

Committee:	Date(s):
Finance Committee	16 February 2021
Subject: Administration costs and reserves policies as applicable to the Sundry Trusts and Open Spaces Charities	Public
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly	n/a
Does this proposal require extra revenue and/or capital spending?	No
Report of: The Chamberlain	For Decision
Report Author: Karen Atkinson, Head of Charity & Social Investment Finance	

Summary

This report considers the current policy for the allocation of administrative costs and expenses applicable to the charities for which the City Corporation is sole trustee (with the exception of Bridge House Estates), or where all the trustees are individuals appointed by or as a consequence of their position with the City Corporation which provides direct support to those charities. These costs and expenses are currently met by City's Cash. Charities usually reimburse their trustees the legitimate costs and expenses incurred by the charity trustee in carrying out their trustee duties.

In considering the broader implications of the City Corporation's current financial position and that current non-recovery of trustee costs and expenses is anomalous with practice in the sector, it is considered appropriate for the City Corporation to now recover such costs and expenses from each charity from 2021/22. The resulting savings for City's Cash will contribute to the Fundamental Review target.

Should the City Corporation approve a revised policy in relation to its recovery of administrative costs and expenses incurred in respect of the aforementioned charities, the City Corporation as charity trustee, or the individual trustee bodies themselves, in each case will be required, in the best interests of each charity, to consider this change in policy and its impact for each charity, and to approve revisions to each charity's reserves policy deriving from the City Corporation's policy change. Decisions for the Court of Aldermen will be referred to that assembly.

Recommendations:

Members are asked for the City Corporation acting in its general corporate capacity to:

- 1) Approve the change in policy such that each of the Sundry Trusts and Open Spaces charities listed in Appendix A bear the legitimate and reasonable costs and expenses incurred by the City Corporation in administering each charity, whether as charity trustee itself or where all the trustees are individuals appointed by, or as a consequence of their position with, the City Corporation (paragraph 6 to 7).

Subject to Recommendation 1 being agreed, Members are asked, acting independently for the City of London Corporation in its separate legal capacity as the sole charity Trustee of each of the charities listed in Appendix A Table A.1, and solely in the best interests of each charity, to:

- 2) To Note the change in policy by the City Corporation as charity trustee in each case, and approve the revised Reserves Policies for the charities as listed in Appendix B Table B.1 (paragraphs 8 to 13)
- 3) To delegate authority to the Chamberlain to determine with reference to the Charity's SORP and the particular circumstances in each case, the appropriate target level of free reserves for each of the charities listed in Appendix B Table B.1.

To Note that should recommendation 1 be agreed, decisions for those charities listed in Appendix A Tables A.2 and A.3, and Appendix B Tables B.2 and B.3 as relevant, will be referred to the responsible decision-making body in each case.

Main Report

Background

1. The City of London Corporation (City Corporation) is Trustee, or appoints the individual trustees, of a number of charities, known collectively as the Sundry Trusts and Open Spaces charities. The majority of charities are administered by the Court of Common Council, but some are the responsibility of the Court of Aldermen. Members have agreed that a comprehensive Corporate Charities Review should be undertaken of these charities, to ensure that each charity is well managed and governed and achieves maximum impact for beneficiaries.
2. As part of their review, officers identified that the current policy regarding the costs and expenses incurred in the administration of some of these charities, including the annual external audit fee, is that these costs are met by the City Corporation through City's Cash, rather than the charities themselves. There is however inconsistency, with specific exceptions to this being:
 - (a) Internal management and administration costs relating to the Open Spaces charities are met from the Open Spaces Department's budget which is principally funded from City's Cash, and consistent with usual departmental re-charges of central support departments' costs the Chamberlain's, City Surveyor's, Comptroller & City Solicitor's and Town Clerk's Departments are re-charged to those departmental budgets.
 - (b) Internal costs for administrative duties performed by Chamberlain's and Comptroller & City Solicitor's staff are recharged to the Samuel Wilson's Loan Charity.
 - (c) Internal costs relating to the processing of hardship bursaries by Chamberlain's staff are charged to the City of London Freeman's School Bursary Fund and City of London School for Girls Bursary Fund.
 - (d) The costs incurred by the Central Grants Unit (CGU) on behalf of those charities for which grant administration and management services are provided are recharged to the relevant charities.
3. As the Sundry Trusts and Open Spaces charities themselves do not meet either some or all relevant costs and expenses, many of these charities do not currently have a requirement to maintain free reserves to cover the operational costs of their charity. Their stated reserves policies do not therefore refer to a target level to be held, as is required by the Charities SORP¹
4. The Charity Commission defines reserves as that part of a charity's unrestricted income funds that are freely available to spend on any of the charity's purposes. Free reserves exclude unrestricted income funds designated for specific purposes. Disclosures within

¹ Statement of Recommended Practice (SORP) Accounting and Reporting by Charities, published in 2015, Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102)

the Trustees' Annual Report relating to the reserves policy include the target amount of free reserves that a charity's trustees have agreed to hold, together with the actual amount held. Explanations should be stated where there is a significant difference between the two amounts.

