

<b>Committee(s):</b> Audit and Risk Management Committee – For decision Finance Committee – For decision	<b>Dated:</b> 06/11/2023 08/11/2023
<b>Subject:</b> 2022-23 City's Cash Financial Statements	<b>Public</b>
<b>Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?</b>	<b>N/A</b>
<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:</b> The Chamberlain	<b>For Decision</b>
<b>Report author:</b> Daniel Peattie, Assistant Director – Strategic Finance	

### Summary

The Revised Annual Report and Consolidated Financial Statements for the City's Cash, for the year ended 31 March 2023, are attached in Appendix 2 for approval. This revised version incorporates three significant changes identified during the audit of the accounts submitted in September 2023. These changes are discussed in further detail in paragraph 1 below.

In addition, the 9 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 Appendix 3 for approval.

The key points in the consolidated financial statements are:

- a net deficit for the period of £328.4m, which includes gains in fair value of non-property investments (£3.9m) and losses in fair value of property investments (£216.2m) as shown in the Consolidated Statement of Comprehensive Income on page 19. It's important to note that the financial statements and the budget cannot be directly compared due to differences in their construction methods. However, when compared to the budgeted net deficit of £71.4m, the actual outcome, when adjusted for these differences, is a more favourable net deficit of £55.7m. This represents a favourable movement of £15.7m in the net deficit, when compared to the budgeted figure, which can be attributed to the planned use of reserves. Further information can be found in paragraph 15, as well as in Appendix 1;
- total net assets of £2,827.2m, a decrease of £18.2m (0.6%) since last year. The net asset position is taken after deducting the total pensions liability of £65.6m and the outstanding long term loan liabilities of £449m. This increase is largely due to a reduction in the net pension liability of £283m (the £18.2m 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. Barking Reach Power station work (£18.0m), refurbishment of 213-215 Tottenham court Road (£2.7m) and Smithfield Annexe refurbishment (£1.6m) (page 50, point a); and

No significant matters are noted in the individual financial statements of the 9 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.

### **Recommendation(s)**

The **Audit and Risk Management** Committee is requested to:

- **Consider** the contents of the Draft City's Cash Initial Audit Findings Report 2022-23 issued by Crowe UK LLP as set out in Appendix 4; and
- **Recommend** approval of the 2022-23 City's Cash Financial Statements, and the financial statements of each of the 9 consolidated charities, for the year ended 31 March 2023 to Finance Committee.

The **Finance Committee** is requested to:

- **Consider** the contents of the Draft City's Cash Initial Audit Findings Report 2022-23 issued by Crowe UK LLP as set out in Appendix 4;
- **Consider** the resolution from the Audit and Risk Management Committee and, if appropriate, **approve** the 2022-23 City's Cash Financial Statements, and the financial statements of each of the 9 consolidated charities, for the year ended 31 March 2023, to be signed by the Chairman and Deputy Chairman of the Finance Committee on behalf of the Court of Common Council.;
- **Authorise** the Chamberlain, in consultation with the Chairman and Deputy Chairman of the 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 November 2023 for City's Cash consolidated financial statements, and for the consolidated charities.

## Main Report

### Current Position

1. The Revised 2022-23 Annual Report and Consolidated Financial Statements for City's Cash, as presented in Appendix 2, are submitted for approval. This revised version incorporates three significant changes identified during the audit of the accounts submitted in September 2023:
  - Double counting of school's income (£4.7m) – during audit testing of education income back to the accounts, it was discovered that £4.7m of education income was incorrectly double counted in both income and reserves. This error has been rectified in the revised financial statements.
  - Missing depreciation charge (£0.7m) – audit of City's Cash fixed assets revealed an omission in the depreciation charge. Several tangible fixed assets were identified as not being depreciated, leading to an overstatement of the value of tangible fixed assets in the statement of financial position. The missing depreciation charge of £0.7m has been appropriately accounted for in the revised financial statements.
  - Double counting of investment properties (£84.3) – during a review of investment properties uncovered an error in the recognition of valuations for in-year additions. These valuations were erroneously recognised separately, resulting in an overstatement of the value of investment properties in the statement of financial position by £84.3m. This misstatement has been rectified, and the corrected valuation is reflected in the revised financial statements.
2. The Annual Reports and Financial Statements for each of the consolidated charities for the same period are attached at Appendix 3 for approval. The 9 charity financial statements are listed below with their charity numbers, and are made up of the Open Spaces and other consolidated sundry trusts:
  - i. Ashtead Common (registered charity no. 1051510)
  - ii. Highgate Wood and Queen's Park Kilburn (registered charity no. 232986)
  - iii. West Ham Park (registered charity no. 206948)
  - iv. Hampstead Heath Charity (registered charity no. 803392), incorporating the linked charity the Hampstead Heath Trust Fund (registered charity no. 803392-1)
  - v. Sir Thomas Gresham Charity (registered charity no. 221982)
  - vi. Keats House (registered charity no. 1053381)
  - vii. Burnham Beeches and Stoke Common (registered charity no. 232987)
  - viii. Epping Forest (registered charity no. 232990)
  - ix. West Wickham Common and Spring Park Wood (registered charity no. 232988) & Coulsdon and Other Commons (registered charity no. 232989)
3. Our auditors have provided a draft initial audit findings report reflecting progress and outstanding items as at the time of writing, which largely revolves around a few outstanding areas of fieldwork and their internal review processes (see page 5 of Appendix 4). An update will be provided at the Audit and Risk Management

