

Committee(s): Audit and Risk Management Committee – For decision Finance Committee – For decision	Dated: 16/01/2023 24/01/2023
Subject: 2021-22 City’s Cash Financial Statements	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, Chief Accountant	

Summary

The Annual Report and Consolidated Financial Statements for City’s Cash for the year ended 31 March 2022 are attached at Annex 2 for approval.

In addition, the 10 Annual Reports and Financial Statements of the Open Spaces and sundry trusts charities which are consolidated within the City’s Cash accounts (listed at paragraph 2 below) are attached at Annex 3 for approval.

The external auditor, Crowe UK LLP is intending to issue an unqualified audit opinion for both City’s Cash and the 10 Charities Annual Report and Financial Statements subject to finalisation of a small number of outstanding queries.

The key points in the consolidated financial statements are:

- a net surplus of £106.1m which includes gains in fair value on non-property investments of £69.0m and property investments of £101.8m. *(these figures can be seen in the Consolidated Statement of Comprehensive Income on page 19);*
- total net assets of £2,811.4m, an increase £183.3m (7%) since last year. This increase is largely due to the fair value gains noted above. The net asset position is taken after deducting the total pensions liability of £383.0m and the outstanding long term loan liabilities of £449m. *(the £183.3m 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 50, 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, although income from other sources increased in the year.

Recommendations

The Audit and Risk Management Committee is requested to:

- Note that the external auditor Crowe UK 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 Crowe UK LLP (late item); and
- Recommend approval of the 2021/22 City's Cash Financial Statements, and the financial statements of each of the 10 consolidated charities, for the year ended 31 March 2022 to Finance Committee.

The Finance Committee is requested to:

- Consider the contents of the Audit Management Report issued by Crowe UK LLP; and
- Consider the resolution from the Audit and Risk Management Committee and, if appropriate, approve the 2021/22 City's Cash Financial Statements, and the financial statements of each of the 10 consolidated charities, for the year ended 31 March 2022;
- Authorise the Chamberlain, in consultation with the Chairman and Deputy Chairman of Finance Committee, to approve any material changes to the statement of accounts and annual reports and financial statements required before the signing of the audit opinion by Crowe UK LLP – which is expected by the end of January for City's Cash consolidated financial statements, and for the consolidated charities.
- Authorise 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 2021-22 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. Our auditors have provided an audit management report reflecting progress and outstanding items as at the time of writing, which largely revolves around completing their internal review processes. An update will be provided at the Audit and Risk Management Committee further progress made, highlighting any further issues identified outside those included in the audit finding report. Representatives from Crowe UK LLP will attend the Audit and Risk Management Committee to present their report and to clarify any points or issues.
4. It should be noted that the Chamberlain's and Bridgemasters' Accounts are no longer subject to the Audit Panel Review process following a change in these governance arrangements. The City's Cash accounts will therefore be certified by the incumbent auditor only.
5. Members will be aware that 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). Due to the delays in completing the audit it was not possible to comply with this requirement, however a letter supported by the audit Partner was submitted along with the draft accounts.

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 2023.

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*).

Teacher's Pension Scheme (TPS) Liability

8. Following discussions with the previous audit panel and auditor, a review of the accounting arrangements for the Teacher's Pension Scheme has been carried out during the year reflecting on comments made regarding the recognition of the liability for this scheme. Whilst the TPS is a defined benefit scheme, which would ordinarily generate a pension liability, due to large number of participants in the scheme and therefore the difficulty in establishing a share of the liability for each participant, accounting guidance allows for this scheme to be treated as a defined contribution scheme in which only the in-year contributions to the scheme need to be recognised. We have been unable to identify any scheme member that doesn't adopt this approach, which includes how this is managed within City Fund, and therefore have adopted this approach moving forward. Because this is a change in accounting policy, prior period adjustment have been action to remove this liability, which was last valued at £19.1m. (*page 44*).

Financial Commitments (page 50)

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.
10. Contract commitments – there are contract commitments of £5.9m relating to a works for the refurbishment of an investment property and £4.2m for works 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 2022 is shown below. A surplus of £106.1m was achieved for the year, a positive movement of £75.1m from the £31.0m surplus in the previous year. Details of the movements from the previous year are described below.

	31/03/2022 £m	31/03/2021 £m	Variance £m
Operating deficit before gains in fair value of investments	(98.0)	(88.7)	(9.3)
(Loss)/Gain in fair value of property investments	101.8	(98.1)	199.9
Gain/(Loss) in fair value of non-property investments	69.0	227.0	(158.0)
Operating surplus/(deficit)	72.8	40.2	32.6
(Loss)/Profit on sale of fixed assets	58.3	(0.3)	(2.9)
Loan financing costs	(9.2)	(6.0)	(2.3)
Surplus/(Deficit) for the year	121.9	33.9	88.0

12. The unfavourable movement in the operating deficit (before gains in fair value of investments) for the year of £9.3m (from £88.7m in the prior year to £98.0m) is largely due to:

- An increase in net expenditure against grants and other activities of £22.0m, from £7.5m in 2020/21 to £29.5m in 2021/22. This is largely due to the City's Covid-19 recovery grant scheme for Square Mile SMEs and an increase in grant funding for major projects.
- An increase in net expenditure against City Representation of £1.1m from £12.8m in 2020/21 to £13.9m in 2021/22. There was an increase in activities due to the relaxation of travel and hospitality restrictions that followed from the continuing recovery from the pandemic.
- Net pension scheme costs increasing by £1.8m, from £34.0m in 2020/21 to £35.8m in 2021/22.

