

<b>Committee</b>	<b>Dates</b>
Bridge House Estates Board	04 May 2021
<b>Subject:</b> Bridge House Estates (BHE) Financial Position and budget report	<b>Public</b>
<b>Which outcomes in the BHE Bridging London 2020 – 2045 Strategy does this proposal aim to support?</b>	n/a
<b>Does this proposal require extra revenue and/or capital spending?</b>	<b>No</b>
<b>Report of:</b> The Chamberlain	<b>For information</b>
<b>Report Author:</b> Karen Atkinson, Head of Charity & Social Investment Finance	

### Summary

This report summarises the financial position of BHE as presented to the Court of Common Council for approval on 04 March 2021 and is presented to this Board to provide context for future decision-making. The charity has been impacted financially as a result of Covid-19, with uncertainties on the level of property 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, a cautious approach has been adopted to the release of funds. Following detailed analysis, a decision was taken by Court 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 can be met. Alongside this, it was agreed that free reserves be maintained at between £33-55m above the approved policy level of £35m across the medium term as a further risk mitigation.

### 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 financial position of the charity.

## **Main Report**

### **Background**

1. Members will be aware that, in line with the City Corporation's normal procedures for budget setting, the revenue budget for 2021/22 and the medium-term financial plan (MTFP) covering the period 2022/23 – 2024/25 for BHE was endorsed by the Finance Committee in February 2021, for onward approval to the Court of Common Council in March 2021. This report provides a summary of the financial position as approved by Court, to provide context to Members of the BHE Board for future decision-making.
2. 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 necessary<sup>1</sup>. The starting point for this is stated as always being what is in the charity's best interests.
3. To achieve its over-arching strategy, '*Bridging London*', 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. Prior to confirming the level of surplus income, free reserves of £35m are required to be maintained, as approved by Court in March 2020.
4. Members will note this is a transitional period for BHE, as we await approval of the Supplemental Royal Charter, and implement agreed actions from the BHE Strategic Review whilst being mindful of the City Corporation's Lisvane Review and Target Operating Model (TOM). 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**

5. The 2020/21 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 for lengthy periods. The establishment of the London Community Response Fund (LCRF) within BHE's ancillary object as a collaborative funding mechanism in response to the impact of the pandemic has led to charitable funding activities increasing from the original budget of £27.1m to £46.3m (net of external grant income from other charitable funders 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

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<sup>1</sup> Charity Commission Guidance "Manage financial difficulties in your charity caused by coronavirus"

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

**2021/22 Approved Revenue budget and Medium-term forecast position**

**Forecast position within current governance arrangements**

- 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.

- 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
<b>Funds of the charity:</b>					
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

8. The 2021/22 approved 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 falls 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 are summarised as:

#### Income

- (a) Investment property income is included at levels forecast by the City Surveyor, adjusting for approved provisions for rent free periods and turnover rents. 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 although this will now be impacted by a further period of closure. 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.

#### Expenditure

- (c) From 2021/22, internal reporting is to be brought in line with statutory reporting, with full costs of the planned annual maintenance of the bridges now presented in revenue forecasts as part of the 'surplus/(deficit) prior to charitable giving' in Table 2 above, shown in detail within appendix 1 as part of charitable expenditure.
- (d) 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 reported period.

#### Funds

- (e) 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.
- (f) 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. Reductions in this rate of return would have minimal impact on the annual deficit however would result in lower gains and therefore less unrestricted income funds available to fund the activities of the charity.

9. BHE exists within a complex and uncertain environment. Minor movements in assumptions impact directly upon the level of free reserves held, alongside the amounts required to be held

within the established designated funds – notably for future needs of the bridges. As a result of scenario planning, Court approved in March 2021 the retention of between £33-55m of unrestricted income reserves over and above the minimum policy requirement for free reserves of £35m, as agreed in March 2020, as a mitigation against potential income and growth uncertainties across the planning period.

10. 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.

### **Impact of potential changes to the Charity's governing documents**

11. 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. Should the request for total return accounting for endowment funds be approved, revised financial modelling will be required for BHE and would be presented to this Board for review.

### **Capital and supplementary revenue project forecast expenditure**

12. The BHE capital and supplementary revenue project budgets mainly comprise expenditure relating to the programme of improvements 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.

**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
	<b>40,655</b>	<b>53,776</b>	<b>28,681</b>	<b>7,453</b>	<b>2,331</b>	<b>1,931</b>	<b>920</b>	<b>135,747</b>

## Conclusion

13. The above sets out the uncertain times within which the budget and medium-term financial plan was approved and reflects on the fact that this is a transitional period for BHE as we await approval of the Supplemental Royal Charter.

## Appendices

- Appendix 1 – 2021/22 budget & medium-term financial plan

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## Appendix 1

### Medium term financial plan

	2019/20	2020/21 latest	2021/22	2022/23	2023/24	2024/25
	actuals £m	forecast £m	forecast £m	forecast £m	forecast £m	forecast £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
<b>Total income</b>	<b>46.6</b>	<b>31.3</b>	<b>33.2</b>	<b>38.6</b>	<b>41.4</b>	<b>43.5</b>
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)
<b>Total expenditure</b>	<b>(62.8)</b>	<b>(84.6)</b>	<b>(148.3)</b>	<b>(149.9)</b>	<b>(62.6)</b>	<b>(63.3)</b>
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
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<b>Funds of the charity:</b>						
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
	<b>1,536.4</b>	<b>1,429.2</b>	<b>1,383.4</b>	<b>1,340.1</b>	<b>1,369.7</b>	<b>1,402.7</b>