

Committee(s): Audit and Risk Management – For decision Finance Committee – For decision	Date(s): 03-11-2020 10-11-2020
Subject: 2019-20 City Fund and Pension Fund Financial Statement	Public
Report of: The Chamberlain	For Decision
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Summary

The audited City Fund and Pension Fund Statement of Accounts 2019-20 are presented in appendix 1 for approval. This reflects all changes agreed with the auditors at the time of submitting this report. The statutory deadline for approval and publication of these accounts have been revised due to the impact of COVID-19, with 30 November 2020 being the date by which this should now take place.

The audit work is substantially complete, with the findings of this work set out in the audit completion reports in appendix 2 and 3. Our auditors, BDO LLP, are intending to issue an unqualified opinion on both statements, albeit with an “emphasis of matter” paragraph in the City Fund opinion relating to the uncertainty in property valuations at the balance sheet date due to COVID-19. This is uncontroversial as it reflects our own views on investment and operational property valuations.

The key points to highlight from the statement of accounts are:

- There have been no significant changes in accounting standards from the previous year.
- The surplus on the provision of services for the year is £85.7m. This reflects the revenue surplus for the year (£42.3m) and the net gains from the disposal of assets (£42.4m), which have been planned as part of the financing strategy for the major projects being delivered by City Fund.
- Unrealised gains on investment property valuations (£30.4m) have also added to the surplus position but have been offset by the IAS19 assessment of pension liabilities accounted for the provision of services (£28.7m).
- The net assets position for City Fund increased by £195.8m. The primary drivers of this increase are:
 - a) An increase in investment properties values (£30.4m) reflecting the assessment of our external valuers.

b) An increase in the value of short term investments (£127.6m) reflecting the cash proceeds from the disposal of Police premises (£69.8m) and the revenue underspend for the year (£42.3m), which have been accumulated as part of the financing strategy for major projects being delivered through City Fund. The City Corporation is also holding £74.2m of cash balances on behalf of the London Business Rates Pool in our role as Lead Authority. This balance will be distributed in due course to Strategic Investment Project (SIP) lead authorities, in line with their spend on these projects, and on finalisation of 2019-20 business rates audits across London as part of the redistribution mechanism of the pool.

c) a reduction in pension liabilities (£59.1m).

- The pension liability has reduced by £59.1m to £1,258.6m, reflecting small changes in the financial assumptions used by the actuary to determine the value of the liability, which these calculations are sensitive to.
- Usable reserves have increase by £108.6m reflecting the increase in cash balances highlighted above, which will be utilised as part of the financing of the Combined Courts and Museum of London major projects being managed under City Fund.

Recommendations

The Audit and Risk Management Committee are asked to:

- Consider the content of BDO's audit progress report;
- Recommend approval of the 2019-20 City Fund and Pension Fund Statement of Accounts to Finance Committee; and
- Delegate authority to the Chamberlain, in consultation with the Chairman and Deputy Chairman of the Audit and Risk Management Committee, approval of any material change to the financial statement required before the signing of the audit opinion by BDO, which is expected by the end of November.

Finance Committee are asked to:

- Consider the resolution from the Audit and Risk Management Committee and, if appropriate, approve the 2019-20 City Fund and Pension Fund Statement of Accounts: and
- Delegate to the Chamberlain, in consultation with the Chairman and Deputy Chairman of Finance Committee, approval of any material changes to the statement of accounts required before the signing of the audit opinion by BDO – which is expected by the end of November.

Main Report

Background

1. The 2019-20 City Fund and Pension Funds Statement of Accounts are set out in appendix 1.
2. Due to the impact of COVID-19, the statutory deadline for approval and publication of the City Fund and Pension Fund accounts have been extended via The Accounts and Audit (Coronavirus)(Amendment) Regulations 2020, which has set 30 November 2020 as the new deadline.
3. Approval of each year's statement of accounts has been delegated by the Court of Common Council to Finance Committee.
4. The statements are prepared in accordance with proper accounting practice as set out in the Code of Practice on Local Authority Accounting 2019-20 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), supported by International Financial Reporting Standards (IFRS).

