

Committee(s):	Date(s):	Item no.
Audit and Risk Management Committee	10 October 2017	
Finance Committee	21 November 2017	
Subject: City's Cash Financial Statements 2016/17		Public
Report of: The Chamberlain		For Decision
Report Author: Philip Gregory, Deputy Director, Financial Services		
<p style="text-align: center;"><u>Summary</u></p> <p>The Annual Report and Financial Statements for City's Cash for the year ended 31 March 2017 are attached at Annex 2 for approval.</p> <p>Moore Stephens LLP is intending to issue an unqualified audit opinion and their report, including recommendations, is attached at Annex 3. No accounting changes have been identified from the audit.</p> <p>The key points in the financial statements are:</p> <ul style="list-style-type: none">• a net surplus of £225.6m which includes gains in fair value on property investments of £122.2m and non-property investments of £121.8m <i>(these figures can be seen in the Consolidated Statement of Comprehensive Income on page 14)</i>;• total net assets of £2,520m, an increase of £191.0m (8.0%) since last year. The net asset position is after deducting total pensions liability of £38.1m <i>(the £191.0m is shown in the Consolidated Statement of Changes in Equity on page 16)</i>;• there are two financial commitments relating to City's Cash that are disclosed in the notes to the financial statements:<ol style="list-style-type: none">1. the potential contribution of £50m from City's Cash towards the Crossrail Project <i>(page 53)</i>; and2. £5.1m relating to the construction of a new swimming pool at the City of London Freeman's School <i>(page 53)</i>.• the Smithfield General Market and Annex with a carrying value of £34.4m was reclassified from an investment to operational property to reflect its intended use as the relocation site for the Museum of London <i>(para 6 of this report)</i>;• net rental income from property investments increased by £6.2m (15%) to £47.2m, which was mainly due to the completion of a number of significant rent reviews and new lettings during the year <i>(page 7)</i>;		

- a premium of £3.1m was received in 2016/17 for a 125 year operating lease which has been treated as deferred income, to be released to revenue over the life of the lease (*para 9 of this report*).

Recommendations

The Audit and Risk Management Committee is requested to:

- consider the contents of the Audit Management Report issued by Moore Stephens LLP; and
- recommend approval of the City's Cash Financial Statements for the year ended 31 March 2017 to the Finance Committee.

The Finance Committee is requested to:

- consider the contents of the Audit Management Report issued by Moore Stephens LLP;
- approve the City's Cash Financial Statements for the year ended 31 March 2017 taking account of any observations from the Audit and Risk Management Committee; and
- agree that the 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 2016/17 Financial Statements for City's Cash are attached at Annex 2.
2. The external auditor, Moore Stephens LLP intends to give an unqualified opinion on the City's Cash Financial Statements and has issued the Audit Management Report set out in Annex 3. We are very pleased to report that no accounting changes were required to the financial statements.
3. 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. The report from Moore Stephens LLP includes recommendations in sections 6 and 7, with section 6 containing recommendations made in 2016/17 and section 7 showing the recommendations made in the prior year 2015/16. All prior year recommendations have been actioned and closed. The new year recommendations (section 6) apply to all entities and the City's management response is noted.

5. The Audit Review Panel of the Chamberlain's and Bridgemasters' Accounts met on 22 September 2017 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.

Significant items in the financial statements – Statement of Financial Position

Smithfield General Market and Annex

6. During the year the Smithfield General Market and Annex was re-classified from being an investment property (£34.4m), to operational land and buildings. It was previously held as an investment property as it was leased out to a third party for redevelopment of the site. However, due to planning difficulties the redevelopment was unable to progress and the City therefore bought out the developer's interest in anticipation of a potential relocation opportunity for the Museum of London. During 2016/17 Members confirmed their commitment to progress the Museum relocation, at which point the asset was re-classified as operational land and buildings as it was no longer held for investment purposes.

Premium received for a long lease

7. During 2016/17 a premium of £3.1m was received in respect of highway land which is to be developed. As land generally has an indefinite life (i.e. the risks and rewards of ownership are shared with the City as lessor) it has been classified as an operating lease and, in accordance with FRS102, the premium has been treated as deferred income to be released to revenue over the 125 year length of the lease.

