

Committee(s):	Date(s):	Item no.
Audit and Risk Management Finance	23 July 2013 23 July 2013	
Subject: City Fund and Pension Funds Financial Statements 2012/13		
Report of: The Chamberlain	Public: For Decision	
<p style="text-align: center;"><u>Summary</u></p> <ol style="list-style-type: none"> 1. Attached to this report are the City Fund and Pension Funds Financial Statements for the year ended 31 March 2013. 2. The key points are: <ul style="list-style-type: none"> • A net surplus of £7.2m on the City Fund, a better than budget position of £6.5m. <i>(The £7.2m is shown in the Movement in Reserves Statement on page¹ 8 of the Financial Statements on the penultimate line of the first column of figures. The comparison to budget is set out in para 8 of this covering report)</i> • Usable City Fund reserves of £275.9m at 31 March 2013, an increase of £92.7m from a year earlier – this comprises an increase of £72.7m in capital reserves (to £93.7m) and an increase of £20.0m in revenue reserves (to £182.2m). <i>(The £275.9m is shown in the Balance Sheet on page 10 and analysed in more detail in the Movement in Reserves Statement on page 8).</i> The reserves are allocated for the funding of the capital programme over the medium term, including part of the City Fund’s £200m contribution to Crossrail, to the purchase of investment properties to provide a better return than interest on cash balances, or are earmarked for specific purposes such as for Police, Highways and the Housing Revenue Account. Consequently, it is not sustainable for the reserves to fund directly the potential annual revenue deficits being forecast for the City Fund over the medium term. • Total City Fund net assets of £1,127.4m, an increase of £63.2m since last year. <i>(See the Balance Sheet on page 10 and paras. 15 to 19 of the covering report)</i> 3. Deloitte commenced its audit on 10 June and intend to give unqualified opinions on the financial statements. Representatives of the auditors will be in attendance at the Audit and Risk Management Committee to present their management letters which are appended to this report. 		

¹ Page references are to those set out in the index to the Financial Statements

Recommendations

4. The Audit and Risk Management Committee is requested to:-

- consider the contents of Deloitte's management letters;
- recommend approval of the City Fund and Pension Funds Financial Statements for the year ended 31 March 2013 to the Finance Committee; and
- delegate to the Town Clerk, in consultation with the Chairman and Deputy Chairman of the Audit and Risk Management Committee, approval of any material changes to the financial statements required before the signing of the audit opinion by Deloitte which is expected to be by the end of August or early September.

5. The Finance Committee is requested to:-

- consider the resolution from the Audit and Risk Management Committee and, if appropriate, approve the City Fund and Pension Funds Financial Statements for the year ended 31 March 2013; and
- delegate to the Town Clerk, in consultation with the Chairman and Deputy Chairman of the Finance Committee, approval of any material changes to the financial statements required before the signing of the audit opinion by Deloitte which is expected to be by the end of August or early September.

Main Report

Introduction

6. The City Fund and Pension Funds Financial Statements for 2012/13 are set out in Annex 1. Accordingly I have signed the statements to indicate that they present a true and fair view of the financial position at 31 March 2013.
7. The Accounts and Audit Regulations 2011 further require the approval and publication of the City Fund and Pension Funds Financial Statements for the year to 31 March 2013 to take place as soon as reasonably practicable, and in any event by 30 September 2013. Approval of each year's financial statements has been delegated by the Court of Common Council to the Finance Committee.

Revenue Position

8. As set out in the table below, the revenue account reveals an overall net surplus for 2012/13 of £7.2m to be added to the City Fund Unallocated Reserve. This compares with an anticipated transfer to reserves of £0.7m in the budget agreed by the Court of Common Council in March 2013; i.e. an overall favourable movement of £6.5m – 2.2% of the gross cost of services.

	Budget	Actual	Variation
	£m	£m	(Better) Worse
			£m
Net expenditure on services	153.0	147.6	(5.4)
Major revenue works projects	1.8	1.8	0.0
Requirement before investment income from the City's Assets	154.8	149.4	(5.4)
Interest on balances	(6.4)	(7.3)	(0.9)
Estate rent income	(33.2)	(33.3)	(0.1)
City Fund Requirement	115.2	108.8	(6.4)
Financed by:			
Government formula grant	(93.5)	(93.5)	0.0
City offset	(10.3)	(10.3)	0.0
Council tax	(5.6)	(5.6)	0.0
NNDR premium	(6.5)	(6.6)	(0.1)
Total contribution to reserves	(0.7)	(7.2)	(6.5)

9. The better than budget position of £6.4m on the line 'City Fund Requirement' can be analysed on a committee basis as follows:

