

<b>Committee(s):</b>  Audit and Risk Management Committee – For decision Finance Committee – For decision	<b>Dated:</b>  30/11/2021 07/12/2021
<b>Subject: 2020-21 City's Cash Financial Statements</b>	<b>Public</b>
<b>Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?</b>	6/7
<b>Does this proposal require extra revenue and/or capital spending?</b>	<b>N</b>
<b>If so, how much?</b>	<b>N/A</b>
<b>What is the source of Funding?</b>	<b>N/A</b>
<b>Has this Funding Source been agreed with the Chamberlain's Department?</b>	<b>N/A</b>
<b>Report of: The Chamberlain</b>	<b>For Decision</b>
<b>Report author: Neilesh Kakad, Group Accountant</b>	

### Summary

The Annual Report and Consolidated Financial Statements for City's Cash for the year ended 31 March 2021 are attached at Annex 2 for approval.

In addition, the Annual Report and Financial Statements of the 10 charities (Open Spaces and sundry trusts) consolidated within the City's Cash accounts are attached below at Annex 3 for approval. A list of the 10 charities is also included at the start of Annex 3.

The external auditor, BDO LLP is intending to issue an unqualified audit opinion for both City's Cash and the 10 Charities Annual Report and Financial Statements. Due to audit delay BDO's report will be made available closer to the meeting date. Any amendments made to the Annual Report and Financial Statements due to BDO's report will be highlighted during the meeting.

The key points in the consolidated financial statements are:

- a net surplus of £28.1m which includes gains in fair value on non-property investments of £220.3m and a loss on property investments of £98.0m due to the impact of the Covid-19 on the property markets *(these figures can be seen in the Consolidated Statement of Comprehensive Income on page 19)*;
- total net assets of £2,609.0m, a decrease of £66.5m (2%) since last year. The decrease is mainly due to decrease in investment properties value mentioned above . The net asset position is taken after deducting the total pensions liability of £443.5m. *(the £66.5m is shown in the Consolidated Statement of Changes in Equity on page 21)*;

- financial commitments relating to City's Cash are disclosed in the notes to the financial statements and are summarised as follows:
  1. the potential contribution of £50m from City's Cash towards the Crossrail Project (*page 51, point c*); and
  2. £16.6m relating to a works contract for the refurbishment of an investment property and £3.5m for tunnel lids at Smithfield Market (*page 51, point a*); and

No significant matters are noted in the individual financial statements of the 10 consolidated charities. As in previous years the majority of the charities' income was from City's Cash grants, with some income also received from the Coronavirus Job Retention Scheme during the year.

## **Recommendations**

The Audit and Risk Management Committee is requested to:

- Note that the external auditor BDO LLP intends to give an unqualified audit opinion for both City's Cash and the 10 consolidated charities' individual financial statements;
- Consider the contents of the Audit Management Report issued by BDO LLP (late item); and
- Recommend approval of the 2020/21 City's Cash Financial Statements, and the financial statements of each of the 10 consolidated charities, for the year ended 31 March 2021 to Finance Committee.

The Finance Committee is requested to:

- Consider the contents of the Audit Management Report issued by BDO LLP (late item); and
- Consider the resolution from the Audit and Risk Management Committee and, if appropriate, approve the 2020/21 City's Cash Financial Statements, and the financial statements of each of the 10 consolidated charities, for the year ended 31 March 2021;
- 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 mid-December for City's Cash consolidated financial statements, and for the consolidated charities.
- Approve delegated authority for the Chairman and Deputy Chairman of the Finance Committee to approve and sign the City's Cash Financial Statements, and those of each of the 10 consolidated charities, on behalf of the Court of Common Council.

## **Main Report**

### **Current Position**

1. The 2020-21 Annual Report and Consolidated Financial Statements for City's Cash are attached at Annex 2 for approval.
2. The Annual Reports and Financial Statements for each of the consolidated charities for the same period are attached at Annex 3 for approval. The 10 charity financial statements are listed below with their charity numbers, and are made up of the Open Spaces and other consolidated sundry trusts:
  - a. Ashtead Common (registered charity no. 1051510)
  - b. Highgate Wood and Queen's Park Kilburn (registered charity no. 232986)
  - c. West Ham Park (registered charity no. 206948)
  - d. Hampstead Heath Charity (consolidated with the Trust Fund below) (registered charity no. 803392)
  - e. Hampstead Heath Trust Fund (registered charity no. 803392-1)
  - f. Sir Thomas Gresham Charity (registered charity no. 221982)
  - g. Keats House (registered charity no. 1053381)
  - h. Burnham Beeches and Stoke Common (registered charity no. 232987)
  - i. Epping Forest (registered charity no. 232990)
  - j. West Wickham Common and Spring Park Wood (registered charity no. 232988) & Coulsdon and Other Commons (registered charity no. 232989)
3. At the time of writing, BDO's audit management report is yet to be issued as the audit review panel meeting, which reviews BDO's work, is yet to take place. Therefore, this report will be a late item added to this paper. To date no material adjustments or issues have been identified. The audit management report will be distributed to all Members of the Court of Common Council for information. Representatives from BDO LLP will attend the Audit and Risk Management Committee to present their report and to clarify any points or issues.
4. The Audit Review Panel of the Chamberlain's and Bridgemasters' Accounts are scheduled to meet on 24 November 2021 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.
5. In order to comply with the covenants in the private placement Note Purchase Agreement, the audited City's Cash consolidated financial statements along with an opinion that states that such financial statements give a true and fair view of the financial position of City's Cash, must be submitted to the private placement lenders as soon as they become available but in any event within 270 days after the end of each financial year (i.e. by 26 December).

