

Committees:	Dates:
Finance Committee – for decision	16 February 2021
Policy and Resources – for information	18 February 2021
Court of Common Council – for decision	04 March 2021
Subject: Bridge House Estates (BHE) (Reg. Charity No. 1035628) – Revenue Budget 2021/22 and Medium-Term Financial Plan	Public
Which outcomes in the City Corporation’s Corporate Plan does this proposal aim to impact directly (insofar as they are considered to be in the best interests of BHE in taking these decisions)?	n/a
Does this proposal require extra revenue and/or capital spending?	Y
Report of: The Chamberlain	For decision
Report Author: Karen Atkinson, Head of Charity & Social Investment Finance	

Summary

This report covers an update on the 2020/21 forecast and presents the 2021/22 revenue budget and Medium-term Financial Plan (MTFP), covering 2022/23 – 2024/25, for Bridge House Estates.

The charity has been impacted financially as a result of Covid-19, with uncertainties on the level of rental income receivable, reductions in investment growth and the closure of Tower Bridge as a visitor attraction for lengthy periods. The Charity Commission expects Trustees to recognise at an early stage if a charity is facing financial difficulties and to undertake robust forecasting. Reconsidering financial plans as a result of scenario planning and taking appropriate decisions enables a Trustee to comply with its duties.

Prudent management of unrestricted income funds has nonetheless ensured that the charity has sufficient funds available to meet its primary objective, the support and maintenance of its five Thames bridges. In considering its ancillary purpose, that of charitable funding for broad charitable purposes for the general benefit of the inhabitants of Greater London under the charity’s *Bridging Divides 2018-23* policy, this report presents a cautious approach to the release of funding designated for this purpose. Following detailed analysis and reflection, it is recommended that £20m of the £200m previously allocated be retained within this designated fund until such time as the charity is able to confirm if the original allocation of income reserves to charitable funding activities can be met. Alongside this, it is recommended that free reserves are maintained at between £33-55m above the approved policy level of £35m across the planning period as a further risk mitigation, as scenario planning suggests that these funds may be required to meet the primary objective or maintain the agreed free reserves amount. Members should note the potential future opportunity available in utilising investment growth within the permanent endowment fund as income, should the new Supplemental Royal Charter be adopted.

Recommendations

Members are asked, acting for the City Corporation as charity trustee of Bridge House Estates and solely in the charity's best interests, to:

1. Note the latest revenue forecast for 2020/21 (paragraphs 6 to 7)
2. Approve the 2021/22 revenue budget and Medium-Term Financial Plan for period 2022/23 – 2024/25 (paragraphs 8 to 10)
3. Approve that the additional allocation of income reserves available for charitable funding be held at £180m, a reduction of £20m from the sum allocated in March 2020, until a further forecast is presented for review (paragraph 12)
4. Approve that free reserves are maintained at between £33-55m over and above the agreed policy of £35m across the period of the Medium-Term Financial Plan as a mitigation against the uncertain period in which the charity is operating (paragraph 11)
5. Approve the 2021/22 capital and supplementary revenue project budgets (paragraph 16)
6. Note that a revised Medium-Term Financial Plan for the charity will be presented for approval, should the power for total return accounting for endowed charities be granted by Supplemental Royal Charter currently under consideration by the Privy Council's Office – timing to be confirmed (paragraph 15)
7. Endorse this report for onward approval to the Court of Common Council

Main Report

Background

1. Bridge House Estates (BHE) is an unincorporated charitable trust and a registered charity (Registered Charity Number 1035628). It is currently the 7th largest charity in the UK in terms of asset valuation. The charity is permanently endowed which imposes particular restrictions and legal duties on the charity's trustee. The City of London Corporation (the City Corporation), acting by its Court of Common Council, is BHE's sole corporate Trustee.
2. In acting as charity Trustee, the City Corporation has a legal obligation to always act solely in the best interests of BHE. Consistent with their duties, trustees are required to:
 - a. administer their charity with reasonable care and skill;
 - b. act responsibly and honestly and demonstrate that they are complying with the law.

In the current crisis, the Charity Commission has issued guidance advising trustees to keep their charity's operations and finances under regular review and take any additional actions as necessary¹. The starting point for this is stated as always being what is in the charity's best interests.

