

<b>Committees:</b> Audit and Risk Management – For decision	<b>Dates:</b> 24-09-2019
<b>Subject:</b> Bridge House Estates Annual Report and Financial Statements 2018/19	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For decision</b>
<b>Report author:</b> Karen Atkinson, Head of Charity and Social Investment Finance, Chamberlain's Department	

### Summary

The draft version of the Annual Report and Financial Statements for Bridge House Estates (BHE) for the year ended 31 March 2019 are attached at Annex 1 for approval. These reflect changes agreed with BDO LLP, our external auditors. This report is presented to Audit & Risk Management for approval behind the original planned schedule due to the additional time required by BDO to undertake their audit fieldwork. Members should note that the version included in your papers is not the designed report for publication, hence the layout is not finalised.

BDO will be submitting their audit management report at this meeting. The audit fieldwork has been completed, the Audit Panel has met and positive feedback from the Panel has been presented to the Chamberlain. At this stage, it is anticipated that an unqualified opinion will be issued.

The key points to highlight are:

- The funds of the charity are split between the permanent endowment fund (£907.5m), unrestricted income funds (£587.0m) and a minor restricted fund (£0.2m) with total funds (net assets) held being £1,494.7m – an increase of £98.9m or 7.1% on the previous year;
- The net surplus for the year of £98.6m includes gains on financial investments of £39.1m and on property investments of £69.6m;
- A key transaction in the year was the disposal of the long leasehold of 1-5 London Wall Buildings (LWB) for £97.1m, with a profit of £13.7m;
- Subsequent to the year-end, the charity has completed on the purchase of a property on Chiswell Street, EC1 for £36.4m, utilising some of the above proceeds. It has further completed on the sale of the freehold of 185 Tower Bridge Road for £5.6m.

BDO commenced its audit on 17 June, a month earlier than the prior year audit began. This is the first year of their appointment to audit BHE. Representatives of the auditors will be in attendance at the Audit and Risk Management Committee to present their report.

### **Recommendations:**

The Audit and Risk Management Committee are asked to:

- Consider the contents of the audit management report issued by BDO (Annex 2);
- Recommend approval of the BHE Annual Report and Financial Statements for the year ended 31 March 2019 to the Finance Committee; and
- Delegate authority to the Chamberlain, in consultation with the Chairman and Deputy Chairman of the Audit and Risk Management Committee, for approval of any material change to the financial statements required before the signing of the audit opinion by BDO.

## **Main Report**

### **Introduction**

1. The 2018/19 Annual Report and Financial Statements for BHE for the year ended 31 March 2019 are presented for review.
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. As a significant charity within the sector, BHE looks to demonstrate good governance in making available its annual report on a timely basis. The audit work commenced in line with the original timetable agreed with our auditors, however the approval of the annual report has been delayed from the planned July Committee as the auditors required additional time to undertake their audit fieldwork. Representatives of BDO will be available to explain this requirement to Members.
3. Approval of each year's annual report and financial statements has been delegated by the Court of Common Council to the Finance Committee. For the 2018/19 annual report, approval by the Finance Committee will be made under urgency directly after this Committee.

### **Statement of Financial Activities**

4. Income for the year came to £43.1m, an increase of £0.5m (1.2%) on the previous year. The income for the charity includes that generated by Tower Bridge tourism activities, up by 4.6% to £6.8m, alongside income from investment properties, increasing by £0.3m to £31.5m. Income arising from financial investments that are held on a non-pooled basis reduced in the year to £2.8m.
5. Expenditure totalled £53.1m, being just £0.2m below that of 2017/18 although with the constituent parts varying as described below. Each heading includes an allocation of the underlying support costs for the charity, as recharged by the City Corporation, alongside the costs of governance. These totalled £6.1m (17/18: £5.2m). Governance costs have increased in the year due to the review being undertaken of the charity.
6. Cost of raising funds totalled £21.5m, covering expenditure relating to the Tower Bridge tourism operations alongside those for managing the financial and property investments of the charity, an overall increase of £0.6m in the year. When comparing these costs to the total income generated, it is important to note that BHE income does not include an amount for dividend/interest income generated by financial investments held, due to the charity holding pooled investments. The change in value of these holdings is reflected as growth within the balance sheet, with capital gains of £39.1m reported in 2018/19 (2017/18: £10.8m).