Committee	Budget	Actual	Variation (Better)/Worse		
			Total	Local Risk	Central Risk/Support Services
	£'m	£'m	£'m	£'m	£'m
Barbican Centre	24.1	24.0	(0.1)	(0.3)	0.2
Barbican Residential	0.4	0.1	(0.3)	(0.2)	(0.1)
Community and Children's Services	10.6	10.0	(0.6)	(0.6)	0.0
Culture, Heritage and Libraries ^a	19.8	18.1	(1.7)	(0.2)	(1.5)
Finance ^b	(8.6)	(10.3)	(1.7)	(0.1)	(1.6)
Licensing	0.0	0.0	0.0	(0.1)	0.1
Markets	(0.8)	(0.8)	0.0	0.0	0.0
Open Spaces	1.6	1.6	0.0	0.0	0.0
Planning and Transportation	13.7	13.0	(0.7)	(0.4)	(0.3)
Police - excluding transfers to/(from) reserves ^c	64.8	61.2	(3.6)	(3.6)	0.0
Police - transfers to/(from) reserves	(2.2)	1.4	3.6	3.6	0.0
Policy and Resources	4.4	3.9	(0.5)	(0.1)	(0.4)
Port Health and Environmental Services	16.2	15.3	(0.9)	(0.9)	0.0
Property Investment Board	(28.8)	(28.7)	0.1	0.0	0.1
Total City Fund Requirement	115.2	108.8	(6.4)	(2.9)	(3.5)

- a. The central risk/support services variation of £1.5m on Culture Heritage and Libraries Committee is primarily due to the reversal of a previous impairment in respect of Guildhall Art Gallery.
- b. The reduced requirement of £1.6m on Finance Committee on central risk/support services is mainly attributable to £0.9m contingencies not required and an increase of £0.9m in interest on cash balances.
- c. Police and civilian officer vacancies exceeded those originally anticipated and expenditure on supplies and services was lower than budgeted - particularly professional fees, communications and computing. The £3.6m will benefit the earmarked Police Reserve.

10. More detailed analyses of the outturn compared to budget are currently being submitted to committees.

11. In accordance with the City's budget management arrangements, requests for the carry forward of City Fund resources totalling £2.1m are to be considered by the Chamberlain, in consultation with the Chairman and Deputy Chairman of the Resource Allocation Sub-Committee. The extent to which these carry forwards are agreed, will increase the call on the City Fund Unallocated Reserve in 2013/14. In addition, £0.8m of projects and works programmes have slipped and/or been rephased to 2013/14.

12. Even assuming full approval of the carry forward requests, the overall City Fund revenue balances show an improvement of some £3.6m (i.e. £6.5m less £2.1m and £0.8m) over the forecast for the two years 2012/13 and 2013/14 taken together. Any significant factors contributing to this improvement will be considered in the next annual update of the medium term financial forecast during the late autumn/winter.

Capital Position

13. The approved capital budget for 2012/13 totalled £31m. Actual capital expenditure during the year was £21.4m. This reduction of £9.6m compared to budget was mainly due to slippage and/or rephasing of expenditure on a number of schemes, primarily relating to investment properties and streetscene projects.
14. A separate report on the 2012/13 outturn in respect of capital and supplementary revenue projects is being prepared.

Balance Sheet

15. The Consolidated Balance Sheet indicates that the City Fund's total net assets increased by £63.2m (or 6%) to £1,127.4m from £1,064.2m a year earlier. The main reasons for this increase are set out below.

	£m	£m
Long Term Assets		
Net unrealised gain on revaluation of investment properties	51.3	
Net unrealised gain on revaluation of other fixed assets	20.7	
Acquisitions	19.2	
Disposals	(59.8)	
Depreciation and impairment	(15.0)	
Reduction in long term investments	(12.7)	
Increase in long term debtors	(0.6)	
		3.1
Increase in Police Pension liability		(44.4)
Increase in short term investments		85.4
Increase in capital grants and contributions received in advance		(11.2)
Reduction in other net liabilities primarily relating to a creditor for national non domestic rates collected on an agency basis for the Government		30.3
Increase in net assets		63.2

16. At 31 March 2013 usable reserves were £275.9m comprising revenue reserves of £182.2m (31/3/12 = £162.2m) and capital reserves of £93.7m (31/3/12 = £21.0m).
17. The £20.0m increase in usable revenue reserves relates to the £7.2m increase in the Unallocated Reserve, a £11.3m net transfer to earmarked reserves and an increase in the HRA reserve of £1.5m. The increase in capital reserves of £72.7m reflects the proceeds from disposals during the year partly offset by sums applied to the financing of capital expenditure.
18. The usable reserves are allocated for the funding of the capital programme over the medium term, including part of the City Fund's £200m

contribution to Crossrail, to the purchase of investment properties to provide a better return than interest on cash balances, or are earmarked for specific purposes such as for Police, Highways and the Housing Revenue Account. Consequently, it is not sustainable for the reserves to fund directly the ongoing Government grant cuts which, together with the continuing difficult economic climate, are placing significant financial pressure on the City Fund with potential annual revenue deficits being forecast over the medium term.

19. To address the potential deficits over the medium term, a service based activity review is being undertaken to identify further efficiencies where savings can be made with little impact on services, to re-examine the appropriate level of expenditure to fulfil statutory requirements, to prioritise services against the City's policy objectives, and to consider funding/income generation opportunities. In addition, targeted/selective budget reductions and efficiency programmes are continuing to be pursued including those relating to corporate wide procurement arrangements.