¹ Charity Commission Guidance "Manage financial difficulties in your charity caused by coronavirus"

3. The primary purpose of this report is to present an update on the BHE budget for 2020/21, the budget for 2021/22 and the Medium-Term Financial Plan (MTFP) covering the period 2022/23 – 2024/25. These have been prepared in line with the policy guidelines and assumptions as set out in Appendix 1.
4. The over-arching strategy for BHE '*Bridging London*', as approved by the Court of Common Council in October 2020, has the vision that '*Every person in London becomes truly connected*'. BHE wants to see a flourishing society, where every person in London is truly connected - physically by world-class sustainable bridges and connected socially and digitally through thriving communities that have access to a diversity of social, cultural and economic opportunities. To achieve this vision, BHE delivers upon its primary object by supporting and maintaining its five Thames bridges, and utilises any available surplus income each year to advance its ancillary purposes – being charitable funding under the '*Bridging Divides 2018-23*' funding policy aimed at tackling inequality. Prior to confirming the level of surplus income, free reserves of £35m are required to be maintained, as approved by Members in March 2020.
5. Members will be aware that this is a transitional period for BHE, as we await approval of the Supplemental Royal Charter (see Appendix 4), and implement agreed actions from the BHE Strategic Review whilst being mindful of the City Corporation's Lisvane Review and Target Operating Model (TOM) recommendations for changes to the Trustee's own internal governance arrangements which will impact upon the charity's management and operation by the City Corporation as Trustee. The new Supplemental Royal Charter is expected to grant powers which would enable gains on investments held within the permanent endowment fund to be utilised as income, with such gains currently not available to support the activities of the charity.

Current Position – update on 2020/21 budget

6. The original budget for BHE was approved prior to the impacts of the Coronavirus pandemic being felt which have had a significant impact on the financial position of the charity. Members are aware of the reductions in investment income alongside the closure of Tower Bridge as a visitor attraction, with the date for reopening in 2021 yet to be announced. The establishment of the London Community Response Fund (LCRF) within BHE's ancillary object has led to charitable funding activities increasing from the original budget of £27.1m to £46.3m (net of external grant income to date to the LCRF of £16.5m). This increase is funded from the unrestricted income fund held by BHE and will lead to a significant in-year deficit. Note that the external LCRF income & grants issued against this have not been included in the forecast figures presented, so as not to distort the financial position.

Table 1: Update on 2020/21 budget
Statement of Financial Activities

	2019/20 Actual £m	2020/21 original budget £m	2020/21 latest forecast £m
Income	46.6	38.4	31.3
Expenditure	(62.8)	(56.5)	(84.6)
	(16.2)	(18.1)	(53.2)
Gains/(losses) on investments/pension scheme	57.9	60.0	(54.0)
Net movement in funds	41.7	41.9	(107.2)
Funds b/f as 01 April 2020	1,494.7	1,536.4	1,536.4
Total funds c/f	1,536.4	1,578.3	1,429.2
Funds of the charity:			
Permanent endowment funds	984.2	1,040.0	903.0
Restricted Funds	2.8	0.0	0.0
Designated funds	440.7	456.7	436.3
Free reserves	108.7	81.6	89.9
	1,536.4	1,578.3	1,429.2

7. The City Bridge Trust (CBT) budget of £125m set for expenditure on the charity's ancillary object under the *Bridging Divides 2018-23* strategy, was set over the five-year period with flexibility to spend those funds as the CBT Committee considered appropriate within that period, subject to annual review. This budget is funded from surplus income earned by BHE in each year. Earlier this year, in responding to the impact of Covid-19 upon the voluntary sector in London, CBT Committee agreed to "re-profile" their five-year *Bridging Divides* budget to increase the sums available for expenditure in 2020/21 (Year 3), thereby reducing the sums available for expenditure in Years 4 and 5. By omission, a decision on this in-year budget adjustment was not referred to P&R and Finance Committees, or to Court. This revised profile is included within the latest forecast for 20/21 (Table 1) and within the MTFP presented in Table 2. As this budget is funded from annual income, this change will require underpinning from the general reserves of BHE.

