

Committee(s): Finance Committee – For decision Audit and Risk Management Committee – For decision	Date(s): 12 November 2019 19 November 2019
Subject: City's Cash Financial Statements 2018/19	Public
Report of: The Chamberlain	For Decision
Report author: Steven Reynolds, Group Accountant	

Summary

The Annual Report and Financial Statements for City's Cash for the year ended 31 March 2019 are attached at Annex 2 for approval.

The external auditor, BDO LLP is intending to issue an unqualified audit opinion and their report, including recommendations, is attached at Annex 3.

The key points in the financial statements are:

- a net surplus of £59.7m which includes gains in fair value on property investments of £50.1m and non-property investments of £53.5m (*these figures can be seen in the Consolidated Statement of Comprehensive Income on page 17*);
- total net assets of £2,669.8m, an increase of £58.3m (2.2%) since last year. The net asset position is after deducting the total pensions liability of £312.7m (*the £58.3m is shown in the Consolidated Statement of Changes in Equity on page 19*);
- Barking Power Limited and Thames Power Services Limited were purchased on 14 December 2018 for a total consideration of £130.5m (*para 6 of this report*);
- A £125m loan facility was acquired during the year (*para 7*);
- A premium of £18.5m was received in 2018/19 (*para 8*).
- there are two financial commitments relating to City's Cash that are disclosed in the notes to the financial statements:
 1. the potential contribution of £50m from City's Cash towards the Crossrail Project (*page 9*); and
 2. £7.5m relating to a works contract for the refurbishment of an investment property (*para 10*).

Recommendations

The Audit and Risk Management Committee is requested to:

- consider the contents of the Audit Management Report issued by BDO LLP; and
- recommend approval of the City's Cash Financial Statements for the year ended 31 March 2019 to the Finance Committee.

The Finance Committee is requested to:

- consider the contents of the Audit Management Report issued by BDO LLP;
- delegate approval of the City's Cash Financial Statements for the year ended 31 March 2019 to the Chairman and Deputy Chairman, taking account of any observations from the Audit and Risk Management Committee on 19 November; 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

Current Position

1. The 2018/19 Annual Report and Financial Statements for City's Cash are attached at Annex 2 for approval. A complete draft of the 2018/19 Annual Report and Financial Statements was presented to the external auditor, BDO LLP on the 22nd of August 2019 and the audit commenced thereafter.
2. BDO LLP intends to give an unqualified opinion on the City's Cash Financial Statements and has issued the draft Audit Management Report set out in Annex 3. We are pleased to report that no material accounting changes were required to the financial statements of either City's Cash or its consolidated subsidiaries. Whilst not material, there were two adjusted items which are listed on page 27 and the report notes on page 22 some immaterial unadjusted items relating to the consolidated trusts. Ordinarily, even though immaterial, these would be adjusted in their individual financial statements and those of City's Cash but were not due to the late timing of these being identified.
3. The report from BDO LLP notes on page 30 that no significant or other deficiencies in internal control have been identified
4. The Audit Management Report will be distributed to all Members of the Court of Common Council for information. Representatives from BDO LLP will be in attendance at the Audit and Risk Management Committee to present their report and to clarify any points or issues.
5. The Audit Review Panel of the Chamberlain's and Bridgemasters' Accounts met on 21 October 2019 to review the processes adopted by BDO LLP and the Panel intends to certify that those processes were in accordance with the prescribed auditing standards.

New significant items in City's Cash Financial Statements for 2018/19 (pages 17 to 19)

Business purchases: Barking Power Limited and Thames Power Services Limited

6. On 14 December 2018, City's Cash acquired 100% of the share capital of Barking Power Limited and Thames Power Services Limited for a total consideration of £130.5m (*disclosure notes 9 and 21 on pages 35 and 46 refer*). Goodwill arising from the acquisition has been calculated as £24.5m and is attributable to the level of competition for the site.