Summary of 2019-20 City Fund Accounts

Revenue

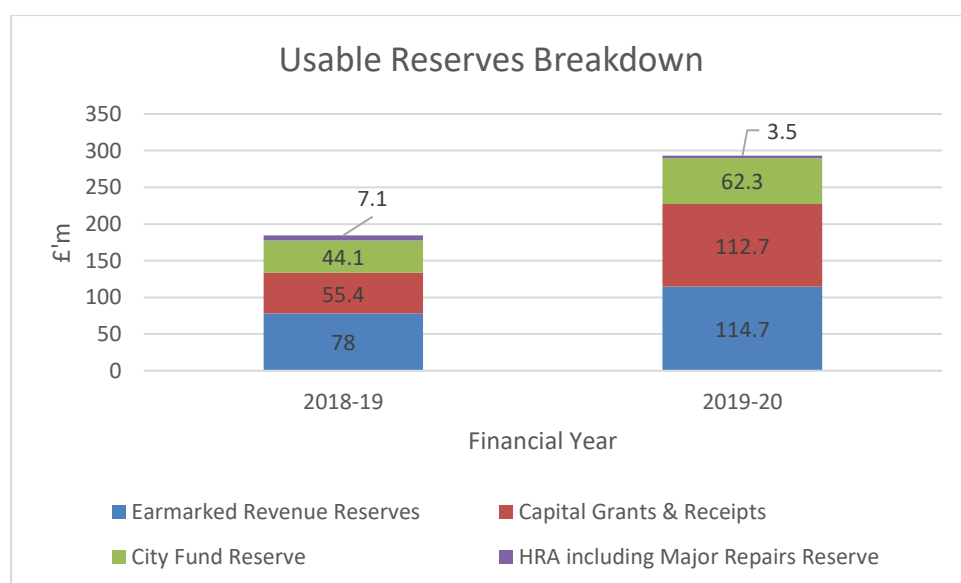
5. The provisional net expenditure for spend against Committee budgets is £6.0m better than budget. More detailed analysis of the outturn compared to budget has been submitted to spending committees. Bringing in funding from taxation and grants, the City Fund was £42.3m better than budget. This is an improved position from the £16.7m budgeted transfer to reserves due additional grant funding to offset the award of business rate reliefs (£6.8m), in-year budget reductions agreed as part of the revised estimate process (£6m) and additional business rate and business rate premium income (£5.6m), the later element reflecting the agreed increase of £0.001p.
6. In accordance with the City's budget management arrangements, requests for the carry forward of City Fund resources totalling £0.9m have been approved by the Chamberlain, in consultation with the Chairman and Deputy Chairman of the Resource Allocation Sub-Committee. This will increase the call on the City Fund General Reserve in 2020-21.

Balance Sheet

7. The Balance Sheet net assets have increased by £195.8m from £1,395.1m to £1,590.9m. This increase is primarily due to an increase in investment properties values (£35.2m), short term investments (£127.6m) and a reduction in pension liabilities (£59.1m). Note 17 and notes 23-26 provide details of the changes in investment property and pension liability values.
8. The increase in short term investments is reflective of the cash balances retained at year end, which include the cash proceeds from the disposal of Police

premises (£69.8m) and the revenue underspend for the year (£42.3m), which have been accumulated as part of the capital financial strategy for major projects being delivered through City Fund. The City Corporation is also holding £74.2m of cash balances on behalf of the London Business Rates Pool in our role as Lead Authority. This balance will be distributed in due course to Strategic Investment Project (SIP) lead authorities, in line with their spend on these projects, and on finalisation of 2019-20 business rates audits across London as part of the redistribution of pool funds London.

9. The increase in net assets is also reflected in the reserves position where both usable and unusable reserves have increased by £108.6m and £87.2m respectively.
10. 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 includes sums earmarked, either by statute or as agreed by Members, for specific purposes such as spend on Highways, the Housing Revenue Account and the Police.
11. Unusable reserves hold unrealised gains and losses and differences between the accounting basis and statutory basis for preparing local authority statement of accounts.
12. The £108.6m increase in usable reserves reflects the City Fund underspend for the year as well as a net increase in the capital receipts reserves (£52.1m) following disposal of Police sites. Both elements are part of the financing strategy for the major projects programme over the medium term. In addition, earmarked reserves have also risen largely due to an increase in the Strategic Investment Project (SIP) funds (£21.3m) which the City Corporation administers on behalf of the London Business Rates Pool.



13. The £87.2m year on year increase in unusable reserves from £1,210.5m to £1,297.7m is analysed further in note 31 to the City Fund accounts. The most

significant items contributing to this increase is the increase in investment property valuations (£30.4m) and a reduction of £59.1m in the negative pension reserve to match the reduction in estimated pension liabilities.

Pension Liability

14. The City Fund's total net assets of £1,590.9m are after having deducted net pension liabilities totalling £1,258.6m. The comparator for 31 March 2019 is £1,317.7m. 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. A breakdown of the liability between the 3 pension schemes operating under City Fund is shown below.