2021/22 Revenue budget and Medium-term forecast position

Forecast position within current governance arrangements

8. BHE delivers upon its primary object by supporting and maintaining its five Thames bridges, and utilises any available surplus income to advance its ancillary purposes. Gains made on investments representing the unrestricted income funds are available to support both primary and ancillary objectives.
9. The financial overview for 2021/22 and across the medium-term planning horizon is shown in

table 2 below:

Table 2:

Statement of Financial Activities

	2020/21 latest forecast £m	2021/22 budget £m	2022/23 forecast £m	2023/24 forecast £m	2024/25 forecast £m
Surplus/(Deficit) prior to charitable giving	(3.6)	(4.5)	(1.7)	8.3	8.8
Charitable giving	(49.7)	(110.5)	(109.5)	(29.5)	(28.6)
	(53.2)	(115.1)	(111.3)	(21.2)	(19.8)
Gains/(losses) on investments/pension scheme	(54.0)	69.3	68.0	50.9	52.7
Net movement in funds	(107.2)	(45.8)	(43.3)	29.7	32.9
Funds b/f as 01 April 2020	1,536.4	1,429.2	1,383.4	1,340.1	1,369.7
Total funds c/f	1,429.2	1,383.4	1,340.1	1,369.7	1,402.7
Funds of the charity:					
Permanent endowment funds	903.0	946.0	991.0	1,023.0	1,055.0
Restricted Funds	0.0	0.0	0.0	0.0	0.0
Designated funds	436.3	355.9	272.2	275.3	280.1
Free reserves	89.9	81.5	76.9	71.4	67.6
	1,429.2	1,383.4	1,340.1	1,369.7	1,402.7

10. The 2021/22 budget presents a revenue deficit of £115.1m, driven by commitments funded from the grant-making designated fund. A similar deficit level is reported within the following year, with the overall net movement in funds (after gains/losses) also presenting a deficit in these 2 years before turning positive from 2023/24. The level of designated funds held reduces from 2021/22 due to these high levels of grant commitments, so reducing the total asset value of the charity. Members should note that the permanent endowment fund is forecast to have continued growth, which is not available to cover expenditure. Assumptions and key risks for 2021/22 and the planning period include:

Income

- (a) Investment property income is included at levels forecast by the City Surveyor, which included a £600k provision for rent free periods within 2020/21. 2021/22 includes a provision of £1.4m for turnover rents, for tenant categories as defined by the Property Investment Board. Future years are currently maintained at original forecast levels. A potential scenario could be that forecast income reduces by 10%, at which BHE would suffer a £10.5m loss in unrestricted income across the planning period.
- (b) A cautious recovery has been forecast for Tower Bridge tourism activities in 2021/22, with income at roughly 40% of levels prior to the pandemic. Furlough income is not included post 2020/21. A near break-even position is forecast in 2022/23 (after accounting for all applicable central recharges). Over the MTFP period, this equates to a £4.4m net draw on reserves to the charity. With the next reopening date for 2021 unknown as this report is written, caution is required.

Expenditure

- (c) Within previous revenue budgets presented to Members, the annual maintenance costs for the five bridges have been separately stated within capital and supplementary revenue

expenditure forecasts, the exception being operational costs for Tower Bridge. From 2021/22, internal reporting is to be brought in line with statutory reporting, with full costs now presented in revenue forecasts as part of the 'surplus/(deficit) prior to charitable giving' in Table 2 above, shown in detail within appendix 2 as part of charitable expenditure.

- (d) Several additional/increased commitments for BHE have been confirmed during this year for 2021/22, including activities relating to policing (£305k) and enforcement activities (£134k) on the bridges. Of the £1.0m approved in 2018 for the BHE Strategic Review Fund, £959k has been committed. Of this, £155k is budgeted to be spent in 2021/22, with the fund now closed to new bids. Costs for the implementation of activities resulting from the Strategic Review are also budgeted within the year (£275k).
- (e) The above 2021/22 budget and MTFP has assumed that the full £125m approved for the *Bridging Divides* funding policy over five years will be committed, covering up to March 2023. An annual allocation of £25m is currently recommended for the following two years within the MTFP period.

Funds

- (f) Alongside the costs noted at (c), annual transfers to the Bridges Repair designated fund are provided for, to ensure that the charity maintains this fund at the higher of the next five years' forecast expenditure or five years average costs across the 50-year plan. With planned projects having slipped, due to issues such as the Thames Tideway works being accommodated, the balance on this fund currently represents the former.
- (g) The 2021/22 budget and MTFP include an assumption of 4.95% growth (gross of fees) in financial investments, with the majority of this driving gains within the unrestricted income fund due to the basis upon which securities are held. To consider:
 - a. Reductions in this rate of return have minimal impact on the annual deficit however result in lower gains and therefore less unrestricted income funds available to fund the activities of the charity.
 - b. Reductions further create an immediate need to increase amounts set aside within certain designated funds, notably that for bridge replacement, to ensure that sufficient provision is held for the future in a lower return environment.
 - c. The cumulative nature of the bridge replacement fund means that if current/future growth levels reduce, a higher base amount is required to be held.

