

Committees: Audit and Risk Management – For decision	Dates: 1 st October 2020
Subject: Bridge House Estates Annual Report and Financial Statements 2019/20	Public
Report of: The Chamberlain	For decision
Report author: Karen Atkinson, Head of Charity and Social Investment Finance, Chamberlain's Department	

Summary

The draft Annual Report and Financial Statements for Bridge House Estates (BHE) for the year ended 31 March 2020 are attached at Annex 1 for approval. Members should note that the version included in your papers is not the designed version of the report for publication.

The audit work has been substantially completed and the Audit Panel has met, with positive feedback presented to the Chamberlain. BDO LLP is intending to issue an unqualified opinion with the inclusion of an 'emphasis of matter' paragraph on the uncertainty relating to property valuations as a result of Covid-19.

The key points to highlight within the financial statements are:

- The funds of the charity are split between the permanent endowment fund (£984.2m), unrestricted income funds (£549.4m) and a restricted fund (£2.8m) with total funds (net assets) held being £1,536.4m – an increase of £41.7m or 2.8% on the previous year.
- The net surplus for the year of £47.1m includes gains on property investments of £80.2m, losses on financial investments of £16.0m and minor losses on social investments of £0.9m.
- Grant-making activities and associated spend reaching a record high for the charity at £33.7m, with £30.7m of this being new grant commitments.
- The transfer of £200m from unrestricted income funds to the grant-making designated fund for application under the agreed funding policy of the charity 'Bridging Divides', as approved by Court in March 2020.
- The inclusion of a revised reserves policy for the charity, also approved by Court in March 2020, stating the need to hold free reserves of £35m.
- The inclusion of increased disclosures relating to the 'going concern' status of the charity, as a result of uncertainties relating to the long-term impact of Covid-19. Specific disclosures reflect the uncertainty relating to property valuations as at 31 March 2020, which have led to the inclusion of the 'emphasis of matter' paragraph within the auditor's opinion.

- The re-investment of £41m, including the purchase of 4 Chiswell Street in July 2019 within the property portfolio utilising disposal proceeds from previous years that had been held as short- term financial investments.

BDO LLP commenced its audit on 3 July, conducting their work remotely due to the pandemic. BDO's representatives 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 2020 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 2019/20 Annual Report and Financial Statements for BHE for the year ended 31 March 2020 are presented for review.

The Charity Commission require charities to submit their annual report within 10 months of their financial year-end, however good practice expects submission 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.

2. 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 2019/20 annual report and financial statements, approval is planned to take place at the October Finance Committee.

Audit Opinion

3. BDO LLP intend to issue an unqualified audit opinion. It will however reference within their opinion an "Emphasis of Matter" given the uncertainty relating to the valuation of investment properties as at the year-end date. The external valuers are required to take into account the conditions that existed as at this date, and therefore the valuations of the BHE investment properties have been reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global, which contains mandatory rules, best practice guidance and related commentary for all RICS members undertaking asset valuations.
4. Full disclosure of this issue is made within the accounting policies of the charity (pages 41-42), noting that the absence of significant transactional evidence and the macro-economic effect of Covid-19 at that time was a cause for uncertainty. Subsequent to the valuation date, transactional evidence has become available in respect of Central London properties, however this does not impact upon the valuation as at 31st March 2020.

Statement of Financial Activities

5. Income for the year came to £46.6m, an increase of £3.5m (8.1%) on the previous year.
6. Restricted grant income of £1.8m was received in the final month of the year (2018/19: £0.2m). This represents donations by various funders towards the London Community Response Fund (LCRF), a restricted trust that was swiftly established within BHE to support the response to the Coronavirus pandemic.
7. Income from charitable activities consists of the combined income derived

from visitor admissions, retail and events at Tower Bridge. With 2019 being the 125th Anniversary of Tower Bridge, the first 11 months of the year produced record levels of income. However, the visitor attraction had to close as a result of the pandemic in March 2020, which impacted on the full year results. Total income across the year was £6.7m (2018/19: £6.8m).

