

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

Summary

The latest version of the 2020-21 City Fund and Pension Fund Statement of Accounts can be found in appendix 1. The majority of audit work has been completed and findings to date have been incorporated into this version. However, at the time of writing, a small number of audit areas and the final review process are to be completed. An up to date position will be presented by BDO at your Committee. An unqualified opinion is expected.

As has been the case for the majority of local authorities, the scheduled audit sign-off date of 30 September has been missed due to auditor availability. There is no formal penalty for missing this deadline and all efforts have been made to present the accounts to your Committees as soon as possible for approval.

The key points to highlight from the financial statements are:

- There were no significant accounting standard changes for the year.
- There was a deficit on the provision of service of £97.6m. This was largely driven by impairments in the valuations of Housing Revenue Account (HRA) dwelling, deficits linked to the annual International Accounting Standard (IAS)19 valuation of the pension liability and a deficit in the collection fund due to business rate collection. It should be noted that these are technical adjustments required by regulations and do not pose an immediate issue to the City Fund position.
- Net assets have reduced by £405.7m, which has been driven by the annual IAS19 valuation of the pension liability. Increases in the discount rate and inflations expectations (both of which are independently determined) have led

to an increased deficit position. This position does not pose an immediate issue for City Fund.

- Useable reserves have increased by £77.3m reflecting the underspend on City Fund activity of £36.2m and an increase in earmarked reserve due to grants received from Govt to offset business rate income losses due to new reliefs and compensation for collection losses.

Recommendation(s)

The Audit and Risk Management Committee are asked to:

- Consider the content of BDO's audit management report (late item);
- Recommend approval of the 2020-21 City Fund and Pension Fund Statement of Account 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 mid-December.

The Finance Committee are asked to:

- Consider the content of BDO's audit management report (late item);
- Consider the resolution from the Audit and Risk Management Committee and, if appropriate, approve the 2020-21 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 mid-December
- approve delegated authority for the Chairman and Deputy Chairman of the Finance Committee to approve and sign the 2020-21 City Fund and Pension Fund Statement of Accounts on behalf of the Court of Common Council.

Main Report

Background

1. The 2020-21 City Fund and Pension Funds Statement of Accounts are set out in Appendix 1.
2. The Accounts and Audit Regulations 2015, amended by The Account and Audit (Amendment) Regulations 2021, have set the draft publication deadline for these

accounts as 31 July with the audit completion deadline as 30 September. Whilst the draft publication deadline was met, in common with the majority of local authorities, the 30 September deadline was missed due to auditor capacity.

3. Approval of each year's financial statements 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 2020-21 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), supported by International Financial Reporting Standards (IFRS).

Summary of 2020-21 City Fund Accounts

Revenue

5. The provisional net expenditure for spend against Committee budgets is £17.5m better than budget. This position has been largely due to delays in repairs and maintenance and capital/SRP spend impacting the financing required for the year. The Barbican also underspent against the revised budget position, which saw a further £11.4m allocated to mitigate the impact of COVID-19 on revenues. More detailed analysis of the outturn compared to budget has been submitted to spending committees.
6. Bringing in funding from taxation and grants, the City Fund was £36.2m better than budget. This is an improved position from the £23m budgeted transfer to reserves. Additional funds were received from Govt to mitigate the impact of COVID-19 including support for lost sales, fees and charges income (£11.9m) and un-ringfenced funding to support additional costs local authorities incurring due to the pandemic (£1.1m).
7. In accordance with the City's budget management arrangements, requests for the carry forward of City Fund resources totalling £3.9m 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 2021-22.
8. The £36.2m better than budget position represent performance against the day to day spend as approved by the Court of Common Council. This then forms the basis for the Comprehensive Income and Expenditure Statement (CI&ES), which accounts for technical accounting adjustments as set out in regulation. These adjustments result in a £97.6m deficit being reported. The movements that bring about these changes are set out in note 4 of the accounts. The key areas that move us to this position are:
 - Changes to property valuations and depreciation charges (£49.1m). This includes an impairment charge of £14.5m due to a reduction in the factor applied to HRA dwelling from 30% to 25%. This is a technical adjustment required to recognise the lower value of dwellings let at below market rents

which has been derived from market rents, which have increased, to social housing rents, which have remained static.

