

City of London Corporation

# PROCEDURE FOR OBTAINING CHAMBERLAIN'S FINANCIAL APPRAISALS AND COMMENTS ON REPORTS

A Guide for the City Surveyor

# SECTION 1: INTRODUCTION

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## 1.1 WHY UNDERTAKE A FINANCIAL APPRAISAL?

1. The City of London Corporation [CoL] has a diverse range of commercial and business interests which require it to interact financially with the wider world. This means that its financial resources are exposed to risk, either by losing income or by incurring excessive expenditure, when engaging with other entities. Financial appraisals are a means of mitigating or ameliorating such risks.
2. For the City Surveyor, the main areas of risk are retail and commercial leases and property developments, sales or acquisitions.

## 1.2 CIRCUMSTANCES FOR REQUESTING A FINANCIAL APPRAISAL

3. The circumstances for requesting an appraisal are based on the powers formally delegated to the Investment Property Directors and the procedures approved by Finance Committee for use by the Chamberlain's Department. The aim is to demonstrate that surveyors have taken adequate steps to identify and consider the financial risks to the City arising from the following proposed property transactions:
  - a. New Lettings - Inside the 1954;
  - b. New Lettings - Outside the 1954 Act;
  - c. Lease Renewals – Protected;
  - d. Lease Renewals – Unprotected/Contracted out;
  - e. Rent Reviews;
  - f. Assignments;
  - g. Company Guarantees; or
  - h. Sales, acquisitions, developments.
4. As a basic requirement all companies that are potential tenants or guarantors should be checked using the Companies House website [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk) or in the case of registered charities [www.charitycommission.gov.uk](http://www.charitycommission.gov.uk) to confirm their existence and details. Searches can be performed on names (but please note that names can be similar) or registration numbers. There is also information concerning the date of incorporation, latest filed accounts and whether these accounts are full or abbreviated (i.e. full accounts include the profit and loss account with the turnover figure). This information will be needed to request a Chamberlain's financial appraisal (see below information requirements).
5. **A Chamberlain's financial appraisal is not required under internal procedures in the following circumstances:**
  - a. The proposed rent is less than £15,001 p.a.; or

- b. The proposed rent is greater than or equal to £15,001 p.a. and less than £25,001 p.a., where a six months' rent deposit\* has been obtained; or
- c. Rent Reviews, provided that the rent increase is less than £50,000 p.a.; or
- d. Lease Renewals – Protected (except where there is a proposed change in the overall identity of the guarantor, or a reduction in the security); or
- e. Quarterly Tenancies, Tenancies at Will, Licenses, Easements, Way Leaves, Rights of Light.

[\* Plus the equivalent of VAT where elected to charge VAT]

6. However, please note surveyors are still able to request an appraisal voluntarily, if it is considered prudent to do so. For example, it is advisable to request an appraisal in the following circumstances [which is not an exhaustive list]:
- a. the rent is increasing by 25% or more; or
  - b. there has been a problem with the tenant regarding rental payments; or
  - c. the managing surveyors become aware of apparent changes in the fortunes of tenants.

**7. A Chamberlain's financial appraisal is required under internal procedures in the following circumstances:**

- a. The proposed rent is greater than or equal to £15,001 p.a. and less than a six month deposit\* has been accepted; or
- b. The proposed rent is greater than or equal to £25,001 p.a. and less than £100,001 p.a. (see below for rents equal to and greater than £100,001 p.a.); and
- c. None of the exemptions detailed in paragraph 5 above apply.

[\* Plus the equivalent of VAT where elected to charge VAT]

**8. A Chamberlain's financial appraisal must be requested in the following circumstances as they are not delegated to the Investment Directors:**

- a. The rent is greater than or equal to £100,001 p.a. excluding Assignments
- b. All lettings, including lease renewals where the term is greater than or equal to 25 years; or
- c. Terms are below market value; or
- d. Rent reviews where the increase is in excess of £50,000 p.a.

9. When a Chamberlain's financial appraisal is not required, references for the prospective tenant should still be obtained.

### 1.3 HOW TO OBTAIN A FINANCIAL APPRAISAL

10. All sections of the "Request for Chamberlain's Financial Appraisal" form must be completed by the surveyors. The form must be sent to the Senior Accountant – Research & Technical (R&T) or to the Group Accountant in case of absence. Additional information may be sought from the surveyors by R&T following receipt and checking of the form.
11. The R&T team aims to complete appraisals within five working days of all the necessary information being received. Delays will occur if information is incomplete, inaccurate or ambiguous. If a faster response is required the surveyor must contact the Chamberlains in advance.
12. The principal sources of information are company accounts, management accounts and business plans with financial information. If a company files abbreviated accounts full versions should be requested by the surveyor. All appraisals are undertaken to common standards of analysis and presentation and also require the same standard of information to be provided to the Research and Technical team [R&T]. Appraisals are based on 3 years' full signed accounts.
13. Credit reference agency reports are used for accounts information, company structure, shareholdings and directorship histories and not for the credit rating/procurement limits suggested by the agency. There are several reasons for this – credit ratings utilise information to which the CoL is not privy, the information is analysed by methodologies which are not disclosed and the ratings themselves are not directly applicable for the purposes of a Chamberlain's financial appraisal.
14. If accounts are provided or obtained for any reason then there are certain requirements which need to be met for them to be deemed suitable for appraisal. Accounts should be:
  - a. The accounts of the entity in question;
  - b. The latest available set;
  - c. Audited if required;
  - d. Fully signed where required;
  - e. Full and not abbreviated accounts.
15. Where accounts are requested R&T requires full signed accounts, which should meet the criteria in paragraph 14 above. The only exception allowable to this is where an entity has not been in existence long enough to file or produce this information. Prior year comparatives are not an acceptable substitute as they are usually lacking detailed notes.
16. Where a business entity is yet to be incorporated or has not yet filed any accounts, surveyors should request business plan type information and other ancillary information as follows:
  - a. An opening balance sheet;