7. Charitable activities include costs attributable to the repair and maintenance of the five Thames Bridges, the prime activity of the charity, with £6.6m spent this year (17/18: £5.6m). The level of costs in this area is planned to increase over the coming months due to the repainting of Blackfriars taking place. Funds have been set aside within the Bridges Repairs designated fund to manage this peak of activity. The activities of City Bridge Trust (CBT), the ancillary object of the charity, cover those for grant-making, philanthropy and social investment. Costs in year totalled £24.1m, compared to the record high spend level of £26.1m in the previous year. Members will recall that 17/18 commitments included several high value grants approved under the 20<sup>th</sup> Anniversary programme, alongside the next 3-year instalment of £3m to The Prince's Trust. Bridging Divides, CBT's new funding policy, was launched in April 2018. With this came a revision in the funding criteria which now includes the provision of five-year grants and increased core funding.
8. Net gains on investment properties and financial investments totalled £108.6m (2016/17: £64.5m), split between properties £69.6m, financial investments £39.1m, with a small unrealised loss on social investments of £0.1m.
9. The above gains on investment properties included realised gains of £13.7m following the sale of a long leasehold of 1-5 London Wall Buildings for £97.125m. The proceeds of this sale were held as short-term deposits as at year-end, awaiting re-investment in either newly identified properties, or to fund refurbishments of currently held properties – in line with the BHE Estates Strategy. Note that of the proceeds, £17m was returned to the unrestricted income fund to repay funds advanced for the earlier refurbishment of 21 Lime Street.

### Balance Sheet

10. The Balance Sheet presents the increase in total funds held by the charity of £98.9m, resulting in a new total of £1,494.7m. This has been driven by the gains noted above. Total funds held comprise:
  - a. the permanent endowment fund at £907.5m, held in perpetuity to generate sufficient returns to support the five river bridges, with any income surplus above that required for the charity's principal object to be utilised by CBT in line with their approved funding policy;
  - b. the unrestricted income fund at £587.0m, being net of the pension deficit of £12.4m. An element of the unrestricted income fund has been designated for agreed purposes, as noted in section 11 below;
  - c. a restricted fund of £0.2m held at the year-end, being a contribution to a specific programme being undertaken by CBT.
11. Designated funds consist of unrestricted income funds which the Trustee has decided to set aside for specific purposes over the short to medium term. These total £183.5m, with key funds being:

- a. Bridges Repair Fund - representing the funds required to maintain the bridges for the next 5 years, being the higher of the average annual cost over the 50-year plan or the next 5 years forecast activity;
  - b. Bridges replacement fund - this is based upon the present value of estimated future costs, adjusted for forecast increases in construction costs. Following a detailed review undertaken by a firm of structural engineers, the amount held has been reduced to reflect a longer time period before replacement is required for each structure. Further analysis is now being undertaken of the whole life maintenance costs to establish when the best time to replace each bridge would be. The results of this analysis will inform the future balance to be held within this fund;
  - c. Grant-making fund - 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 CBT in accordance with the Bridging Divides strategy. At present, the Trustee has allocated £100m to be spent over the 5-year life of the current strategy, with one-fifth of this transferred into this fund each year;
  - d. Social Investment fund – the balance represents the amount available to finance social investments, which includes the original £20m allocation alongside the net returns generated to date over the life of this fund.
12. Designated funds total £183.5m (17/18: £189.8m), leaving free reserves as being £403.5m (17/18: £374.4m). Consideration continues to be given to an appropriate level of free reserves to maintain going forward, with the further analysis on the whole life maintenance costs of the bridges, referred to in para 10(b) being key to this decision. The possibility of creating an 'Income Generation' designated fund will form part of this review, should it be recognised that the permanent endowment fund is not currently of a value to generate sufficient income for the future operations of the charity.

#### Allocation of Pension Scheme Costs & Deficit – McCloud Judgement

13. As stated within the report on the City Fund Financial Statements, the BHE Pension Liability also includes the impact of the recent McCloud judgement. This case relates to action brought against the Government by members of the Judges' and Firefighter pension schemes challenging the transitional protections given as part of pension reforms enacted in 2015.
14. In December 2018, the Court of Appeal ruled that transitional protections put in place under reforms to both the Judges' and Firefighters' Pension Schemes discriminated against a group of members on the grounds of age. The ruling is applicable to all public sector pension schemes including that

in place with the Corporation of London, whose staff work on behalf of Bridge House Estates. The ruling has resulted in an increase in the pensions liability on the balance sheet of £0.3m being recognised in 2018/19.

#### Audit Progress and Opinion

15. BDO commenced its audit on 17 June. Their audit work is completed, with the exception of final reviews prior to sign-off. No significant issues have been raised to date and no material misstatements have been identified. It is anticipated that the audit will be concluded satisfactorily to enable BDO to issue an unqualified opinion. The review by the Audit Panel has also concluded satisfactorily with no concerns raised. Representatives from BDO will be in attendance at the Audit and Risk Management Committee to present their report, update on the status of the audit and to clarify any points or issues.

#### Conclusion

16. 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.
17. 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. Copies of the published annual report and financial statements will be placed in the Members' Reading Room. A designed version of the report will be made available online and submitted to the Charity Commission. The final management report from BDO 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 (designed version to be presented at the meeting)

Annex 2: BDO's Report to the Audit & Risk Management Committee