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| Committee: | Dated: |
| City Bridge Trust Committee Resource Allocation (Policy and Resources) Sub – Committee Policy & Resources Committee | 20 th September 2017 19 th October 2017 19 th October 2017 |
| Subject: Bridge House Estates – Designation of Funds for <i>Bridging Divides</i> , City Bridge Trust Grants Programme 2018-2023 | Public |
| Report of: Chief Grants Officer & The Chamberlain | For Decision |

Summary

The City of London Corporation is the corporate trustee of Bridge House Estates (1035628), one of the largest charities in England and Wales and, through the activities of the charity's grant giving arm, City Bridge Trust (CBT), is now London's largest independent grant-maker. CBT has been increasing the strategic approach to its grant making, including more long-term, proactive grants developed in partnership with experts and based on evidence of need. With this change comes an increasing scrutiny and further impetus to exemplify good governance within the charity sector.

As part of the implementation of CBT's new five year funding strategy *Bridging Divides*, which informs the grant expenditure for 2018 - 2023, consideration is being given as to how the City Corporation's internal governance arrangements might be improved to better support the delivery of high impact, longer-term charitable grant-making over a five year grant programme and therefore the effective operation of the charity consistent with the City Corporation's duties as trustee.

This report recommends that the City Corporation, in line with its trustee duties to be transparent in the effective management of the charity's funds in achieving its purposes for the public benefit, formally establishes a further designated fund out of the unrestricted funds of the charity from the income surplus to that required for the maintenance and support of the five bridges. It is recommended that the designation be for a five year period for the purposes of the new *Bridging Divides* grants programme 2018-2023, thereby properly reflecting the charity's existing commitment to a five-year strategy to deliver these activities (adopted by the Court of Common Council on 20th July 2017) which, under current corporate governance arrangements, is reliant upon annual budget allocation decisions which create a 'false barrier' to the management of funds available for grant-making.

Recommendations

Members are asked to:

- a) Recommend to the Court of Common Council that a designated fund be established for Bridge House Estates (1035628) out of the charity's unrestricted funds and from the income surplus to that required to maintain and support the

bridges for the purposes of the five-year 'Bridging Divides' grants programme 2018-2023; and

b) Delegate authority to the Chamberlain in consultation with Chairman and Deputy Chairman of the City Bridge Trust Committee, to agree the amounts to be held within this designated fund.

Background

1. Bridge House Estates (1035628) (BHE, the charity) is the seventh largest charity in England and Wales, established for the purposes of the maintenance and support of London Bridge. It is now responsible for five bridges. It is an ancient charity and the City of London Corporation is the sole corporate trustee having had stewardship of the charity for some 800 years. The charity is administered in accordance with its various governing documents and the City's corporate governance framework.
2. In 1995 as the charity's income had exceeded that required for the bridges and was accumulating, consistent with the City's duties as trustee, a cy-près Scheme was sought from the Charity Commission to amend the charitable trusts to allow the charity's funds to be applied for other charitable purposes. Since the Scheme was made, it has been the City Corporation's practice to settle policies which provide for grant-making to address identified needs in London. These activities of the charity are undertaken by City Bridge Trust (CBT), the charitable funding arm of BHE. A policy, approved by the Court of Common Council and based on consultation and evidence of need, sets out the spending parameters of this charitable funding.
3. As London's largest independent grant-maker, CBT works to ensure it has the most impact with the funds available. Over recent years CBT has moved to a more strategic approach to grant-making, reflecting changes to charitable needs in London over the last 25 years. Longer grants (of up to 5 years, and exceptionally 10 years) have been agreed and the proportion of the grants budget available for 'proactive' grant-making has also increased – i.e. grants worked up with invited partners to target specific issues within the agreed policy.
4. The City Corporation has recently, at the Court of Common Council on 20 July 2017, settled the new policy to guide the application of the charity's income surplus to that required to maintain and support the bridges for a five year period (2018 – 2023): *Bridging Divides*. The strategy's mission is to reduce inequality and grow more cohesive communities for a London that serves everyone. This will be achieved by using all of our knowledge, networks and assets to champion London's biggest asset – its people. The full version of the strategy is available on the CBT website www.citybridgetrust.org.uk.
5. At their June 2017 RASC Away Day, Members indicated their support for allocating the expected future BHE surplus income to CBT grant giving, with the proviso that the funds would be directed to charitable objectives decided on by Court of Common Council in line with BHE objectives and the Quinquennial review of CBT. Current forecasts from the medium term

financial plan for BHE suggest that this allocation of income to grant-making would provide an additional £13.9m over a 2-year period from 2019/20, with the potential of further funds in future years.

