

Committees: Audit and Risk Management – for decision Finance – for decision	Date: 24 July 2017 25 July 2017
Subject: City Fund and Pension Funds Financial Statements 2016/17	Public
Report of: The Chamberlain	For Decision
Report author: Philip Gregory, Chamberlain's Department	

Summary

Attached to this report are the City Fund and Pension Funds Financial Statements for the year ended 31 March 2017.

The key points are:

- An overall better than budget position of £9.3m.
- Total net assets of £1,252.0m, a decrease of £303.4m since last year.
- The City Fund's £200m contribution to Crossrail was made in March 2017.
- The net asset position of £1,252.0m is after having deducted total pension funds liabilities of £1,220.3m (an increase in liabilities of £201.4m on the previous year).
- The net asset position is reflected in usable reserves of £160.1m and unusable reserves of £1,019.9m.
- Usable reserves have decreased by £98.1m from a year earlier. These are relatively liquid reserves that can be applied to fund expenditure or reduce local taxation.
- Unusable reserves have decreased by £205.3m from a year earlier. These reserves hold unrealised gains and losses and differences between the accounting basis and statutory requirements for local authorities.
- BDO commenced its audit on 14 June. At the time of writing this report the audit was still underway. To date no significant issues have been raised and it is anticipated that the audit will be concluded satisfactorily to enable BDO to issue unqualified opinions. Representatives of the auditors will be in attendance at the Audit and Risk Management Committee to present their progress reports.

Recommendations

The Audit and Risk Management Committee is requested to:-

- consider the contents of BDO's reports (to follow);
- recommend approval of the City Fund and Pension Funds Financial Statements for the year ended 31 March 2017 to the Finance Committee; and
- delegate to the Town Clerk, in consultation with the Chairman and Deputy Chairman of the Audit and Risk Management Committee, approval of any material changes to the financial statements required before the signing of the audit opinion by BDO - which is expected to be by the end of August or early September.

The Finance Committee is requested to:-

- consider the resolution from the Audit and Risk Management Committee and, if appropriate, approve the City Fund and Pension Funds Financial Statements for the year ended 31 March 2017; and
- delegate to the Town Clerk, in consultation with the Chairman and Deputy Chairman of the Finance Committee, approval of any material changes to the financial statements required before the signing of the audit opinion by BDO - which is expected to be by the end of August or early September.

Main Report

Introduction

1. The City Fund and Pension Funds Financial Statements for 2016/17 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 Financial Statements for the year to 31 March 2017 to take place as soon as reasonably practicable, and in any event by 30 September 2017. Approval of each year's financial statements has been delegated by the Court of Common Council to the Finance Committee.

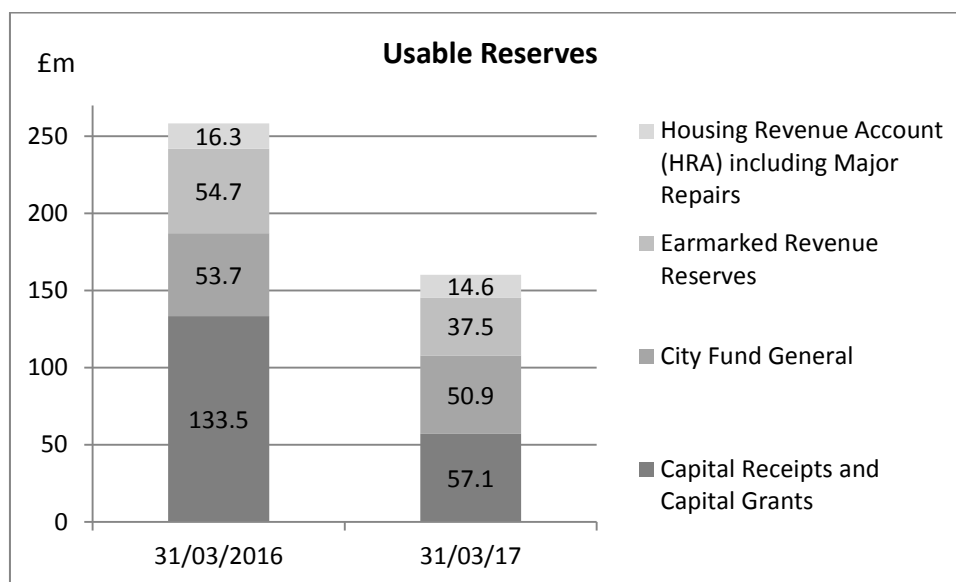
Revenue

3. There is no change to the provisional net expenditure outturn position of £9.3m better than budget which was reported to Finance Committee in June. More detailed analyses of the outturn compared to budget are currently being submitted to spending committees.
4. In accordance with the City's budget management arrangements, requests for the carry forward of City Fund resources totalling £2.5m are being considered by the Chamberlain, in consultation with the Chairman and Deputy Chairman of the Resource Allocation Sub-Committee. The extent to which these carry forwards are agreed, will increase the call on the City Fund General Reserve in 2017/18. In addition, £1.7m of projects and works programmes have slipped and/or been rephased to 2017/18.

Balance Sheet

5. The Consolidated Balance Sheet indicates that the City Fund's total net assets decreased by £303.4m (or 19.5%) to £1,252m from £1,555.4m a year earlier.
6. The decrease in net assets of £303.4m is reflected in reductions in usable reserves of £98.1m and unusable reserves of £205.3m.
7. 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 also include sums earmarked, either by statute or as agreed by Members, for specific purposes such as Highways, the Housing Revenue Account and the Police.
8. The £98.1m year on year reduction in usable reserves from £258.2m to £160.1m mainly relates to the utilisation during 2016/17 of £160m in funds set aside to contribute to the City Fund's £200m payment towards the Crossrail project which was made in March 2017. This was partly

offset by other net contributions to reserves of £61.9m mainly for capital purposes. The year on year movement in usable reserves is summarised in the chart below.

