

Committee	Date
Bridge House Estates (BHE) Board	14 July 2021
Subject: Utilisation of funding within the BHE Grants Designated Fund	Public
Which outcomes in the <i>BHE Bridging London 2020 – 2045</i> Strategy does this proposal aim to support?	1, 2 and 3
Does this proposal require extra revenue and/or capital spending?	No
Report of/ report author: Karen Atkinson, Head of Charity & Social Investment Finance - Chamberlains	For decision

Summary

This report reconsiders the decision taken by Finance Committee in February 2021, as approved by Court in March 2021, which reduced the amount of the additional allocation of income reserves made available for charitable funding from £200m to £180m. As a result of unrealised gains made on the financial investments that represent the unrestricted income reserves as at 31 March 2021, it is recommended that Members of the BHE Board approve a return to the full £200m allocation being made available. In taking this decision, Members can be assured that sufficient allocation has been made for the primary purposes of the charity and that the needs of the reserve policy, with a minimum balance held of £35m, have been satisfied.

Recommendation

It is recommended that Members, in discharge of functions for the City Corporation as Trustee of Bridge House Estates (charity reg. no. 1035628) and solely in the charity's best interests, approve that the full amount of £200m that was allocated to the Grant-making Designated Fund in March 2020 be utilised for charitable funding in support of the ancillary purpose of BHE.

Main Report

Background

1. At its meeting of 16 February 2021, the Finance Committee of the City Corporation approved the following recommendation relating to BHE:

“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”

This recommendation was subsequently approved by the Court of Common Council on 4 March 2021.

2. The original approval of an additional allocation of £200m of the unrestricted income reserves of BHE to grant-making was made by Court prior to the extent of the impact of the Covid-19 pandemic becoming known. The subsequent decision noted above, to reduce the amount available for commitment to application or

expenditure for the ancillary purpose, was taken as part of a cautious approach to the forecast financial impacts upon the charity as a result of the pandemic, with uncertainties on the level of rental income receivable, expected reductions in investment growth and the closure of Tower Bridge as a visitor attraction for lengthy periods.

Current position

3. The draft BHE Annual Report and Financial Statements as at 31 March 2021 has now been produced. Whilst the information presented is subject to audit, the expectation of significant changes to the draft figures presented is low. Members should note that the free reserves held by the charity as at 31 March 2021 are reported as £214.7m, being £179.7m above the approved policy level of £35m. The free reserves level is an increase of £106m on the amount held at the 2020 year-end, being £108.7m. **Appendix 1** presents the various funds held by BHE as at 31 March 2021 (subject to audit).
4. Despite an operational deficit of £41.8m being incurred in the year, alongside transfers to both restricted funds and other designated funds (notably for bridge maintenance & repair) totalling £53.8m, the free reserves held have grown as a result of unrealised gains of £159.6m on the financial investments that represent the unrestricted income fund. The assumptions utilised within forecast modelling had predicted gains of £26.6m.
5. Subsequent to the financial year-end, the value of BHE's financial investment portfolio has increased by a further £21m as at 31 May 2021.
6. To date, other assumptions utilised within the medium-term forecast plan (MTFP) for matters such as inflation & investment growth have not adversely changed. Additional costs attributable to the Blackfriars Bridge refurbishment project have been identified, however these can be contained within the Bridges Repairs Designated Fund. Discussions are taking place regarding remedial works required at Horace Jones House, with a report due to be presented to the September Board meeting. Otherwise, whilst the timing of planned expenditure may change, Members can be confident that the reserve levels held are more than adequate to address unforeseen challenges.
7. Members will be aware that the Charity Commission expects charities to spend reserves held within reasonable timescales, and not to hold on to income generated for a 'rainy day'. It is therefore recommended, given the level of free reserves held, that the cautious approach adopted earlier this year be rescinded, with approval now given for the full allocation of £200m that was transferred in March 2020 to the Grants-making Designated Fund to be utilised for the ancillary purposes of BHE.
8. On a separate matter, Members will further be aware that the power for total return accounting for endowed charities is being sought within the Supplemental Royal Charter currently under consideration by the Privy Council's Office. This power allows consideration for increases in the value of capital held within the endowment to be utilised as income. The commitment remains for a revised MTFP to be

produced should this power be granted. This will enable further consideration of the future application of reserves held by BHE, with the timing for this review also enabling initial consideration of potential impacts on investments held as a result of the Climate Action Strategy to be included.

Conclusion

9. Members are recommended to approve that the full amount of £200m that was allocated to the Grant-making Designated Fund in March 2020 can be utilised for charitable funding in support of the ancillary purpose of BHE. In taking this decision, Members can be assured that sufficient allocation has been made for the primary purposes of the charity and that the needs of the reserve policy, with a minimum balance held of £35m, have been satisfied.

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Background paper:

Finance Committee 16 February 2021: Bridge House Estates – Revenue Budget 2021/22 and Medium-Term Financial Plan

Appendix 1:

Analysis of movement in funds held as at 31 March 2021

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Analysis of movement in funds held as at 31 March 2021

At 31 March 2021	Total as at 1 April 2020 £m	Income £m	Expenditure £m	Gains & losses £m	Transfers £m	Total as at 31 March 2021 £m
Endowment Funds	984.2		(0.4)	(4.3)	-	979.5
Total Endowment Funds	984.2	-	(0.4)	(4.3)	-	979.5
Restricted Funds	2.8	15.4	(28.7)	-	14.3	3.8
Total Restricted Funds	2.8	15.4	(28.7)	-	14.3	3.8
General Funds	127.6	32.0	(23.0)	159.6	(53.8)	242.4
Pension Reserve	(18.9)	-	(2.3)	(6.5)	-	(27.7)
Total General Funds	108.7	32.0	(25.3)	153.1	(53.8)	214.7
Property Dilapidations	0.4	-	-	-	-	0.4
Bridges Repairs	41.7	-	(8.8)	-	15.2	48.1
Bridges Replacement	158.5	-	-	-	10.2	168.7
Grant-making	219.2	-	(26.4)	-	14.1	206.9
Social Investment Fund	20.9	0.4	-	0.2	-	21.5
Total Designated Funds	440.7	0.4	(35.2)	0.2	39.5	445.6
Total Unrestricted Income Funds	549.4	32.4	(60.5)	153.3	(14.3)	660.3
Total Funds	1,536.4	47.8	(89.6)	149.0	-	1,643.6

The free reserves of the charity are identified within this table as 'total general funds'.