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| <b>Committees:</b><br>Audit and Risk Management – for decision<br>Finance – for decision | <b>Date:</b><br>15 January 2019<br>Under Urgency |
| <b>Subject:</b><br>Bridge House Estates Annual Report and Financial Statements 2017/18   | <b>Public</b>                                    |
| <b>Report of:</b> The Chamberlain  | <b>For Decision</b>                              |
| <b>Report author:</b><br>Karen Atkinson, Head of Charity & Social Investment Finance     |  |

### Summary

The Annual Report and Financial Statements for Bridge House Estates (BHE) for the year ended 31 March 2018 are attached at Annex 1 for approval. This Report is being presented to Audit & Risk Management and Finance Committees for approval behind the original planned schedule, due to the requirement to reconstitute the endowment fund within these accounts. The external auditor, Moore Stephens LLP, is intending to issue an unqualified audit opinion and their report is attached at Annex 2.

The key points to highlight are:

- The funds of the charity have been split between the permanent endowment fund (£831.6m) and unrestricted income funds (£564.2m), with total funds (net assets) held being £1,395.8m – an increase of £54.6m or 4.1% on the previous year;
- The net surplus for the year of £54.6m included gains on financial investments of £10.8m and on property investments of £53.6m;
- Subsequent to the year-end, the charity has sold one of the properties held within its investment portfolio (part of the endowment fund) for £97.1m.

Moore Stephens commenced its audit on 16 July. The financial statements provided for audit did not reflect the endowed nature of the charity, as the valuation of the endowed fund was not available at this time. Detailed research has been undertaken subsequently to confirm the valuation, hence the delay in concluding the audit and seeking approval of the financial statements. The audit has now been completed. No significant issues have been raised and no material misstatements have been identified within the audit work undertaken. Representatives of the auditors will attend the Audit and Risk Management Committee to present their report. The Audit Panel has reported to the Chamberlain that they do not have any concerns related to either the underlying accounting processes within the charity nor in relation to the revisions made regarding the permanent endowment fund.

### **Recommendations**

The Audit and Risk Management Committee will be requested to:

- a) consider the contents of the Audit Management Report issued by Moore Stephens LLP; and
- b) recommend approval of the BHE Annual Report and Financial Statements for the year ended 31 March 2018 to the Finance Committee.

The Finance Committee will be requested to:

- c) consider the contents of the Audit Management Report issued by Moore Stephens LLP; and
- d) approve the BHE Annual Report and Financial Statements for the year ended 31 March 2018 taking account of any observations from the Audit and Risk Management Committee; and
- e) agree that the BHE Annual Report and Financial Statements are signed by the Chairman and Deputy Chairman of the Finance Committee on behalf of the Court of Common Council, being the Trustee of BHE.

## Main Report

### Introduction

1. The 2017/18 Annual Report and Financial Statements for BHE for the year ended 31 March 2018 are presented for approval.
2. The Charity Commission require charities to submit their accounts within 10 months of their financial year-end, however good practice expects charities to submit their reports earlier than this deadline. The confirmation and valuation of the permanent endowment fund held by BHE delayed the completion of the 2017/18 financial statements. Whilst the majority of the audit work took place in line with the original timetable agreed with our auditors, enabling the Audit Panel to sign-off their review of processes in September, additional audit work related to the methodology and valuation of the endowment could not take place until November 2018.
3. Approval of each year's financial statements has been delegated by the Court of Common Council to the Finance Committee.

### Permanent Endowment Fund

4. In reviewing the charity's governance and finances, it became apparent that the charity holds a substantial permanent endowment which was not currently accounted for as such and, consequently, there was a need to reconstitute the value of the charity's permanent endowment in BHE's accounts. This involved an evaluation and analysis of a substantial number of historic governance documents and other records as the original permanent endowment trusts were established as far back as the 1100's.
5. Specific points in time in the history of BHE, relating to the implementation of various Acts, and the grant of Schemes and Charters governing the charity, were identified as being key in identifying the permanent endowment. Extensive research was undertaken of various records held by the City Corporation relating to these periods. Due to limited investment powers held by the charity prior to the grant of the 1957 Supplemental Charter it was considered reasonable to conclude that the permanent endowment consisted of all the land/properties held at that date. As limited records of valuations for these assets were held prior to the 1990's, this approach did not provide the answers required.
6. An alternative methodology was deemed necessary to value the endowment. Records were available evidencing the original properties held, which were cross-checked against the current portfolio. From this it was deduced that virtually all the current land/properties held were either directly related to, or have been funded by proceeds from, original gifts/bequests/grants for the benefit of BHE which formed part of the endowment capital. It was therefore concluded that all land/properties

currently held would be within the endowment fund.