Crossrail

20. The City of London Corporation has agreed with Government that £200m will be provided from City Fund towards the costs of constructing Crossrail. The payment of this amount is dependent on the fulfilment of a number of conditions, primarily the completion of certain works in relation to Crossrail stations. Whilst it is anticipated that the conditions will be met, there is still some 3 years to go before the relevant works are due to be completed. A liability has not therefore been recognised in the financial statements pending fulfilment of the conditions. At this stage it is anticipated that the contribution will be made in 2016. The financing strategy for the contribution is based on the accumulation of annual rental income from specific investment properties and capital receipts from the sale of assets. As at 31 March 2013, financial forecasts indicate that sufficient funds will be available to meet the contribution in 2016.

Pension Liabilities

Police & Judges Pension Schemes

21. The City Fund's total net assets are £1,127.4m. This after allowing for a negative Pension Reserve of £606.8m (31/3/12 = £562.4m) relating primarily to the historic deficit in the unfunded (i.e. the scheme has no assets) Police Pension Scheme, a statutory scheme as specified by police regulations. The negative reserve arises from applying the requirements

of International Accounting Standard (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 liability is calculated by independent actuaries, Barnett Waddingham.

22. Pension Fund liabilities are particularly sensitive to changes in the discount rate used for calculating the present day value of future payments from the fund - with a decrease in the rate resulting in higher liabilities and vice-versa. As at 31 March 2013 the discount rate is 0.1% lower than a year earlier. This change in the discount rate together with higher assumptions for inflation are the main reasons for the increase of £44.4m in the deficit.
23. The City of London Corporation in its capacity as Police Authority pays an employer's contribution of 24.2% of pensionable pay for all serving police officers into the Police Pension Fund Account. If there is insufficient money in the Pension Fund Account to meet all expenditure commitments in any particular year, the Home Office will fund the deficit. In practice therefore the significant balance sheet liability of £606.8m, relating to benefits earned but to be paid in the future, will be covered by future employee contributions and receipt of Home Office grant monies.

City Corporation Pension Scheme

24. City of London staff, excluding police officers, teachers and judges, are eligible to join the Local Government Pension Scheme – a statutory scheme administered in accordance with Government regulations. The estimated deficit on the City of London Pension Scheme is not included in the balance sheet. This exclusion arises because the Pension Fund is the responsibility of the City of London as a whole, as one employer, rather than the specific responsibility of any of its three main funds. Thus the City Fund does not have an exclusive relationship with the City of London Pension Fund and the portion of the Pension Fund relating to City of London employee members engaged on City Fund activities is not separately identified. Consequently, in accordance with IAS19, the pension arrangements are treated as a defined contribution scheme in the City Fund accounts. This means that only the employer's contributions to the scheme are included in the accounts.
25. However, certain disclosures are required in the notes to the accounts to satisfy the requirements of IAS19 and these have been included. The estimated overall net liability of the City of London Pension Scheme (relating to the three funds – City Fund excluding police officers, City's

Cash and Bridge House Estates) as determined by the actuaries for the purpose of IAS19 is £342m at 31 March 2013, a decrease of £9m in the net liability compared to last year.

26. As the City Corporation scheme is funded (i.e. it has assets) the value of the scheme's investments have to be taken into account. During 2012/13 the value of the scheme's investments increased and more than offset the factors mentioned in paragraph 22 which have increased liabilities.
27. The employer's pension contribution rate is considered and determined by the Finance Committee following each triennial valuation (updated by any subsequent interim valuations) and is a separate issue from the IAS19 calculations. 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. A triennial valuation as at 31 March 2013 is currently being finalised. The changes to employee contributions and benefits due to be introduced next year should also help to reduce the deficit.

Audit Opinion and Letter

28. Deloitte intends to give unqualified opinions on the City Fund and Pension Funds Financial Statements subject to clarification of any residual points and to issue its 2012/13 management letters for the City Fund and Pension Fund as set out in Annexes 2 and 3 respectively. Representatives from Deloitte will be in attendance at the Audit and Risk Management Committee to present their reports and to clarify any points or issues.

Subsequent Adjustments to the Accounts

29. Deloitte is expecting to sign its audit opinion by the end of August or early September. Should any material adjustments to the financial statements be required before that position is reached, it is recommended that authority to approve such amendments should be delegated to the Town Clerk in consultation with the Chairmen and Deputy Chairmen of the Audit and Risk Management and Finance Committees.

Publication of the Statement of Accounts

30. As soon as reasonably possible after the conclusion of the audit, and in any event by 30 September 2013, the City is required to publish the 2012/13 City Fund and Pension Fund Financial Statements including the Audit Opinion on its website. Copies of the published statements will be placed in the Members' Reading Room and will be available from my office. The final management letters from Deloitte on its audit will be presented to the Court of Common Council for information.

Chris Bilsland
Chamberlain

Contact:

Stephen Telling, Chief Accountant, Budget Division

020 7332 1284

steve.telling@cityoflondon.gov.uk

Annex 1: Statement of Accounts for the City Fund and the Pension Funds

Annex 2: Deloitte's City Fund Management Letter

Annex 3: Deloitte's Pension Fund Management Letter