6. In 2015, the Court of Common Council agreed an uplift to the CBT core grants budget (known as 'Anniversary funding'), totalling £12m, with £9.6m to be applied to specific programmes on employability and infrastructure support, split over 3 budget years. In each successive year, CBT was required, under the City Corporation's corporate governance framework, to formally request approval of a 'carry-forward' of these funds to continue these programmes where current and prior-year funding had not been committed in-year. As of September 2017, it is expected that £1.59m of this total amount will be committed in 2018/19, being the final grant awards within the Infrastructure Support programme.
7. Indicative funding for the next 5 year period is as per Table 1.

Table 1: CBT Funding 2018/19 – 2022/23

| | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Total |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| Bridging Divides | 20,000,000 | 20,000,000 | 20,000,000 | 20,000,000 | 20,000,000 | 100,000,000 |
| The Prince's Trust * | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 5,000,000 |
| Anniversary funding: Infrastructure Support | 1,590,000 | | | | | 1,590,000 |
| Indicative additional funding** | | 6,900,000 | 7,000,000 | | | 13,900,000 |
| | 22,590,000 | 27,900,000 | 28,000,000 | 21,000,000 | 21,000,000 | 120,490,000 |

*The Princes' Trust funding is for 10 years, and commenced in financial year 14/15

** Per RASC AwayDay July 2017

Current position

8. The current budgeting process for CBT grant-funding allocates an agreed amount to a specific financial year. If the amount set-aside is not fully utilised in-year, a further decision is required under the City Corporations' financial management framework (carry-forward process) for the remaining balance to be made available for the following year. Should an overspend occur, this would be deducted from the subsequent years' resource allocation. Decisions on carry-forwards are usually made in July of each year; hence requests under urgency procedures have been made in the past to enable grant programmes to take place in a timely manner.
9. The utilisation of the carry-forward process from a charity perspective has led to various internal issues in the efficient and effective administration of the charity's grant-making activities:
 - a. Difficulties in making plans ahead of the relevant funding year, as technically CBT do not have future funding available;
 - b. Upfront analysis by the CBT team to inform plans, involving external experts, collaboration and feedback from Members takes time to undertake. Whilst this activity takes place, an impression is given that CBT is under-spending as the year one allocation of a programme is not being spent;

- c. Where 'big impact' programmes are being developed, CBT can only confirm funds with potential partners that relate to in-year budgets, and previously agreed carry-forward amounts. This leads to the team delaying plans until the full amount of funding is available – as happened with the majority of the 2015 anniversary funding;
 - d. Grants worthy of funding will not be brought to the March CBT Committee for approval, as these may push the total approved above available annualised funding for that year so creating a reported 'overspend'. Financial year-end becomes an artificial barrier, preventing CBT from supporting potentially life-changing projects, which can often be time critical.
10. A carry-forward process for grant-making is not a familiar concept within the charity sector. Inefficiencies have arisen where officers and Members look to balance an annual grants budget within a five-year strategy, deciding which applications to hold back from approval. This has caused concerns with potential grantees, where the processes can be seen as unhelpful, effectively 'shutting the door' at financial year-end and preventing the charity's funds from being applied to the intended purposes because of management processes adopted by the trustee. Larger charitable foundations tend to work over longer time horizons (as CBT has been seeking to do in recent years), with designations being a useful enabling tool. Use of such tools exemplifies good governance, so also building and protecting the reputation of the charity. CBT need to have the confidence to discuss plans with certainty, in order to move forward their vision for London to be a city where all individuals and communities can thrive.
11. Financial Regulations, as approved by the Court of Common Council, deal with budget management and carry-forward arrangements. These expressly provide that the Deputy Chamberlain be consulted on all matters of interpretation of the Regulations, with the Deputy Chamberlain's decision as to their meaning and application being final, providing such decision does not have the effect of altering the meaning of a standing order, other regulation or other contract approved by a Committee or the Court of Common Council (Part 2, paragraph 1.1).
12. Per Standing Order 48, the Court of Common Council has agreed that budget allocation decisions for BHE, as for other funds, are reserved to Policy and Resources Committee, following consideration by the Policy and Resources Resource Allocation Sub-Committee.