Loans

7. A £125m loan facility was acquired during the year as part of an overall borrowing strategy designed to support a sustainable and affordable capital programme (*disclosure note 16 on page 39 refers*). The loan was initially obtained as a bridging facility and accordingly was repaid in full on 16 September 2019 and replaced with £250m longer term market debt in line with the original borrowing strategy.

Premium received for a long lease

8. Premiums of £66.4m relating to seven operating leases were received between 2014/15 and 2017/18. In 2018/19 one further premium of £18.5m was received in respect of a lease granted by the City on investment property land. As land generally has an indefinite life (i.e. the risks and rewards of ownership are shared with the City as lessor) these leases have been classified as operating leases and, in accordance with FRS102, the premiums have been treated as deferred income to be released to revenue over their lease terms, which range from 150-200 years (*disclosure note 14 on page 38 refers*).

Other significant items in City's Cash disclosure notes (pages 20 to 50)

Financial Commitments (page 46)

9. Contribution to Crossrail - 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 2019/20 and 2020/21.
10. Contract commitment - of £7.5m relating to a works for the refurbishment of an investment property.

Subsequent Events (disclosure note 24 on page 50)

11. Vote to leave the European Union - 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.

12. As noted at para 7 above, the £125m bridging loan was repaid in full on 16 September 2019 and replaced with a £250m longer term loan in line with the City's borrowing strategy.

Highlights from the Consolidated Statement of Comprehensive Income

Comparison with Previous Year

13. The Consolidated Statement of Comprehensive Income for the year ending 31 March 2019 shows a net surplus of £59.7m, £12.6m lower 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 £16.1m higher as shown:

	31/3/19 £m	31/3/18 £m	Variance £m
Operating deficit before gains in fair value of investments	(47.1)	(31.0)	(16.1)
Gain in fair value of property investments	50.1	81.0	(30.9)
Gain in fair value of non-property investments	53.5	16.0	37.5
Operating surplus	56.5	66.0	(9.5)
Profit on sale of fixed assets	3.4	7.5	(4.1)
Impairment of heritage assets	-	(1.2)	1.2
Loan financing costs	(0.2)	-	(0.2)
Surplus for the year	59.7	72.3	(12.6)

14. The unfavourable movement in the operating deficit (before gains in fair value of investments) for the year of £16.1m (from £31.0m in the prior year to £47.1m) is largely due to:

- net pension scheme costs increasing by £4.8m, from £15.7m in 2017/18 to £20.5m in 2018/19, largely due to losses on settlements and curtailments increasing by £5.7m from £0.2m in 2017/18 to £5.9m in 2018/19. The bulk of this increase follows the ruling of the Court of Appeal in December 2018 that transitional protections put in place under reforms to both the Judges' and Firefighters' Pension Schemes discriminated against a group of members on the grounds of age. The ruling is applicable to all public sector pension schemes in which the City's Cash employees participate including the LGPS and the Teachers' Pension Scheme and has resulted in an increase in the City's Cash pensions liability of £5.8m being recognised in 2018/19;

- net expenditure on education increasing by £3.9m due to spend at the GSMD on its Five Year Strategic Plan, the agreed increase in funding to the City's academy schools and due to a non-recurrent insurance receipt in the 2017/18 accounts for the replacement swimming Pool at the City of London Freeman's School;
- net expenditure on grants and other activities increasing by £3.9m, largely due to landlord works for the Museum of London Relocation Programme;
- expenditure relating to property investments increasing by £3.4m, from £17.2m in 2017/18 to £20.6m in 2018/19, mainly due to works at the site of the Barking and Thames Power Station to facilitate the Markets Consolidation Programme;
- net expenditure on Open Spaces being £0.5m higher mainly due to additional purchases of equipment, materials and vehicles during the year and additional spend on repairs and maintenance of buildings;

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 to a budgeted net deficit of £54.7m as detailed in Annex 1, the outturn on a like for like basis is a net deficit of £26.4m, a favourable movement of £28.3m.

* 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.