8. Investment income is principally driven by the rental income earned from the property portfolio held by the charity, which is currently all held within the endowment fund. Property income totalled £34.6m, an increase of £3.1m against the previous year (2018/19: £31.5m). This included a surrender payment of £3.1m following a tenant exiting their lease 2 years ahead of the lease end date. The majority of the charity's financial investments are held on a pooled basis, the income equivalent of which forms part of the movement in the value of assets within the balance sheet. Income arising from financial investments held on a non-pooled basis is reported within the statement of financial activities, at £2.5m (2018/19: £2.8m). Interest earned from social investments and treasury deposits held makes up the balance of investment income, at £0.8m (2018/19: £0.8m).
9. Other income of £0.2m includes fees received by City Bridge Trust (CBT) to undertake grant administrative services on behalf of other organisations, with the prior year amount of £1.0m being higher due to a one-off receipt by BHE relating to access to land.
10. Expenditure totalled £62.8m, an increase of £9.7m on the prior year (£53.1m), driven by increased grant-making activities. The majority of expenditure was unrestricted with the exception of £0.2m (2018/19: nil) of grants against a funded programme and £0.6m (2018/19: £0.6m) costs attributable to the maintenance of the capital value of the endowment.
11. Expenditure on raising funds increased slightly to £15.3m (2018/19: £15.1m). There were minor changes in the amounts expended on some of the activities relating to raising income, which comprise the costs of managing the charity's investment portfolio and fees attributable to financial investments held. Expenditure relating to the Tower Bridge tourism operations is now reported within charitable activities, matching the disclosure of income earned.
12. Spend on charitable activities increased by £9.3m in the year, to £46.4m (2018/19: £37.1m). Spend on maintaining the five Thames bridges totalled £6.5m, against £6.6m in the previous year. Work on several major refurbishments has progressed, notably that of Blackfriars Bridge and London Bridge, however delays were experienced in the year in being able to gain access as a result of other projects taking place in the vicinity of both bridges. Planned expenditure will now take place in the coming months. Expenditure on the tourism activities at Tower Bridge reduced slightly against the previous year to £6.2m (2018/19: £6.4m). Grant-making activities and related spend achieved a record high for the charity at £33.7m (2018/19: £24.1m), with £30.7m of this amount being new grant commitments (2018/19: £21.9m). Additional funds were allocated by the

charity to grant-making activities in the year, enabling this increased level of support in response to the needs of London's Communities.

13. Other expenditure covers the net costs of the pension scheme for the staff of the City Corporation that work on behalf of the charity.
14. Net gains on investment properties and financial investments totalled £63.3m (2018/19: £108.6m), split between gains on investment properties £80.2m, unrealised losses on financial investments £16.0m, and an unrealised loss on social investments of £0.9m.

Balance Sheet

15. The Balance Sheet presents the increase in total funds held by the charity of £41.7m, resulting in a year-end total of £1,536.4m. This has been driven by the gains noted above. Total funds held comprise:
 - a. the permanent endowment fund at £984.2m, 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 £549.4m, being net of the pension deficit of £18.9m. An element of the unrestricted income fund has been designated for agreed purposes, as noted in section 15 below; and
 - c. a restricted fund of £2.8m held at the year-end, being donations received from various funders, alongside an initial £1m contribution by BHE, towards the LCRF - a restricted trust that was established within BHE to support the response to the Coronavirus pandemic.
16. 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 £440.7m (2018/19: £183.5m), with key funds being:
 - a. Bridges Repair Fund - representing the funds required to maintain the five bridges for the next five years, being the higher of the average annual cost over the 50-year plan or the next five years forecast activity. In 2019/20 £13.4m was transferred to this fund with £41.7m now set aside to cover costs planned over the next five years (2018/19: £34.0m);
 - b. Bridges replacement fund - this is based upon the present value of estimated future costs, adjusted for forecast increases in construction costs. The balance held within the bridges replacement fund has increased by £53.9m to £158.5m (2018/19: £104.6m) following a review in-year of expected replacement dates of each bridge;
 - 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. As approved by Court, an additional £200m was transferred to this designated fund in 2019/20 bringing the total ring-fenced for

this purpose to £219.2m (2018/19: £22.4m); and

- 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.

17. Deducting the designated funds from the total unrestricted income funds results a remaining balance of £108.7m, being the free reserves of the charity. During the year, the Trustee approved a revision to the BHE reserves policy, recommending that free reserves of £35m be held as at 31 March 2020. The actual amount held as at the year-end, was £73.7m above the stated policy, with the Trustee being mindful to the as yet unknown long-term impacts of the Covid-19 pandemic on investments held.

Audit Progress, Opinion and Emphasis of Matter

18. BDO's audit work is substantially complete, with the exception of final reviews prior to sign-off. It is anticipated that the audit will be concluded satisfactorily to enable BDO to issue an unqualified opinion with the inclusion of an emphasis of matter paragraph in relation to the material valuation uncertainty relating to investment property valuations, as stated within paragraphs 3-4 of this report.

19. 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 raised.

Conclusion

20. 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, following recommendation by the Audit Committee.

21. The Charity Commission require charities to submit their annual report within 10 months of their financial year-end, however good practice expects charities to submit earlier than this deadline. A designed version of this 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.

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

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