Proposal for a change in treatment of uncommitted grant funding

13. Up to 2015/16, CBT focussed on shorter term grant funding. Grants approved covered a 1-3 year funding timeframe, with pre-award discussions taking place over several months. With increased strategic focus and the provision of an increasing grants budget, CBT is now in a position to fund higher value programmes that will have significant reach and impact over a longer time period. The agreed programmes require investment in upfront analysis by the CBT Team, with this spread over a longer period than that relating to the previous funding model.

14. The trustees of a charity may choose to set aside, or ring-fence, part of their unrestricted funds to be used for a particular future project. By earmarking funds in this way, the trustees set up a designated fund that remains part of the unrestricted funds of the charity. Designations have an administrative purpose only, and do not legally restrict the trustees' discretion in how to apply the unrestricted funds that they have previously earmarked. If circumstances or plans change, the designation may be changed or removed, with funds returned to the general income fund for future determination of use. This would enable the City as trustee of BHE to react, should future investment performance reverse recent gains experienced.
15. Transparency around designated funds is a helpful tool when explaining a charity's reserve policy and the level of reserves held, and is consistent with the City's duties as trustee to demonstrate accountability in the proper management of the charity's funds in accordance with established charity accounting practice. Disclosure of designated funds within the Trustee's Annual Report depicts future commitments that a charity intends to make, clearly telling the story about future plans and demonstrating good stewardship.
16. BHE currently holds £741.2m as designated funds. With total unrestricted funds as at 31 March 2017 being £1,341.3m, this represents 55.3% of total funds held. The highest value designated fund is the property revaluation fund, at £568.8m, representing unrealised gains made on investment properties held which only become available for other purposes should properties be sold. Six other designated funds cover on-going projects such as bridge repairs and property dilapidations, alongside the £20m set aside for the Social Investment Fund. Despite grant-making representing the most significant area of expenditure for BHE, there is no designation for future grant expenditure at present. Commitments made as a result of a grant-making policy which operates over a five year period would normally be reflected as a designation in a charity's accounts.

17. Table 2 – Bridge House Estates: Funds held as at 31/03/17

| Bridge House Estates | |
|----------------------------------|----------------|
| Funds held as at 31/03/17 | £m |
| | |
| Designated Funds: | |
| Property Revaluation | 568.8 |
| Bridges Repairs | 147.8 |
| Social Investment Fund | 20.0 |
| Property Sales Pool | 1.9 |
| Property Dilapidations | 1.5 |
| Tower Bridge Tourism | 1.0 |
| Finsbury House | 0.2 |
| Total designated funds | 741.2 |
| General Fund | 612.0 |
| Pension Reserve | (11.9) |
| Total unrestricted funds | 1,341.3 |

18. A designated fund set-up specifically for the grant-making funds provided to CBT by the Trustee for their approved funding strategy would enable plans to be confidently developed ahead of commitments being made, alongside seamless continuation of agreed programmes once partners have been selected. In practice, CBT would continue to work to an approved annual budget/forecast, however would be able to make decisions relating to approved programmes that cross over financial year-ends agreeing needs with The Chamberlain as necessary under his delegated authority.
19. Such a designation would allow the CBT team to apply improved operational management to year-end processes, in the best interests of the grantees that the charity supports, rather than by the requirement to follow internal accounting carry-forward processes. As noted in paragraph 18, an approved annual budget/forecast would continue to apply, however the CBT Committee would have the ability to approve time-critical grants to charities ahead of the financial year-end. Such approvals would utilise in advance the grants budget set aside for the following financial year, held within the core grants designated fund.
20. Controls would be put in place to ensure that grant commitments approved come within the available designated amounts within each fund. The creation of grants-related designated funds is not about increasing reserves, but about providing greater flexibility in the timing of decision-making and the adoption of procedures which support the effective administration of the charity consistent with the City Corporation's duties as trustee. Routine reporting to CBT Committee would include balances in designated funds, with this also provided to Chamberlains to enable forecasts to be updated.

21. As the awarding of a grant does not usually result in an immediate outflow of cash, the flexibility that use of a designated fund will bring will not have an immediate adverse impact on treasury management.

Conclusion

22. To enable seamless continuation of long-term grant giving programmes, the creation of a designated fund for the new *Bridging Divides* strategy will more effectively support the activities of the charity, allowing improved decision-making processes. Such a designation supports good governance of the charity, demonstrating management of reserves held.
23. Delegating authority to the Chamberlain, in consultation with the Chairman and Deputy Chairman of the CBT Committee, to agree the annual amounts to be held within the designated fund will enable the charity to be reactive to the needs of its beneficiaries.