- Adjustments relating to the annual IAS19 valuation of the pension fund liability (£49.6m). Further detail on this is provided below.
- Accounting for collection fund deficits (£82.1m), which have resulted from the expansion of business rate reliefs by Government to assist the retail, leisure, and hospitality sector during 2020-21. These reliefs are funded by Government but due to the timing of these changes, a deficit has occurred in the collection fund. The majority of this will be unwound in 2021-22.

Balance Sheet

- The balance sheet net assets have reduced by £405.7m, from £1,587.7m to £1,182.0m. The majority of this change (£349.2m) has come from an increase in the pension fund liability, discussed below. The remaining amount is made up of a reduction in the value of investment properties (£24.4m) and the reduction in HRA dwelling valuations.
- Usable reserves have increased by £62.6m, from £293.2m to £355.8m. This is due to the revenue underspend for the year (£36.2m) and additional grants received to offset business rate income losses (£47.9m). Note the latter does not form part of the revenue underspend.

Pension Fund Liability

- The City Fund pension liability totals £1,611.0m, an increase of £349.2m compared to the previous year (£1,261.8m). The liability arises from applying the requirements of 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 2020	31 March 2021
City of London Pension Scheme - City Fund 51%	(324.2)	(469.1)
Police Pension Schemes	(934.9)	(1,139.1)
Judges Pension Scheme	(2.7)	(2.8)
Total	(1,261.6)	(1,611.0)

- 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.

13. 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. It is the change in these assumptions which has resulted in the significant movement in the liability. The 2 most significant changes have been in the discount rate (derived from corporate bond yields), which has reduced from 2.35% to 2%, and assumptions around inflation, which have increased by 0.9%, from 1.9% to 2.8% (based on Bank of England forecasts). Both have the effect of increasing the value of liabilities.
14. Whilst this is a material movement, it does not pose an immediate issue to City Fund and it should be noted that these values do alter from year to year.
15. 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.

Audit Progress

16. At the time of writing the majority of audit work had been completed with no significant issues found. It is therefore expected that an unqualified opinion will be given. Completion of a small number of areas and the final review progress are still outstanding, and an update will be provided by BDO at your Committee meeting along with their audit management reports. These will also be distributed to all Member of the Court of Common Council for information.
17. As with most local authorities, the intended completion of the audit by 30 September was not met. This reflects the impact of delayed 2019-20 audits, in part due to COVID-19, and wider issues in the local authority audit market with regards to resources and regulatory requirements.
18. Due to these delay, the audit management report produced by BDO will be a late item added to this paper for your review.

Proposals

19. It is proposed that the 2020-21 City Fund and Pension Fund Statement of Accounts be approved by your Committees with the caveat that should any material adjustments be required, this be delegated to the Chamberlain to action in consultation with the Chairman and Deputy Chairman of Audit and Risk Management and Finance Committee.

Corporate & Strategic Implications

Strategic implications – none

Financial implications - none

Resource implications - none

Legal implications - none

Risk implications - none

Equalities implications – none

Climate implications - none

Security implications - none

Conclusion

20. Following publication of the unaudited 2020-21 City Fund and Pension Fund Statement of Accounts and the audit of these accounts, it is recommended that these are approved as audited statements.

Appendices

- Appendix 1 – 2020-21 City Fund and Pension Fund Statement of Accounts

Neilesh Kakad

Group Accountant

Chamberlain's Department

T: 020 7332 1381

E: Neilesh.Kakad@cityoflondon.gov.uk