Appendix 3 sets out the financial impact of reductions in returns from securities for a couple of scenarios of future levels of charitable funding.

- 11. The above analysis of potential impacts highlights the complex and uncertain environment in which BHE exists. Minor movements in assumptions impact directly upon the level of free reserves held, alongside the amounts of unrestricted income required to be held within the established designated funds – notably for future needs of the bridges. The scenarios stated in Appendix 3 lead to the recommendation for Members to consider retaining between £33-

55m of unrestricted income reserves over and above the minimum policy requirement for free reserves of £35m, as agreed by Court in March 2020, as a mitigation against potential income and growth uncertainties across the planning period.

12. Of the additional £200m approved by Court in March 2020, £180m has been assumed to remain available for commitment to application or expenditure for the ancillary objective despite the above uncertainties, with the remaining balance of £20m being retained within the grants designated fund until such time as the charity is able to reconsider its financial position having reflected on the assumptions driving financial performance and undertaken further analysis. Members can be reassured that further review will not prevent CBT from continuing its activities, with a significant sum having been designated for charitable funding. Together, the recommendation here and in paragraph 11 will enable BHE to maintain appropriate levels of reserves to mitigate the risks highlighted in this report.

Impact of potential changes to the Charity's governing documents

13. As stated in Appendix 4, BHE expects to be granted the power to adopt total return accounting for endowment funds within the new Supplemental Royal Charter. The total return accounting approach to investments held within a permanent endowment fund allows any of the increase in the value of the capital investment to be utilised as income. Funds are invested to maximise the return on investment without regard to whether that return is in the form of income or capital appreciation. The trustees decide each year how much of that total return within the endowment fund is released to income for spending against the objectives and how much is retained for investment (within the scope of the powers available to the charity). The allocation is made on an equitable basis to balance the need to fund current activities as well as to invest returns for the future. Trustees can therefore unlock capital gains which would otherwise be retained within the endowment. The decision on how much to spend is subject to an ongoing duty for the trustees to manage their investments in a manner that enables the charity to further its aims both now and in the future, and appropriate limits have been incorporated into the drafting of the new Supplemental Charter provisions.
14. Where a charity holds permanent endowment funds, but does not adopt total return accounting, rigid rules are in place whereby capital gains are reinvested and are unavailable to be spent on objectives. A charity can become less able to meet current needs when income from dividends, rentals etc is low, yet capital gains are high. The term 'asset rich, yet cash poor' would apply, with the potential for less optimal investment decisions being made as a result. This is the current position for BHE, as presented in Table 2, with the permanent endowment fund continuing to grow and the unrestricted income fund reducing.
15. Should the request for total return accounting for endowment funds be approved, revised

financial modelling will be required for BHE. This will reflect the express duty for the Trustee to act in good faith in a manner that will not prejudice the charity's ability to further the primary objective now and in the future. Members are therefore requested to note that a revised MTFP will be prepared for BHE following approval of the new Supplemental Royal Charter. Revisions would also reflect any changes as a result of a revised investment strategy to be adopted for BHE.

Capital and supplementary revenue project forecast expenditure

16. The BHE capital and supplementary revenue project budgets are submitted to the Court of Common Council in March as part of the Summary Budget Book. They comprise forecasts of expenditure against budgets which have been approved to spend in accordance with the relevant governance arrangements. The majority of this expenditure relates to the programme of improvements relating to the charity's investment property portfolio, which includes costs relating to the Climate Action Plan. The total anticipated costs are as stated in Table 4. As stated in paragraph 10(c), bridge repair costs are now incorporated within annual revenue budgets, to match statutory reporting requirements.

Table 4: Capital & Supplementary Revenue Projects

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	Total £'000
Designated Sales Pool	36,836	43,053	23,400	5,800	2,240	1,840	920	114,089
Income Fund	179	454	171	93	91	91	0	1,079
Bridges Repairs	3,640	10,269	5,110	1,560	0	0	0	20,579
	40,655	53,776	28,681	7,453	2,331	1,931	920	135,747

Risk

17. There are risks to the achievement of the budget and forecasts presented, as noted within paragraph 10. Continued careful monitoring of reserve levels is required in mitigation, noting that the income funds available for the ancillary object (charitable funding) will only be that assessed within a financial year as being surplus to that required for the primary object (that required for the maintenance and support of the five bridges now and in the future).