Significant items in the financial statements – disclosure notes

Financial Commitment - Contribution to Crossrail

8. The potential contribution of £50m from City's Cash towards the Crossrail Project has been disclosed as a financial commitment in both the annual report and the notes to the financial statements. The reason for this treatment, rather than the inclusion of a long-term liability on the balance sheet, is that the arrangement with Crossrail is considered to be an executory contract (i.e. a contract made by two parties in which the terms are set to be fulfilled at a later date - both sides still have duties to perform before it becomes fully executed). Subject to completion of the works, the contributions could be made in two equal instalments of £25m in 2018/19 and 2019/20.

Financial Commitment - Freeman's School Swimming Pool

9. During the year the City entered into a contract for the construction of a replacement swimming pool at the City of London Freeman's School, following the destruction of the old pool through fire. At the end of year, a contractual commitment of £5.1m remained outstanding which has been disclosed in the accounts.

Subsequent Event – vote to leave the European Union

10. As stated in the annual report and the notes to the financial statements, there are risks to City's Cash 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

continues to be kept on this and other implications as events unfold with financial forecasts being refreshed when the picture becomes clearer.

Key highlights from the financial statements

Consolidated Statement of Comprehensive Income

Comparison with Previous Year

11. The Consolidated Statement of Comprehensive Income for the year ending 31 March 2017 shows a net surplus of £225.6m, £40.7m higher than in the previous year, as summarised in the following table. The operating deficit, before gains and losses in the fair value of investments, is £13.6m lower as shown:

	31/3/17 £m	31/3/16 £m	Variance £m
Operating surplus/(deficit) before gain/(loss) in fair value of investments	(14.8)	(28.4)	13.6
Gain in fair value of property investments	122.2	222.5	(100.3)
Gain/(loss)/ in fair value of non-property investments	121.8	(8.4)	130.2
Operating surplus	229.2	185.7	43.5
Profit on sale of fixed assets	4.7	7.5	(2.8)
Net financing income / (costs) attributable to the pension schemes	(8.3)	(8.3)	-
Surplus for the year	225.6	184.9	40.7

12. The favourable movement in the operating deficit for the year of £13.6m (from £28.4m in the prior year to £14.8m) is largely due to:
- net income from property investments increasing by £6.2m, from £41.0m in 2015/16 to £47.2m in 2016/17, which is mainly due to increased rental income arising from the completion of a number of significant rent reviews and new lettings during the year;
 - net expenditure on education decreasing by £4.4m, due to increased tuition fee income, as a result of tuition fee increases and increasing pupil numbers across all schools, additional grant income at the Guildhall School of Music and Drama and funds from an insurance claim for fire damage;
 - a reduction of £3.5m in net pension scheme costs mainly due to a fall in current service costs of £2.6m (from £15.9m in 2015/16 to £13.3m in 2016/17). In addition, there was a decrease in losses on settlements and curtailments of £0.5m (from £0.9m in 2015/16 to £0.4m in 2016/17). This

was due to the number of former employees being entitled to unreduced early retirement benefits decreasing from 16 in 2015/16 to 9 in 2016/17;

- net expenditure on open spaces decreasing by £1.1m due to savings across several areas including repairs and maintenance, partly offset by a new open spaces learning programme; and

partly offset by:

- net expenditure on economic development increasing by £1.5m, due to the City of London Corporation strengthening its support and promotion of the City in what is an increasingly complex and competitive environment, with new opportunities and challenges.

Comparison with Budget

13. 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 to a budgeted net deficit of £6.6m as detailed in Annex 1, the outturn on a like for like basis is a net surplus of £6.4m, a favourable movement of £13.0m.
14. The budget and outturn can also be analysed on a Committee basis as shown in Annex 1.
15. The net £13.0m better than budget position includes:
 - £5.3m slippage/rephasing of supplementary revenue projects to 2017/18 – mainly relating to Guildhall School of Music and Drama and match funding contributions for Crossrail Art Works;
 - £2.4m central contingencies not required;
 - £2.0m higher rent income from the investment estate resulting from a number of backdated rent reviews being settled and billed in the year;
 - £1.1m at the GSMD due to additional government grant income and receipts from the hire of facilities, offset by additional operating costs;
 - £0.7m profit on the disposal of operational assets – the budget assumed £1.1m profit whereas the outturn was £1.8m. The increase mainly relates to a number of minor receipts including rights of light compensation and highway land disposals which were uncertain when preparing the budget;
 - £0.5m due to savings on operational costs at Smithfield Market and additional car park income at Billingsgate Market;
 - £0.2m from additional receipts at the open spaces; and

* the budget includes the draw-down from non-property investments, whereas the Consolidated Statement of Comprehensive Income (CSoCI) does not as this is a transfer between investments and cash, however, the CSoCI 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.