7. Research also identified diversification from property investments to equities/gilts in the period 1985-1999. The current day value of the specific amounts identified now forms part of the permanent endowment fund. This involved judgement in the selection of an appropriate rate of return to apply, with further explanation provided in Note 2(a) to the Financial Statements.
8. As at 31 March 2018, the funds of the charity are split as follows:

| <b>Nature of Fund</b>    | <b>Amount (£m)</b> |
|--------------------------|--------------------|
| Permanent endowment fund | 831.6              |
| Unrestricted income fund | 576.0              |
| Pension reserve (income) | (11.8)             |
| <b>Total funds held</b>  | <b>1,395.8</b>     |

#### Statement of Financial Activities

9. Income for the year totalled £42.6m, an increase of £6.1m (16.7%) on 2016/17. This includes income generated by Tower Bridge tourism activities, up by 4.8% to £6.5m and income from our investment properties, up 16.9% to £31.8m. The increase in property related income is principally driven by the inclusion of backdated rent collected from outstanding rent reviews on several properties, together with additional income from ground lease rent certificates.
10. Expenditure of £53.3m, an increase of £3.3m (6.6%) against 2016/17, is split between those costs relating to raising funds (£20.9m) and those relating to charitable activities (£31.7m).
11. When comparing the cost of raising funds to the income generated, it is important to note that BHE income does not include all of that generated by financial investments held, due to the charity holding pooled investments. The growth in pooled investments is reflected within the balance sheet as capital growth, rather than in the receipt of dividends/interest income in-year, with an unrealised capital gain of £10.8m reported in 2017/18 (2016/17: gain of £98.2m).
12. Charitable activities include funding and grant-making (the ancillary object of the charity) and related costs of £26.1m (2016/17: £18.7m), a record high for the charity. This increase is due to several exceptional grant commitments, including Centre for Mental Health (£1.24m), The Prince's Trust (£3m) and those made within the Bridge to Work programme (£2.62m). Also included within charitable activities is £5.6m spent on the primary object of the charity, the repair and maintenance of the five Thames Bridges, a reduction of £6m compared to the previous year. Whereas

2016/17 included costs of redecking works on Tower Bridge, this year the focus was on the development of future maintenance schemes hence leading to lower levels of spend.

13. Net gains on investment properties and financial investments totalled £64.5m (2016/17: £173m), split between properties £53.6m, financial investments £53.6m and social investments £0.1m.

### Balance Sheet

14. The Balance Sheet presents the increase in total funds of the charity held of £54.6m, resulting in total funds held of £1,395.8m. This has been driven by the gains noted above. Total funds held comprise the permanent endowment fund at £831.6m, alongside the unrestricted income fund at £564.2m, being net of the pension deficit of £11.8m. An element of the unrestricted income fund has been designated for agreed purposes.
15. Designated funds consist of unrestricted income funds which the Trustee has decided to set aside for specific purposes over the short to medium term. Following confirmation of the endowment fund, changes have been made to the designated funds held as follows:
- a. Previously held balances within the property revaluation and property sales pool designated funds now form part of the endowment fund, as they relate to the value of investment properties held;
  - b. A designated fund for Tower Bridge Tourism is no longer held, with any shortfall in income to be dealt with via the normal budgeting process;
  - c. The Bridges Repair Fund now represents the funds required to maintain the bridges for the next 5 years, as opposed to setting aside funds required over the next 50-year period;
  - d. A new designated fund has been created, to set aside funds for the future rebuild costs of the bridges, separate from those within the repair fund. This is based upon the present value of estimated future costs, adjusted for forecast increases in construction costs;
  - e. A new designated fund for charitable funding and grant-making has been established, representing the annual income surplus to that required for the primary object of the charity (to maintain and support the five bridges) and which may be applied for future funding activities undertaken by City Bridge Trust in accordance with the Bridging Divides strategy.
16. Designated funds total £189.8m, leaving free reserves as being £374.4m. Consideration is being given to an appropriate level of free reserves to maintain going forward, following confirmation of the permanent endowment fund alongside the ongoing evaluation of the designation requirements to ensure the charity's primary objects are met.

## Audit Opinion and Letter

17. Moore Stephens commenced its audit on 16 July. Their audit work is completed, with the exception of final reviews prior to sign-off. Following the reconstitution of the permanent endowment fund, no significant issues have been raised and no material misstatements have been identified. It is anticipated that Moore Stephens will issue an unqualified opinion. The subsequent review by the Audit Panel has also concluded satisfactorily, with no concerns raised related to either the underlying accounting processes within the charity nor in relation to the revisions made regarding the permanent endowment fund. Representatives from Moore Stephens will attend the Audit and Risk Management Committee to present their report and to clarify any points or issues.

## Conclusion

18. The Chairman and Deputy Chairman of the Finance Committee will be requested to approve and sign the financial statements on behalf of the Court of Common Council.

19. Moore Stephens is expecting to sign its audit opinion in mid-January. 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.

20. The Charity Commission require charities to submit their accounts within 10 months of their financial year-end, however good practice expects charities to submit their reports earlier than this deadline. Whilst confirmation of the permanent endowment fund has added significantly to the work required to be undertaken for this year-end, the BHE accounts will be submitted to the Charity Commission ahead of the required deadline for 2017/18. Copies of the published annual report and financial statements will be placed in the Members' Reading Room. The final management report from Moore Stephens on its audit will be presented to the Court of Common Council for information.

### **Contact:**

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Annex 1: Annual Report and Financial Statements for Bridge House Estates

Annex 2: Moore Stephens Audit Management Report