Conclusion

18. The above sets out the uncertain times within which this forecast is presented and reflects on the fact that this is a transitional period for BHE as we await approval of the Supplemental Royal Charter. Members are recommended to approve the revenue budget for 2021/22 and the MTFP for the period 2022/23 – 2024/25 and to approve that the additional allocation of income reserves designated to charitable funding of £200m be maintained, but with £20m retained within the designated fund until a further forecast is presented for review and approval.

As a further mitigation against risk, Members are recommended to maintain unrestricted income funds at between £33-55m above the approved reserves policy of £35m.

Appendices

- Appendix 1 – Financial plan strategy & assumptions
- Appendix 2 – 2021/22 budget & medium-term financial plan
- Appendix 3 – Potential scenarios based on reduced growth rates on financial securities
- Appendix 4 – BHE Strategic Governance Review

Appendix 1

Medium Term Financial Strategy & Assumptions

The strategy and assumptions in relation to Bridge House Estates are all anchored in the best interests of the charity and are as follows:

1. Adhering to a planning framework which focuses on ensuring efficiency and effectiveness within all expenditure, rather than the budget reductions and savings programmes applied to other funds of the City Corporation.
2. With the maintenance and support of the five Thames bridges being the primary objective of the charity, sufficient net income is required to be generated over the medium term to finance both ongoing support and maintenance needs, and to set aside sufficient funds to cover the eventual replacement costs of each bridge in the long term.
3. After the responsibilities relating to the bridges have been met, free reserves are to be maintained at a minimum of £35m with surplus income being available to be utilised for other charitable purposes, undertaken by the City Bridge trust (CBT).
4. Continuing to seek property investment opportunities to enhance income/provide capital appreciation during the year subject to any financing being met from the BHE Designated Sales Pool (DSP). Requirements under the Climate Action Plan that are related to investment properties to be funded from the DSP.
5. Assumptions relating to inflation (as applied to costs relating to the bridges) and investment growth:

	2020-21	2021-22	2022-23	2023-24	Ongoing
Inflation - Pay	2.00%	0.00%	2.00%	2.00%	2.00%
Inflation - Other	2.00%	2.00%	2.00%	2.00%	2.00%
Bank Base Rate	0.10%	0.10%	0.10%	0.10%	0.10%
Securities Growth	4.95%	4.95%	4.95%	4.95%	4.95%
Securities fees	0.75%	0.75%	0.75%	0.75%	0.75%
Property Growth	-10.00%	5.00%	5.00%	3.10%	3.10%
Property Yields (Rental income)	Forecast	Forecast	Forecast	Forecast	Flat

Appendix 2

Medium term financial plan

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	actuals	latest	forecast	forecast	forecast	forecast
	£m	£m	£m	£m	£m	£m
Voluntary income	1.8	0.0	0.0	0.0	0.0	0.0
Charitable activities - Tower Bridge	6.7	1.7	2.7	6.3	6.5	6.9
Investment income:						
- Property Investments	34.6	26.1	26.9	28.6	30.8	32.2
- Financial Investments	2.5	2.4	2.8	2.9	3.0	3.0
- Interest receivable	0.8	0.7	0.4	0.5	0.7	1.0
Total Investment income	37.9	29.2	30.1	31.9	34.5	36.2
Other income	0.2	0.4	0.4	0.4	0.4	0.4
Total income	46.6	31.3	33.2	38.6	41.4	43.5
Raising funds:						
- Property Investments	(10.2)	(9.8)	(9.3)	(9.5)	(9.7)	(9.9)
- Financial Investments	(5.1)	(6.1)	(5.1)	(4.5)	(3.8)	(3.9)
Total expenditure on raising funds	(15.3)	(15.9)	(14.5)	(14.0)	(13.5)	(13.8)
Charitable activities:						
- Repair & maintenance of bridges	(6.5)	(13.1)	(17.5)	(18.9)	(12.0)	(13.3)
- Tower Bridge	(6.2)	(4.8)	(4.7)	(6.3)	(6.4)	(6.5)
- Charitable funding	(33.7)	(49.7)	(110.5)	(109.5)	(29.5)	(28.6)
Total expenditure on charitable activities	(46.4)	(67.5)	(132.7)	(134.7)	(47.9)	(48.3)
Other expenditure - pension scheme costs	(1.1)	(1.1)	(1.1)	(1.2)	(1.2)	(1.2)
Total expenditure	(62.8)	(84.6)	(148.3)	(149.9)	(62.6)	(63.3)
Net (expenditure)/income	(16.2)	(53.2)	(115.1)	(111.3)	(21.2)	(19.8)
Gains/(losses) on investments/pension scheme	57.9	(54.0)	69.3	68.0	50.9	52.7
Net movement in funds	41.7	(107.2)	(45.8)	(43.3)	29.7	32.9
Funds b/f as 01 April	1,494.7	1,536.4	1,429.2	1,383.4	1,340.1	1,369.7
Total funds c/f	1,536.4	1,429.2	1,383.4	1,340.1	1,369.7	1,402.7
Funds of the charity:						
Permanent endowment funds	984.2	903.0	946.0	991.0	1,023.0	1,055.0
Restricted Funds	2.8	0.0	0.0	0.0	0.0	0.0
Designated funds:						
Bridges repairs	41.7	44.7	33.5	23.4	20.9	18.5
Bridges replacement	158.5	168.7	174.5	180.5	186.7	193.2
Grant-making	219.2	201.2	126.0	46.0	45.0	45.0
Social investment fund	20.9	21.3	21.5	21.9	22.3	22.9
Property dilapidations/service charges	0.4	0.4	0.4	0.4	0.4	0.4
	440.7	436.3	355.9	272.2	275.3	280.1
General funds	127.6	109.2	101.1	97.0	91.9	88.5
Pension reserve	(18.9)	(19.3)	(19.7)	(20.1)	(20.5)	(20.9)
Free reserves	108.7	89.9	81.5	76.9	71.4	67.6
	1,536.4	1,429.2	1,383.4	1,340.1	1,369.7	1,402.7