16. The budget and outturn can also be analysed on a Committee basis as shown in Annex 1.
17. The net £28.3m better than budget position is largely due to slippage of the £25m contribution to Crossrail and comprises a number of other smaller items including central contingences not being fully required, higher investment property rental income and lower recharges as central costs have reduced.
18. In accordance with the City's budget management arrangements, requests for the carry forward of City's Cash local risk resources totalling £4.6m have been agreed by the Chamberlain in consultation with the Chairman and Deputy Chairman of the Resource Allocation Sub-Committee. In addition, £7.9m of projects and works programmes have slipped and/or been re-phased to 2018/19. These carry forwards and re-phased projects will increase the call on City's Cash reserves in 2018/19.

Consolidated Statement of Financial Position

19. City's Cash net assets total £2,669.8m at 31 March 2019 compared to £2,611.5m a year earlier reflecting the £58.3m total gain recognised for the year as set out below.

Changes in Equity	31/3/19 £m	31/3/18 £m	Variance £m
Surplus for the financial year	59.7	72.3	(12.6)
Unrealised gains/(losses):			
(Loss)/gain on revaluation of non-property investments	(0.2)	0.3	(0.5)
Actuarial gain/(loss) on defined benefit pension schemes	(1.2)	18.9	(20.1)
Net increase in funds	58.3	91.5	(33.2)

Approval of the Financial Statements

20. It is recommended that the Finance Committee approve delegated authority for the Chairman and Deputy Chairman of the Finance Committee to approve and sign the financial statements on behalf of the Court of Common Council, taking account of any observations from the Audit and Risk Management Committee on 19 November.

Annexes

- Annex 1 – City's Cash – comparison of outturn with budget
- Annex 2 – Annual Report and Financial Statements of City's Cash
- Annex 3 – BDO LLP Audit Management Report (includes the audit of the City's trusts)

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City's Cash - Comparison with Budget

City's Cash Outturn 2018/19			
	Budget	Outturn	Variation Better/ (Worse)
	£m	£m	£m
1. Net expenditure on services	(103.8)	(75.7)	28.1
2. Supplementary revenue projects	(11.2)	(11.2)	-
3. Estate rent income	56.7	59.1	2.4
4. Non-property investment income (net)	1.2	2.4	1.2
5. Interest on balances	0.3	(1.0)	(1.3)
6. Operating deficit	(56.8)	(26.4)	30.4
7. Profit on asset sales	2.1	0.0	(2.1)
8. (Deficit) Surplus (from) to reserves	(54.7)	(26.4)	28.3

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

2018/19 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	(0.4)	(0.4)	-	0.3	(0.3)
Education Board	(2.4)	(2.3)	0.1	0.1	-
Finance	(42.6)	(22.5)	20.1	0.8	19.3
G.P Committee of Aldermen	(4.4)	(4.2)	0.2	0.1	0.1
Guildhall School of Music and Drama	(11.7)	(11.2)	0.5	0.3	0.2
Markets	(1.0)	(0.3)	0.7	0.5	0.2
Open Spaces :- Open Spaces Directorate	-	(0.2)	(0.2)	(0.2)	-
Epping Forest and Commons	(8.6)	(7.8)	0.8	0.6	0.2
Hampstead, Queen's Park and Highgate	(7.7)	(7.5)	0.2	0.2	-
Bunhill Fields	(0.4)	(0.4)	-	-	-
West Ham Park	(1.4)	(1.2)	0.2	0.1	0.1
Policy and Resources	(18.7)	(15.5)	3.2	-	3.2
Property Investment Board	48.8	51.3	2.5	(0.3)	2.8
Schools :- City of London School	(1.7)	(1.7)	-	-	-
City of London Freeman's School	(1.8)	(1.8)	-	(0.1)	0.1
City of London School for Girls	(0.7)	(0.7)	-	-	-
(Deficit) Surplus (from) to reserves	(54.7)	(26.4)	28.3	2.4	26.2