Committee on 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. 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).
5. The 9 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 2024.

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

#### **Loans**

6. 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 43).
7. Interest expense in 2022-23 amounted to £10.5m (2021-22: £9.2m). In addition, there were transaction costs of £1.1m which have been capitalised to the loan account and shall be amortised over the life of the loans.

#### **Financial Commitments (page 50)**

8. 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.
9. Contract commitments – Barking Reach Power station work (£18.0m), refurbishment of 213-215 Tottenham court Road (£2.7m) and Smithfield Annexe refurbishment (£1.6m).

## Highlights from the Consolidated Statement of Comprehensive Income

### Comparison with Previous Year

10. A summary of the Consolidated Statement of Comprehensive Income for the year ending 31 March 2023 is shown below. A deficit of £328.4m was achieved for the year, a negative movement of £434.9m from the £106.5m surplus in the previous year. Details of the movements from the previous year are described below.

	31/03/2023 £m	31/03/2022 £m	Variance £m
Operating deficit before gains in fair value of investments	(124.3)	(97.6)	(26.7)
Gain/(Loss) in fair value of property investments	(216.2)	124.2	(340.4)
Gain/(Loss) in fair value of non-property investments	3.9	69.0	(65.1)
<b>Operating surplus/(deficit)</b>	<b>(336.6)</b>	<b>95.6</b>	<b>(432.2)</b>
Profit/(Loss) on sale of fixed assets	8.9	35.9	(27.0)
Loan financing costs	(10.5)	(9.2)	(1.3)
<b>Surplus/(Deficit) before taxation</b>	<b>(338.2)</b>	<b>122.3</b>	<b>(460.5)</b>
Taxation	0.0	0.0	0.0
Deferred taxation	9.8	(15.8)	25.6
<b>Surplus/(Deficit) for the year</b>	<b>(328.4)</b>	<b>106.5</b>	<b>(434.9)</b>

11. The unfavourable movement in the operating deficit (before gains in fair value of investments) for the year of £26.7m (from £97.6m in the prior year to £124.3m) is largely due to:

- An increase in net expenditure on education of £1.4m from £15.5m in 2021-22 to £16.9m in 2022-23. The rise in expenditure has been partially offset by increased income primarily due to the opening of the City Junior School in September 2022.
- Net expenditure on Markets increasing by £29.2m from £5.9m in 2021-22 to £35.1m in 2022-23 largely due to increased costs to facilitate the Markets Consolidation Programme.
- Net income relating to investments reducing by £2.5m, from £35.8m in 2021-22 to £33.3m in 2022-23, due to the ongoing redevelopment and refurbishment of investment properties across the portfolio, the continued move to turnover rents, and outstanding rent certificates. This has been offset by a reduction of £2.2m to the bad debt provision from £5.3m in 2021-22 to £3.1m in 2022-23 to reflect the decrease in outstanding debt compared to the prior year.
- Net expenditure on Management and Administration increasing by £2.1m from £8.8m in 2021-22 to £10.9m in 2022-23 primarily due to increased support and governance costs.

These cost increases were offset by:

- Net pension scheme costs decreasing by £8.6m, from £35.4m in 2021-22 to £26.8m in 2022-23. This is due to a decrease in service costs and a reduction in losses on settlements and curtailments. Employers' contributions also decreased in year.
- Increase in general income from charges for use of facilities and licences, following a busy 2022 summer, in part due to good weather, improved position by £1.4m.