6. The 10 sets of charity financial statements must be submitted to the Charity Commission within 10 months of their financial year end, i.e. by 31 January 2022. Due to delays with the audit, the work on the consolidated charities is ongoing, with final versions of the financial statements and completion of the work anticipated in mid-December.

#### **Other significant items in City's Cash disclosure notes (pages 31 to 58)**

##### **Loans**

7. In August 2019, the City issued debt totally £450m via private placement of which £250m was received in September 2019 with the remaining £200m being received in July 2021 (*page 44*).

##### **Impact of COVID-19**

8. Covid-19 continue to have a financial impact but largely confined to a fair value loss of £98.0m on property investments. In the prior year property investment valuations were subject to 'material valuation uncertainty' due to the impact of the pandemic on the property market. The valuer has recognised the continuing impact of COVID-19 on the hospitality and leisure sectors and reported valuations on the basis of 'material valuation uncertainty' on four of our properties. This does however mean that the majority of investment properties are valued to the same level of assurance as previously. (*accounting policy note g on tangible fixed assets, page 24*).

##### **Financial Commitments (page 51)**

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 is because the payment is subject to completion of the works and, due to these being delayed, the timing of the payment has yet to be agreed.
10. Contract commitments – there are contract commitments of £16.6m relating to a works for the refurbishment of an investment property and £3.5m for tunnel lids at Smithfield Market.

## Highlights from the Consolidated Statement of Comprehensive Income

### Comparison with Previous Year

11. A summary of the Consolidated Statement of Comprehensive Income for the year ending 31 March 2021 is shown below. A surplus of £28.1m was achieved for the year, a positive movement of £35.3m from the £7.2m deficit in the previous year. Details of the movements from the previous year are described below.

	31/3/21 £m	31/3/20 £m	Variance £m
Operating deficit before gains in fair value of investments	(87.9)	(60.1)	(27.8)
(Loss)/Gain in fair value of property investments	(98.0)	83.4	(181.4)
Gain/(Loss) in fair value of non-property investments	220.3	(29.4)	249.7
<b>Operating surplus/(deficit)</b>	<b>34.4</b>	<b>(6.1)</b>	<b>40.5</b>
(Loss)/Profit on sale of fixed assets	(0.3)	2.6	(2.9)
Loan financing costs	(6.0)	(3.7)	(2.3)
<b>Surplus/(Deficit) for the year</b>	<b>28.1</b>	<b>(7.2)</b>	<b>35.3</b>

12. The unfavourable movement in the operating deficit (before gains in fair value of investments) for the year of £27.8m (from £60.1m in the prior year to £87.9m) is largely due to:

- net income relating to property investments and managed funds reduced by £4.6m, from £38.6m in 2019/20 to £34.0m in 2020/21. This was mainly due to COVID-19 rent free concession granted to tenants (£1.9m), increase in managed fund performance related fee (£1.7m), and increase in cost of repair and maintenance works (£1.0m);
- net expenditure on Markets increasing by £2.3m largely due to the cost of works to facilitate the Markets Consolidation Programme and the impact of COVID-19 on reducing rental income;
- net expenditure on education increased by £4.5m due to discounts offered to student and reduction of fee intake and student accommodation vacancies as a result of the pandemic;
- net pension scheme costs increased by £16.9m, from £17.1m in 2019/20 to £34.0m in 2020/21. This is mainly due to increase in cost as a result of a rise in early retirement and higher inflation; partly offset by

- net expenditure on City Representation reduced by £1.5m, as a result of reduction in activities due to local and international travel restrictions.

#### Movements in fair value of investments

13. As shown in the table, the fair value from property investments has moved from a gain of £83.4m in 2019/20 to a loss of £98.0m, an overall unfavourable movement of £181.4m. The loss reflects reduction in occupied premises due to the pandemic.
14. The table also shows a gain in the fair value of non-property investments of £220.3m, a movement of £249.7m compared to the loss of £29.4m in 2019/20. The gain is driven by a major recovery in investment value following the negative impact on asset values from COVID-19.
15. After the operating surplus of £34.4m (2019/20: deficit of £6.1m) it can be seen in the table that there was a loss on disposal of fixed assets of £0.3m (2019/20: profit of £2.6m) and loan financing costs of £6.0m (2019/20: £3.7m). This increase is due to loan interest from private placement being payable for the whole of 2020/21.