These cost increases were offset by:

- Net expenditure on education decreasing by £9.4m from £24.9m in 2020/21 to £15.5m in 2021/2, this is largely due to increased income as discounts were no longer being offered to pupils at the City's three independent schools and at Junior Guildhall as the schools returned from virtual tuition to being back in the classroom.
- Net expenditure on Markets reducing by £2.1m from £8.0m in 2020/21 to £5.9m in 2021/22, due to operational savings.

- Net income relating to investments increasing by £1.7m, from £34.1m in 2020/21 to £35.8m in 2021/22, mainly due to a £9.8m movement in the bad debt provision adjustment from 2020/21 to 2021/22, which reflect the decrease in debt on investment properties compared to the previous year.
- Net expenditure on Open Spaces reducing by £1.2m from £18.6m in 2020/21 to £17.4m in 2021/22, largely due to increased income following the continued recovery from the pandemic.

Movements in fair value of investments

13. As shown in the table, the fair value from property investments has increased £101.8m in 2021/22 following a loss in value on £98.1m in the previous year. This reflects the recovery of property value post pandemic.
14. The table also shows a gain in the fair value of non-property investments of £69.0m, compared to the gain of £227.0m recorded in 2020/21. Last year saw significant gains linked to the recovery from pandemic.
15. After the operating surplus of £72.8m (2020/21: surplus of £32.6m) it can be seen in the table that there was a gain on disposal of fixed assets of £58.3m (2020/21: loss of £0.3m) and loan financing costs of £9.2m (2020/21: £6.0m). This increase is due to loan interest from private placement including the release of the final tranche of funds (£200m) in July 2021.

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 £56.7m as detailed in Annex 1: City's Cash consolidated - Comparison with Budget on a Committee Basis, the outturn on a like for like basis is a net deficit of £43.4m, favourable movement of £13.3m. This position is slightly altered to the provisional outturn presented to Finance Committee in July 2022 due to an audit adjustment related to recognition of a rent free agreement completed shortly after the year end, resulting in £1.2m of additional expenditure.
17. The net £13.3m better than budget position is largely due to slippage of supplementary revenue projects (SRP) of £5.1m, unspent contingencies of £2.1m and additional dividend income of £2m.

Consolidated Charities Summary

18. The consolidated charities' total income across all charities for 2021/22 was £23.6m (2020/21: £23.0m), of which £14.9m (2020/21: £17.1m) came from grants from City's Cash, with the remainder from investments (£2.0m, mainly the Hampstead Heath Trust Fund), charitable activities (£5.5m) and a small amount from donations and other grants (£1.1m). The main reason for the overall increase

in income and reduction in the City's Cash Grant was an increase in income from charitable activities as restrictions eased following covid-19 lockdowns. The net assets of the 10 charities at 31 March 2022 was £63.6m, of which £54.7m related to Hampstead Heath and the Hampstead Heath Trust Fund.

19. Of the 10 annual reports and financial statements, 7 were subject to a full audit and 3 (Keats House, Sir Thomas Gresham Charity, and Ashted Common) were independently examined for the first time in 2021/22. These arrangements were in place for the first time this year, following a review of the audit and examination requirements of each charity, carried out in the best interests of each charity and implemented with regard to the threshold for audits and independent examinations, as required under Charity Law.

Consolidated Statement of Financial Position

20. City's Cash net assets total £2,811.4m as at 31 March 2022 compared to £2,628.1m a year earlier reflecting the £183.3m gain recognised for the year as set out in the following table:

Changes in Equity	31/03/2022 £m	31/03/2021 £m	Variance £m
Surplus/(Deficit) for the financial year	121.9	33.9	88.0
Unrealised gains/(losses):			
Deferred taxation	(15.8)	(2.9)	(12.9)
Actuarial (loss)/gain on defined benefit pension schemes	77.2	(97.1)	174.3
Net (decrease)/increase in funds	183.3	(66.1)	249.4

21. The deferred tax position relates to Barking Power Station Limited, which is consolidated into the City's Cash accounts as a subsidiary.

22. The actuarial gain 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 increase in discount rate, from 2.0% to 2.6%, which has reduced the value of liabilities.

Approval of the Financial Statements

23. 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 16 January.

Annexes

- Annex 1 – City's Cash consolidated - Comparison with Budget on a Committee Basis
- 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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