Appendix 3

Potential scenarios based on reduced growth rates on financial securities

Impact	Annual deficit	Unrealised gains	Designated funds	Free reserves
Regular charitable-funding at £25m pa 2023/24 onwards				
Reduction in growth by 1% to 3.95%	Minimal	Reduction of £6-8m pa	Year 1 increase in value required by £19m	Negative free reserves from 2023/24 onwards
Reduction in growth by 2% to 2.95%	Minimal	Reduction of £11-13m pa	Year 1 increase in value required by £44m	Negative free reserves from 2022/23 onwards

Impact	Annual deficit	Unrealised gains	Designated funds	Free reserves
Regular charitable-funding at £15m pa 2023/24 onwards				
Reduction in growth by 1% to 3.95%	Minimal	Reduction of £6-7m pa	Year 1 increase in value required by £19m	Remain positive throughout MTFP period
Reduction in growth by 2% to 2.95%	Minimal	Reduction of £11-12m pa	Year 1 increase in value required by £44m	Negative free reserves in 2022/23, returning to a positive balance of £10-35m

Appendix 4

BHE Strategic Governance Review: relevant updates

The BHE Strategic Governance Review was initiated to assess how the governance of BHE could be enhanced, to ultimately increase the reach and impact of the charity's activities and to model good practice. Relevant tasks to this report are:

Reconstitution of the permanent endowment fund

During the financial year 2017/18, BHE undertook a review of its funds held. This concluded that a substantial portion of the charity's assets were held as permanent endowment, a fund which was reconstituted within the financial statements of the charity. These capital funds must be retained and cannot be spent on the charity's purposes. At present, the endowment fund is invested in property, together with approximately 12% of financial securities held by BHE. Under the current governance powers held by BHE, any capital gains made on the assets that represent the endowment are required to be reinvested and are unavailable to be spent on its objectives. As a result, changes in the value of the investments held within the endowment fund do not impact upon the funding available for activities undertaken by BHE.

Supplemental Royal Charter

The current focus of the Strategic Governance Review is on the additional powers being sought through the Privy Council's Office (PCO) by grant of a new Supplemental Royal Charter. The changes being pursued intend to:

- (a) provide clarity or remove obsolete provisions;
- (b) provide greater flexibility in the application of funds;
- (c) provide more modern and flexible powers in relation to administration; and
- (d) reflect good governance practice.

Relevant to this report is the power being sought to take a total return approach to investments held within the permanent endowment fund, so enabling access to an element of the capital gains that have accrued over recent years. Paragraph 13 of the main report explains the concept of 'total return accounting for endowed charities' and clarifies the impact on a future MTFP. Alongside this is the request for the power to borrow in relation to projects related to the bridges, so providing increased flexibility to BHE in the manner in which it could decide to fund future significant expenditure.