Net Pension Liability breakdown by scheme	31 March 2019	31 March 2020
City of London Pension Scheme - City Fund 51% share	(316.7)	(324.1)
Police Pension Schemes	(998.1)	(931.7)
Judges' Pension Scheme	(2.9)	(2.7)
Total	(1,317.7)	(1,258.6)

15. The Police and Judges' schemes are wholly accounted for by the City Fund but the Local Government Pension Scheme (LGPS), which is open to all other staff who don't qualify for the other schemes, is apportioned on employer's contributions between the City Corporations 3 funds (City Fund, City's Cash and Bridge House Estates) so to present a fairer view of the funds' financial positions than if the deficit were excluded.
16. Pension fund deficits (or surpluses) are relatively sensitive to movements in the underlying assumptions. Details of these assumptions can be found in note 23 of the accounts.
17. It should be noted that the employer's pension contribution rate is a separate issue from the IAS19 calculations. It is considered and determined by 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 2019, Finance Committee agreed to maintain the City of London Corporation's employer's contribution rate at 21% for the years 2020-21 to 2022-23 in order to recover the pension fund deficit over a period of 14 years from 2020-21.

Pension Fund Accounts

18. The Pension Fund Account audit is largely complete and appendix 2 presents the Pension Fund audit finding report. The draft accounts were amended to reflect updated valuations for private equity holdings which were received after draft publication. This reduced the value of pension fund assets by £3.1m.
19. Pension fund liabilities were also updated and increased by £6m following an error in the data provided to the actuary in assessing the liability of the fund.
20. An unqualified opinion is proposed for these accounts.

COVID-19

21. Whilst the impacts of COVID-19 will be largely felt in 2020-21 and beyond, its presence in March 2020 and subsequent “lockdown” initiated by Government in this period has had an impact on the statement of accounts. These have primarily been focused on property valuations, the recovery of outstanding debt and the assessment of going concern.
22. Due to the lack of property transactions and uncertainty in the market, the valuation of investment and operational properties have been caveated with a material valuation uncertainty clause by the valuers. This highlights that whilst valuations were able to be produced as at the balance sheet date, there was a higher level of uncertainty in these valuations due to the circumstances surrounding COVID-19. This clause was included in line with guidance issued by the Royal Institute of Chartered Surveyors (RICS).
23. Whilst circumstance have developed since the valuations were issued, the valuers maintain the need for this material valuation clause and therefore, this has been reflected in the emphasis of matter included in the audit report.
24. Judgements on the recovery of outstanding debts and the going concern assessment have been deemed adequate, albeit with the recommendation that further analysis be carried out when assessing the likelihood of debt recovery in some areas.

Audit Progress

25. BDO commenced its audit on 29 June 2020. At the time of writing the City Fund audit was still underway. Appendix 3 sets out the City Fund audit findings and outstanding areas of work at the time of writing. Any subsequent updates to the City Fund accounts to the version published with this report will be highlighted to the Committee.
26. Representatives from BDO will be in attendance at the Audit and Risk Management Committee to present their progress reports and to clarify any points and provide an update on the outstanding areas of work. It is anticipated that the audit will be concluded satisfactorily to enable BDO to issue an unqualified opinions, albeit with an “emphasis of matter” statement in relation to

the uncertainty in investment and operational property valuations undertaken at the 31 March 2020, linked to circumstance surrounding COVID-19. This is uncontentious and is in line the with assessments made by our internal and external valuers that material uncertainty still exists. Enhanced disclosures setting out the impact of this material uncertainty will be included in note 2 of the City Fund accounts.

Conclusion

27. BDO is expecting to sign its audit opinion by the end of November. Should any material adjustments to the statement of accounts be required before that position is reached, it is recommended that authority to approve such amendments should be delegated to the Chamberlain in consultation with the Chairmen and Deputy Chairmen of the Audit and Risk Management and Finance Committees.
28. As soon as reasonably possible after the conclusion of the audit, and in any event by 30 November 2020, the City is required to publish the 2019-20 City Fund and Pension Fund Statement of Accounts including the Audit Opinion on its website. The final management letters from BDO on its audit will be presented to the Court of Common Council for information.

Appendices

- Appendix 1 – 2019-20 Statement of Accounts for the City Fund and Pension Fund
Appendix 2 - BDO's Pension Fund Audit Completion Report
Appendix 3 - BDO's City Fund Audit Completion Report

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