#### **Comparison with Budget**

16. 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 £57.1m as detailed in Annex 1: City's Cash consolidated comparison of outturn with budget, the outturn on a like for like basis is a net deficit of £47.5m, favourable movement of £9.6m.
17. The budget and outturn are also analysed on a Committee basis in Annex 1.
18. The net £9.6m better than budget position is largely due to operational underspend of £2.6m, central contingences not being fully required of £3.7m, repairs and maintenance programmes slippage of £1.1m and higher estate rent income of £5.9m.

#### **Consolidated Charities Summary**

19. The consolidated charities' total income across all charities was £23.0m, of which £17.1m was made up of grants from City's Cash, with the remainder coming from investments, charitable activities and a small amount from other grants including the Coronavirus Job Retention Scheme. There were no significant changes in activities compared to 2019/20.

\* 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.

## Consolidated Statement of Financial Position

20. City's Cash net assets total £2,609.0m as at 31 March 2021 compared to £2,675.5m a year earlier reflecting the £66.5m total loss recognised for the year as set out in the following table:

Changes in Equity	31/3/21 £m	31/3/20 £m	Variance £m
Surplus/(Deficit) for the financial year	28.1	(7.2)	35.3
<b>Unrealised gains/(losses):</b>			
Gain/(loss) on revaluation of non-property investments	6.7	(6.3)	13.0
Deferred taxation	(2.9)	0.5	(3.4)
Actuarial (loss)/gain on defined benefit pension schemes	(98.4)	18.7	(117.1)
<b>Net (decrease)/increase in funds</b>	<b>(66.5)</b>	<b>5.7</b>	<b>(72.2)</b>

The actuarial loss on defined benefit pension schemes is mainly due to change in assumptions underlying the present value of the pension liabilities. The change in assumptions relates to decrease in discount rate, from 2.35% to 2% and higher inflation, with the assume rate now at 2.8% compared to the previous 1.9%.

## Approval of the Financial Statements

21. 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 30 November.

## Annexes

- Annex 1 – City's Cash – comparison of consolidated outturn with budget
- Annex 2 – Annual Report and Financial Statements of City's Cash
- Annex 3 – Annual Report and Financial Statements of the 10 consolidated charities

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## Annex 1 - City's Cash consolidated comparison of outturn with budget

City's Cash Outturn 2020/21			
	Budget	Outturn	Variation Better/ (Worse)
	£m	£m	£m
1. Net expenditure on services	(110.4)	(93.9)	16.5
2. Supplementary revenue projects	(2.5)	(14.2)	(11.7)
3. Estate rent income	52.2	58.1	5.9
4. Non-property investment income (net)	1.6	2.7	1.1
5. Interest on balances	0.8	(0.2)	(1.0)
7. Profit on asset sales	1.2	0.0	(1.2)
8. <b>(Deficit) Surplus (from) to reserves</b>	<b>(57.1)</b>	<b>(47.5)</b>	<b>9.6</b>

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

2020/21 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	(0.9)	(0.7)	0.2	0.2	-	-
Education Board	(3.5)	(3.5)	-	-	-	-
Finance	(34.7)	(29.0)	5.7	0.2	3.5	2.0
G. P. Committee of Aldermen	(4.3)	(3.6)	0.7	-	0.7	-
Guildhall School of Music and Drama	(12.3)	(14.6)	(2.3)	(1.9)	(0.1)	(0.3)
Markets	(1.3)	(1.1)	0.2	0.6	(0.3)	(0.1)
Open Spaces :-						
Open Spaces Directorate	-	-	-	0.1	-	(0.1)
Epping Forest and Commons	(8.5)	(7.9)	0.6	0.5	0.1	-
Hampstead, Queen's Park and						
Highgate	(7.6)	(7.5)	0.1	0.1	-	-
Bunhill Fields	(0.3)	(0.2)	0.1	0.1	-	-
West Ham Park	(1.4)	(1.3)	0.1	0.1	0.0	-
Policy and Resources	(20.0)	(16.9)	3.1	0.2	3.0	(0.1)
Property Investment Board	42.1	43.4	1.3	(0.6)	1.8	0.1
Schools :-						
City of London School	(1.8)	(1.8)	-	(0.1)	0.1	0.0
City of London Freeman's School	(1.9)	(2.0)	(0.1)	(0.1)	-	-
City of London School for Girls	(0.7)	(0.8)	(0.1)	-	-	(0.1)
<b>(Deficit) Surplus (from) to reserves</b>	<b>(57.1)</b>	<b>(47.5)</b>	<b>9.6</b>	<b>(0.6)</b>	<b>8.8</b>	<b>1.4</b>