5. If the charity's trustees have decided that holding free reserves is unnecessary, the report must disclose this fact and provide the reasons behind this decision (as permitted by the SORP).

Proposals

Recharging administrative costs

6. The Corporate Charities Review has kept abreast of the broader financial implications facing the City Corporation, notably the savings required by City's Cash within the Fundamental Review. It is therefore recommending that a decision be made by the City Corporation, in managing its own financial position, to revise its policy towards the recovery of legitimate and reasonable costs and expenses incurred through its administration of each of those charities as charity trustee. Charity trustees cannot profit from their relationship with their charity, but they have a right to be reimbursed for the legitimate and reasonable costs and expenses properly incurred while undertaking their duties. It is therefore considered that no conflict of interest arises in this case for the City Corporation in acting in two separate legal capacities taking these decisions – for itself and as charity trustee. However, it is right that the separate decisions which are required are properly recognised. It is recommended, in the interests of efficiency, that a consistent approach should be adopted for the recovery of all such costs and expenses from the charities concerned. This would also include a portion of the external annual audit fee. It is expected that economies of scale in place within the City Corporation will be to the benefit of the smaller charities, as compared to services externally procured.
7. The Corporate Charities Review has undertaken an appropriate level of consultation where required and will refer this recommendation to other committees and trustee bodies responsible for the administration and management of these charities as relevant (refer Appendix A Tables A.2 and A.3 in particular). The Corporate Charities Review will continue to consider operational administration costs and expenses for each charity when considering the level of funds available for future distribution by each charity, making appropriate recommendations to the responsible decision-making body for each charity where required. Officers therefore do not anticipate any issues with the proposed change in policy by the City Corporation. Such matters will, of course, be kept under review and proper scrutiny by the relevant decision-making body for each charity is expected to continue in the usual way.

Reserves Policy

8. The Charities SORP stipulates the basis for an appropriate Reserves Policy in holding funds so as to be sufficient to mitigate financial risk and to ensure resilience in the charity's operations. Levels of reserves held is a key issue for the regulator, the Charity Commission, with an expectation that a charity hold sufficient funds to ensure that it remains as a going concern in the future but at the same time unrestricted income funds are applied in furthering the charity's objects in a timely basis.
9. To arrive at an appropriate target amount to be held as free reserves, the trustee needs to consider the need to cover future operational costs, should a reduction in income occur. It is recommended that, should Members agree that all administrative costs should be applied to each charity, the following proposal is adopted:

- (a) Open Spaces: continue with current policies whereby the holding of free reserves is not considered necessary due to the funding arrangement in place with City's Cash;
 - (b) Sundry Trusts (Appendix B. Table B.1): to revise current reserve policies held to include an appropriate target relevant for each individual charity to reflect the amount considered sufficient to cover working capital needs over a 12-month period. This will take account of a decision by the City Corporation to recover the reasonable costs and expenses of the charity's administration.
- 10. The proposed wording for a revised Reserves Policy will vary from charity to charity but should include the following:

"The free reserves of the charity are held to cover working capital needs. The Trustee believes that an amount of £xxx should be held at present, which will be subject to annual review."
- 11. In line with advice from the auditors (BDO) , the format of this policy is consistent with that of Bridge House Estates (BHE) (Charity Reg. No. 1035628), a very large charity also administered by the City Corporation as Trustee acting by the Court of Common Council. This also is in line with advice from the City Corporation's Corporate Charities Review to ensure that we take learnings from the BHE Governance Review currently underway and apply that for the better administration of other charities where the City Corporation is Trustee.
- 12. Adopting the recommended amended reserves policy will ensure that each charity maintains sufficient funds to cover costs, should there be any unexpected deviations to future income levels. Target levels held should be subject to regular review and are proposed to be delegated to the Chamberlain to determine in consultation with other committees responsible for the administration of each charity where applicable.
- 13. Appropriate recommendations will also be presented to the Court of Aldermen and to the three charities with individuals as charity trustees (Appendix B Tables B.2 and B.3).

Conclusion

- 14. In considering its own financial position, it is considered appropriate that the City Corporation recovers the reasonable costs and expenses incurred in its administration of the charities for which it is trustee. Whilst acting in its capacity as trustee, acting in the best interests of each charity, the City Corporation is required to ensure that suitable reserves policies are in place to enable resilience in the relevant charity's operations.

Appendices

Appendix A – Schedule of Open Spaces & Sundry Trust charities

Appendix B – Schedule of charities requiring revised reserve policies

Karen Atkinson

Head of Charity & Social Investment Finance

Chamberlain's Department

T: 020 4526 1221

E: karen.atkinson@cityoflondon.gov.uk