequent Events**

17. As stated in the notes to the financial statements, there are risks to Bridge House Estates 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 will be kept on this and other implications as events unfold during the coming months with financial forecasts being refreshed if and when the picture becomes clearer.

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

18. The City's Cash Trust Funds comprise seven open space charitable funds and the Sir Thomas Gresham Trust Fund as listed in Annex 3.

19. These Trusts ended the year with net incoming resources of £8.3m (2014/15: net incoming resources of £4.0m) which comprised the following:

- Incoming resources of £29.3m:

- funding from the City of London totalling £24.4m (2014/15: £19.3m) and;
  - income of £4.9m (2014/15: £5.3m) from investments and charitable and voluntary sources;
  - Resources expended of £21.0m:
    - charitable expenditure of £20.8m (2014/15: £20.4m) on the running of the open spaces and Gresham Almshouses; and
    - support services costs of £0.2m (2014/15: £0.2m).
20. Managed investments, held mainly by Hampstead Heath, suffered from an unrealised net loss in market value of £1.8m (2014/15: net gain of £1.8m).
21. At 31 March 2016, City's Cash Trust Funds held total reserves of £51.5m (2014/15: £45.0m) an increase of £6.5m (14.4%) compared to a year earlier.

### **Sundry Trust Funds**

22. The Sundry Trust Funds comprise the separate charitable funds listed at Annex 4. Excluding the Charities Pool (which is an investment vehicle for the other charities), the remaining 19 Trusts:
- received income of £3.5m (2014/15: £3.4m) of which £2.1m was from investments (2014/15: £2.1m);
  - had unrealised losses of £3.0m from managed investments (2014/15: £3.0m gains);
  - incurred charitable expenditure of £3.1m (2014/15: £3.3m) including:
    - £1.1m towards the running costs of Hampstead Heath (2014/15: £1.2m);
    - £1.2m (2014/15: £1.3m) comprising 608 grants and 69 bursaries paid to individuals or organisations (2014/15: 636 grants and 63 bursaries);
    - £0.5m towards the running costs of Keats House (2014/15: £0.4m); and
    - £0.3m towards the running costs of the City of London Almshouses (2014/15: £0.3m);



- incurred governance and administration costs of £0.2m mainly due to the costs of the fund managers (2014/15: £0.2m); and
- held total funds of £50.4m as at 31 March 2016, a decrease of £2.8m (5.3%) from a year earlier (2014/15: £53.2m increased funds).

### **Approval of the Financial Statements**

23. 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 – Bridge House Estates - comparison of outturn with budget

Annex 2 – Annual Report and Financial Statements of Bridge House Estates

Annex 3 – List of City’s Cash Trust Funds

Annex 4 – List of Sundry Trusts

Annex 5 – Moore Stephens Audit Management Report (*Please see also City’s Cash 2015/16 – Annex 3*)

Annex 6 – Action plan to address Moore Stephens recommendations

### **Contacts:**

John James

Interim Deputy Financial Services Director

020 7332 1284

[John.James@cityoflondon.gov.uk](mailto:John.James@cityoflondon.gov.uk)

Steven Reynolds

Group Accountant

020 7332 1382

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

### Bridge House Estates - Comparison with Budget

Bridge House Estates Outturn 2015/16			
	Budget	Outturn	Variation Better/ (Worse)
	£m	£m	£m
1. Net Expenditure on Services	(8.6)	(9.7)	(1.1)
2. Supplementary Revenue Projects	0.0	(0.1)	(0.1)
3. Bridges Repairs Fund Contribution	(1.1)	(1.1)	0.0
4. Estate Rent Income	20.6	21.4	0.8
5. Non-property investment income (net)	10.2	11.1	0.9
6. Interest on balances	0.1	0.0	(0.1)
7. <b>Revenue Surplus</b>	<b>21.2</b>	<b>21.6</b>	<b>0.4</b>
8. Charitable Grants	(19.6)	(18.1)	1.5
9. <b>(Deficit) Surplus (from) to reserves</b>	<b>1.6</b>	<b>3.5</b>	<b>1.9</b>

### Bridge House Estates - Comparison with Budget on a Committee Basis

2015/16 Budget v Outturn - Bridge House Estates Summary by Committee					
	Budget	Outturn	Variation Better / (Worse)		
			Total	Local Risk	Central Risk/ Support Services
Committee	£m	£m	£m	£m	£m
The City Bridge Trust	(20.9)	(19.3)	1.6	0.1	1.5
Culture, Heritage & Libraries	0.8	1.6	0.8	0.8	0.0
Finance	10.3	11.1	0.8	0.0	0.8
Planning and Transportation	(3.8)	(6.0)	(2.2)	0.0	(2.2)
Property Investment Board	15.2	16.1	0.9	0.0	0.9
<b>(Deficit ) Surplus (from) to reserves</b>	<b>1.6</b>	<b>3.5</b>	<b>1.9</b>	<b>0.9</b>	<b>1.0</b>