### Movements in fair value of investments

12. The fair value from property investments reducing from a gain of £124.2m in 2021-22 to a loss of £216.2m in 2022-23, an adverse movement of £340.4m. This loss reflects inflationary pressures against the backdrop of faltering economic growth and continued concerns over the cost of high energy costs, following the ongoing war in Ukraine. There is a risk that continued volatility, coupled with changes in debt costs, will have a direct impact on pricing as yields continue to evolve. There remains evidence of wide bid spreads, price renegotiations and transactions taking a long time to complete, which all add to the market dynamics. Additionally, there was also a substantial loss in the value of land at Barking Power Station.
13. A reduced gain in the fair value of non-property investments of £65.1m from £69.0m in 2021-22 to £3.9m in 2022-23. This decline in the value of the portfolio's investments has been directly impacted as a result of the Bank of England's tightening monetary policy in the latter part of the year following the impact of the then Chancellor's mini-budget. Investment values have yet to recover following the downturn in financial markets but positive growth is anticipated during future periods.
14. After the operating deficit of £336.6m (2021-22: surplus of £95.6m) there was a profit on the disposal of fixed assets of £8.9m (2021-22: profit of £35.9m), a reduction of £27.0m on the previous year. In addition, there were loan financing costs of £10.5m (2021-22: £9.2m), an increase of £1.3m on the previous year due to ongoing interest repayments as the full £449.0m loan the City Corporation has agreed to support the funding of the major capital projects it is undertaking was received in 2021-22.

### **Comparison with Budget**

15. The financial statements and the budget are not directly comparable due to differences in the way in which the two documents are constructed<sup>1</sup>. However, compared to a budgeted net deficit of £71.4m as detailed in Appendix 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 £55.7m, favourable movement of £15.7m.

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<sup>1</sup> 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.

16. The net £15.7m better than budget position is largely due to slippage of supplementary revenue projects (SRP) of £2.9m and unspent contingencies of £15.5m.

### Consolidated Charities Summary

17. The consolidated charities' total income across all charities for 2022-23 was £26.2 (2021-22: £23.6m), of which £16.2m (2021-22: £14.9mm) came from grants from City's Cash, with the remainder from investments (£1.6m, mainly the Hampstead Heath Trust Fund), charitable activities (£6.6m) and a small amount from donations and other grants (£1.8m). The main reasons for the overall increase in income, were an increase in the City's Cash Grant as a result of cyclical works programmes which had been on pause or deferred due to covid-19 lockdowns, alongside an increase in income from both charitable activities and donations and grants as a result of an increased focus on generating income across the charities and with a whole year without the impact of restrictions from covid-19 lockdowns. The net assets of the 9 charities at 31 March 2023 was £66.3m, of which £55.2m related to Hampstead Heath and the Hampstead Heath Trust Fund.

18. Of the 9 annual reports and financial statements, 6 were subject to a full audit and 3 (Keats House, Sir Thomas Gresham Charity, and Ashted Common) were independently examined due to the size of the charities.

### Consolidated Statement of Financial Position

19. City's Cash net assets total £2,827.2m as at 31 March 2023 compared to £2,845.4m a year earlier reflecting the £18.2m loss recognised for the year as set out in the following table:

	31/03/2023 £m	31/03/2022 £m	Variance £m
Surplus/Deficit) for the year	(338.2)	122.3	(460.5)
<b>Unrealised gains/(losses):</b>			
Deferred taxation	9.8	(15.8)	25.6
Actuarial (loss)/gain on defined benefit pension schemes	310.2	109.5	200.7
<b>Net (decrease)/increase in funds</b>	<b>(18.2)</b>	<b>216.0</b>	<b>(234.2)</b>

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

21. The actuarial gain on defined benefit pension schemes is mainly due to change in assumptions underlying the present value of the pension liabilities.

## **Approval of the Financial Statements**

22. It is recommended that the Finance Committee approve the City's Cash Financial Statements for the 2022-23 fiscal year, along with the financial statements of the 9 consolidated charities, taking account of any observations from the Audit and Risk Management Committee on 6 November 2023. Additionally, the Committee should authorise the Chamberlain, in consultation with the Chairman and Deputy Chairman of the Finance Committee, to approve any significant changes to the accounts and annual reports before the audit opinion, anticipated by the end of November 2023, is signed by Crowe UK LLP for both the City's Cash consolidated financial statements and the consolidated charities.

### **Daniel Peattie**

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## **Appendices**

- Appendix 1 – City's Cash consolidated - Comparison with Budget on a Committee Basis
- Appendix 2 – City's Cash Annual Report and Financial Statements 2022-23
- Appendix 3a – Ashtead Common 2022-23
- Appendix 3b – Highgate Wood and Queen's Park Kilburn 2022-23
- Appendix 3c – West Ham Park 2022-23
- Appendix 3d – Hampstead Heath Charity incorporating Hampstead Heath Trust Fund 2022-23
- Appendix 3e – Sir Thomas Gresham Charity 2022-23
- Appendix 3f – Keats House 2022-23
- Appendix 3g – Burnham Beeches and Stoke Common 2022-23
- Appendix 3h – Epping Forest 2022-23
- Appendix 3i – West Wickham Common and Spring Park Wood & Coulsdon and Other Commons 2022-23
- Appendix 4 – Draft City's Cash Initial Audit Findings Report 2022-23

## **Background Papers**

None