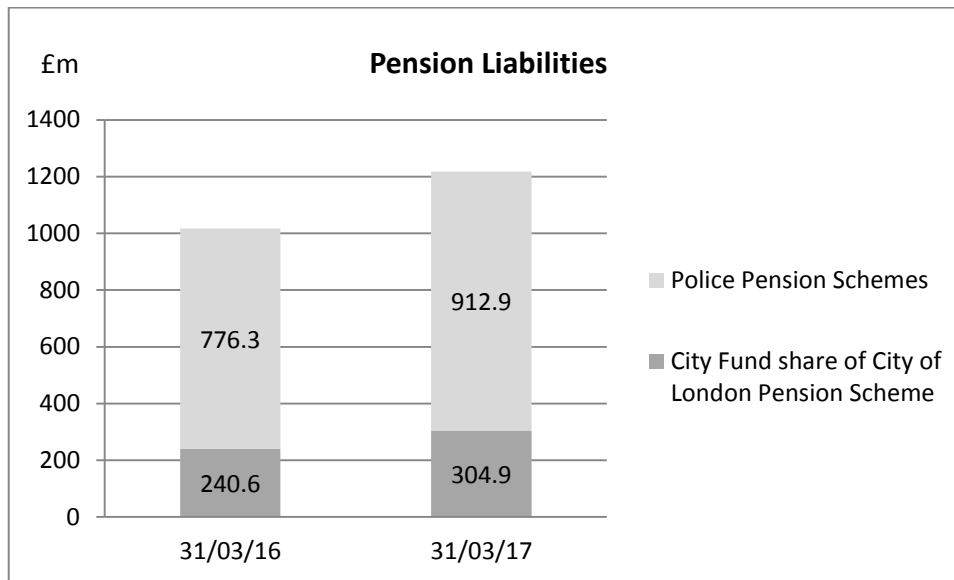


9. Unusable reserves hold unrealised gains and losses and differences between the accounting basis and statutory basis for preparing local authority financial statements. The £205.3m year on year reduction in unusable reserves from £1,297.2m to £1,091.9m is analysed further in note 29 to the City Fund financial statements. The most significant item contributing to this reduction is an increase of £201.4m in the negative pension reserve to match the increase in estimated pension liabilities.

Pension Liabilities

10. The City Fund's total net assets of £1,252m are after having deducted net pension liabilities totalling £1220.3m. The comparator for 31 March 2016 is £1,018.9m. 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.

11. The liabilities are mainly in relation to the City Fund share of the City of London Pension Scheme and the Police Pension Schemes (see chart below).



City of London Pension Scheme

12. 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.
13. Although the Pension Fund net deficit cannot be attributed precisely between the City Fund, City's Cash and Bridge House Estates, 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 excluded. Accordingly an apportionment has been made which is based on employer's annual contributions to the fund.
14. The total net deficit in the City of London Pension Fund was £597.9m at 31 March 2017 (31 March 2016: £481m). The City Fund's estimated proportion of this deficit is £304.9m or 51% (31 March 2016: £240.6m or 50%).
15. Pension fund deficits (or surpluses) are relatively sensitive to movements in the underlying assumptions. The main reason for the net increase of £116.9m (City Fund share £64.3m) in the City of London Pension Fund deficit is a decrease in the discount rate used for calculating the present day value of future payments from the fund - with an decrease in the rate resulting in increased liabilities and vice-versa - partly offset by an increase in the fund's assets. The discount rate is required by regulations to be based on market yields on high quality corporate bonds. For the 31 March 2017, a discount rate of 2.7% has been used, compared to 3.6% a year earlier.

16. The employer's pension contribution rate is a separate issue from the IAS19 calculations. It is considered and determined by the 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 the 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.

City Police Pension Schemes

17. The Police Pension Scheme is a statutory scheme as specified by police regulations. The scheme is unfunded (i.e. the scheme has no assets - unlike the Local Government Pension Fund which has both assets and liabilities). Again, the main reasons for the increase in the deficit is the decrease in the discount rate used to value liabilities.
18. The City of London Corporation in its capacity as Police Authority pays an employer's contribution of 21.3% of pensionable pay for all serving police officers into the Police Pension Fund Account. If there is insufficient money in the Police Pension Fund Account to meet all expenditure commitments in any particular year, the Home Office will fund the deficit. In practice therefore the significant balance sheet liability of £912.9m relating to benefits earned but to be paid in the future, will be covered by future contributions (employees' and employer's) and receipt of Home Office grant monies.

Audit Opinion and Letter

19. BDO commenced its audit on 14 June. At the time of writing this report the audit was still underway. To date no significant issues have been raised and 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 reports and to clarify any points or issues.

Subsequent Adjustments to the Accounts

20. BDO is expecting to sign its audit opinion by the end of August or early September. 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 Town Clerk in consultation with the Chairmen and Deputy Chairmen of the Audit and Risk Management and Finance Committees.

Publication of the Statement of Accounts

21. As soon as reasonably possible after the conclusion of the audit, and in any event by 30 September 2017, the City is required to publish the 2016/17 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.

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Annex 1: Statement of Accounts for the City Fund and the Pension Funds

Annex 2: BDO's City Fund Report (to follow)

Annex 3: BDO's Pension Fund Report (to follow)