- b. Management accounts for the initial trading period to latest period [including detailed income/expenditure or profit & loss and latest balance sheet];
- c. A medium term trading/cash flow forecast [preferably first year analysed month by month] or medium term business plan;
- d. Information concerning the owners/partners/directors [names, dates of birth and addresses with postcodes];
- e. Information about parent and ultimate parent companies [names and registrations numbers] if applicable.

Please note this information should be produced and signed by a person in a senior position within the business.

17. Not every entity is obliged to produce accounts for filing or external scrutiny e.g. Limited Partnerships [N.B. these are distinct from Limited Liability Partnerships which are regulated in a similar manner to companies], sole traders. In such cases the certification or otherwise of the accounts can vary widely but as far as is practicable the same standard of verification should be applied. In all cases the standards of appraisal remain the same – the status of an entity does not influence the final opinion.
18. Business entities may be registered with regulatory bodies other than Companies House e.g. The Charity Commission, Financial Conduct Authority, and these can have different requirements for the filing of accounts. Accounts for companies in Crown Dependencies or foreign countries are not necessarily governed by the same standards of certification and audit as mainland UK companies.
19. R&T does not have access to financial information relating to private individuals. Directorship searches can however be undertaken if required and surveyors should provide the full name, date of birth and postcode of the person in question.

#### **1.4 REPORTING OF FINANCIAL APPRAISAL RESULTS**

20. A Chamberlain's Financial Appraisal is always reported as a memorandum sent to the requesting Surveyor. Any other analysis produced by R&T which involves some presentation or interpretation of figures will contain the disclaimer "This is not a Chamberlain's Financial Appraisal".
21. The Chamberlain's financial memorandum will normally be structured in three sections:
- a. The first section details the salient points of the context in which the financial appraisal was undertaken. The requesting surveyor will need to check these points and advise of any changes or errors;
  - b. The financial information on which the appraisal has been undertaken and any other points that have been discovered; and
  - c. The overall opinion in relation to the original reason for the request. It is not possible to give 100% guarantee about success or failure;

however this is where the likelihood of financial risk and any mitigation is assessed.

22. Please note that the results of the appraisal and any other correspondence from the Chamberlain to surveyors during the process are for internal purposes only.
23. The surveyors should then use their judgement to decide whether to proceed with the transaction and the suitable level of security required (for the overall risk assessment), considering their negotiating position. It remains the City's policy to seek a six month rent deposit in respect of all new lettings although it is still for the surveyors to use their discretion in such cases, provided that an explanation is given to Members/Directors where such a deposit will not be obtained.
24. Please note that if an appraisal has been requested and subsequent events have meant that an appraisal is redundant, the surveyor must contact R&T team to withdraw the appraisal request at the soonest possible moment.

### **1.5 CHAMBERLAIN'S FORMAL COMMENTS ON REPORTS**

25. Financial comments for reports can only be requested after the Chamberlain's financial appraisal. The Chamberlain's Department aims to complete comments on reports within three working days of the information being received. If a quicker response is required, the requesting surveyor must contact R&T team.
26. The type of report determines the requirement for a Chamberlain's comment. The two main types for lettings are a delegated authority report and committee lettings report.
27. In respect of Delegated Authority Reports, surveyors complete all of the sections in this standardised report and they are responsible for ensuring the information for the Director is accurate. Delegated authority reports do not require a Chamberlain's comment under internal procedures. However, the surveyor will need to show that if a financial appraisal has been requested if required according to the criteria above [paras.7 and 8] and accordingly considered as part of the final decision.
28. Where a six month deposit has not been obtained for new lettings, there should be a justification within the 'Rent Deposit' section.
29. In respect of Committee Lettings Reports, surveyors will complete most of the sections in this standardised report for the Property Investment Board and are responsible for ensuring the information is accurate. Surveyors' comments will most likely be included within the 'Tenants Payment Record' and 'Additional Information' sections. Where a six month deposit has not been obtained for new lettings, there should be a justification within the 'Rent Deposit' section.

30. The reports will require a Chamberlain's comment in the section heading "Chamberlain's Comment on Tenant's Financial Status". This section can only be written by R&T team for the Chamberlain.
31. Please note surveyors are not to complete this section by using the contents of the Chamberlain's financial appraisal memorandum.
32. Accordingly, the draft letting report for committee should be sent to the Senior Accountant – Research & Technical (Group Accountant in absence) in its final form with the "Chamberlain's Comment on Tenant's Financial Status" section left blank for completion.