- £0.2m additional income at the Mansion House from hire of facilities.
16. In accordance with the City's budget management arrangements, requests for the carry forward of City's Cash local risk resources totalling £1.238m have been agreed by the Chamberlain in consultation with the Chairman and Deputy Chairman of the Resource Allocation Sub-Committee. In addition, £5.3m of projects and works programmes have slipped and/or been rephased to 2017/18. These carry forwards and rephased projects will increase the call on City's Cash reserves in 2017/18.

Consolidated Statement of Financial Position

17. City's Cash net assets total £2,520.0m at 31 March 2017 compared to £2,329.0m a year earlier reflecting the £191.0m total gain recognised for the year as set out below.

Changes in Equity	31/3/17 £m	31/3/16 £m	Variance £m
Surplus for the financial year	225.6	184.9	40.7
Unrealised gains/(losses):			
(Loss)/gain on revaluation of non-property investments	3.5	(1.8)	5.3
Actuarial gain/(loss) on defined benefit pension schemes	(38.1)	25.3	(63.4)
Net increase in funds	191.0	208.4	(17.4)

Approval of the Financial Statements

18. 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 – City's Cash - comparison of outturn with budget
 Annex 2 – Annual Report and Financial Statements of City's Cash
 Annex 3 – Moore Stephens Audit Management Report

Contacts:

Philip Gregory, Deputy Director Financial Services
 020 7332 1284
Philip.gregory@cityoflondon.gov.uk

Steven Reynolds, Group Accountant
 020 7332 1382
Steven.Reynolds@cityoflondon.gov.uk

City's Cash - Comparison with Budget

City's Cash Outturn 2016/17			
	Budget	Outturn	Variation Better/ (Worse)
	£m	£m	£m
1. Net expenditure on services	(76.9)	(68.9)	8.0
2. Supplementary revenue projects	(8.7)	(3.4)	5.3
3. Estate rent income	54.7	56.7	2.0
4. Non-property investment income (net)	22.9	20.2	(2.7)
5. Interest on balances	0.3	0.0	(0.3)
6. Operating deficit	(7.7)	4.6	12.3
7. Profit on asset sales	1.1	1.8	0.7
8. (Deficit) Surplus (from) to reserves	(6.6)	6.4	13.0

City's Cash - Comparison with Budget on a Committee Basis

2016/17 Budget v Outturn – City's Cash Summary by Committee					
Committee	Budget Net	Outturn	Variation Better / (Worse)		
			Total	Local Risk	Central Risk/ Support Services
	£m	£m	£m	£m	£m
Culture, Heritage & Libraries	(0.1)	(0.3)	(0.2)	(0.2)	-
Education Board	(1.0)	(1.0)	-	-	-
Finance	(2.2)	4.9	7.1	0.1	7.0
G.P Committee of Aldermen	(3.6)	(3.1)	0.5	0.3	0.2
Guildhall School of Music and Drama	(10.6)	(9.4)	1.2	1.1	0.1
Markets	-	0.5	0.5	0.3	0.2
Open Spaces :- Open Spaces Directorate	-	-	-	0.1	(0.1)
Epping Forest and Commons	(7.1)	(7.1)	-	-	-
Hampstead, Queen's Park and Highgate	(6.9)	(6.4)	0.5	0.4	0.1
Bunhill Fields	(0.3)	(0.3)	-	-	-
West Ham Park	(1.2)	(1.1)	0.1	-	0.1
Policy and Resources	(14.9)	(13.5)	1.4	0.1	1.3
Property Investment Board	45.0	46.9	1.9	0.4	1.5
Schools :-					
City of London School	(1.4)	(1.4)	-	-	-
City of London Freeman's School	(1.7)	(1.7)	-	-	-
City of London School for Girls	(0.6)	(0.6)	-	-	-
(Deficit) Surplus (from) to reserves	(6.6)	6.4	13.0	2.6	10.4