

Committees: Audit and Risk Management – For decision	Dates: 30 November 2021
Subject: Bridge House Estates Annual Report and Financial Statements 2020/21	Public
Report of: The Managing Director of BHE and 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 2021 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. The Audit Panel is scheduled to present its feedback the Chamberlain. BDO LLP intend to issue an unqualified opinion.

The key points to highlight within the financial statements are:

- the funds of the charity are split between the permanent endowment fund (£979.5m), unrestricted income funds (£659.9m) and a restricted income fund (£3.8m) with total funds (net assets) held being £1,643.2m – an increase of £106.8m or 7.0% on the previous year;
- the net surplus for the year of £113.3m includes gains on financial investments of £178.7m, small gains on social investments of £0.2m and losses on property investments of £23.4m;
- Grant-making activities and associated spend reaching a record high for the charity at £58.6m, with £57.4m of this being new grant commitments; and
- increased investment in the industrial sector with the purchase of the Viper Estate in Romford; and
- the accounting policies note include expanded disclosures on estimates and judgements relating to investment properties, financial investments, and social investments.

BDO LLP commenced its audit on 28 June 2021, conducting their work remotely. The work stalled due to sickness to senior members of the audit team, picking up again in mid-September with the appointment of a new audit partner. BDO's representatives will attend 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 (Report to follow);
- Recommend approval of the BHE Annual Report and Financial Statements for the year ended 31 March 2021 to the BHE Board; and
- Delegate authority to the Managing Director of BHE and the Chamberlain, in consultation with the Chair and Deputy Chair of the BHE Board, 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 2020/21 Annual Report and Financial Statements for BHE for the year ended 31 March 2021 are presented for review.

The Charity Commission require charities to submit their annual report within 10 months of their financial year-end. 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 the 2020/21 annual report and financial statements will be undertaken by the Court of Common Council, following review by the BHE Board, as per the terms of reference in place. In previous years, approval of BHE's annual reports and financial statements was delegated to the Finance Committee by the Court of Common Council. Following approval by Court, the BHE Annual Report will be signed by the Chair and Deputy Chair of the BHE Board.

Audit Opinion

3. BDO LLP intend to issue an unqualified audit opinion. It will reference the work undertaken to increase assurance that the financial statements, taken as a whole, are free from material misstatements whether caused by fraud or error.

Statement of Financial Activities

4. Income for the year came to £47.4m, an increase of £0.8m (1.7%) on the previous year.

5. Restricted grant income for the year was £15.4m (2019/20: £1.8m) with £15.0m donated by various funders towards the London Community Response Fund (LCRF). The balance of £0.4m was donations received from other funders towards the Cornerstone Infrastructure programme and the Responding to Resilience Risk programme.
6. The combined income derived from visitor admissions, retail, and events at Tower Bridge, reported within income from charitable activities, reduced to £0.5m from the previous year's £6.7m due to the required closures of the visitor attraction during the year.
7. Investment income principally comprises the rental and other related income earned from the property portfolio held by the charity, which is currently all held within the endowment fund. For 2020/21, such income totalled £27.0m, a reduction of £7.6m against the previous year (2019/20: £34.6m). The charity worked to support its tenants during the pandemic, approving rent-free periods and reduced rents for categories of tenant whose businesses were significantly impacted. The previous years' income was unusually high due to inclusion of a £3.1m surrender payment following a tenants' early exit from a lease
8. Income arising from financial investments held on a non-pooled basis is reported within the statement of financial activities, at £2.5m (2019/20: £2.5m). Interest earned from social investments and treasury deposits held makes up the balance of investment income, at £0.9m (2019/20: £0.8m).
9. The charity was a beneficiary of the Government's Coronavirus Job Retention Scheme, more commonly known as the 'furlough scheme', with the £0.8m received to support staff as disclosed within other income.
10. Other income of £0.3m includes fees received by City Bridge Trust (CBT) to undertake grant administrative services on behalf of other organisations (2019/20: £0.2m).
11. Total expenditure for the year was £89.6m, an increase of £26.8m on the prior year (£62.8m). This uplift in spend was driven by the increased grant-making commitments in the year following the establishment of the LCRF in March 2020. Together with the donations received from other funders across London, BHE utilised £15.2m of its own funds to enable a total of £28.3m grants to be approved in the year, alongside the costs of administration, within this restricted trust.
12. Expenditure on raising funds reduced slightly to £15.0m (2019/20: £15.3m), with these costs relating to the management of the charity's investments. Whilst the costs attributable to the property investments reduced, following the significant increase to the bad debt provision required last year because of the Covid-19 pandemic, the costs of the financial investment portfolio increased in the year with the inclusion of

one-off performance fees.

13. The spend on charitable activities covers that of supporting and maintaining the bridges, the operational costs of Tower Bridge as both a working bridge and a visitor attraction, and the grant-making activities undertaken under the name of CBT. Expenditure for 2020/21 totalled £72.3m, compared to the previous year's £46.4m. Within this, spend on the five Thames bridges totalled £9.4m (2019/20: £6.5m), including that on a major maintenance project on London Bridge which was successfully completed within budget despite the impacts caused by the pandemic. The design and tender process for the planned refurbishment of Blackfriars Bridge was completed in the year, with work soon to start this year. The spend in year on Tower Bridge was contained as much as possible due to the closures enforced as a result of the various lockdowns during the period under review. The furlough grants received for staff unable to work during these closure periods are shown within other income, as opposed to being netted off expenditure. Grant making activities and related spend achieved a record annual high for the charity at £58.6m, with the spend in 2019/20 of £33.7m having been the previous record. In addition to the £28.3m grants committed within the LCRF restricted fund, noted above, a further amount of £26.9m was committed under the Bridging Divides funding policy.
14. Other expenditure covers the net costs of the pension scheme for the staff of the City Corporation that work on behalf of the charity.
15. Net gains on investment properties and financial investments totalled £155.5m (2019/20: £63.3m), split between gains on financial investments of £178.7m, small gains on social investments of £0.2m and losses on property investments of £23.4m.

Balance Sheet

16. The Balance Sheet presents the increase in total funds held by the charity of £106.8m, resulting in a year-end total of £1,643.2m. This has been driven by the gains noted above. Total funds held comprise:
 - a. the permanent endowment fund at £979.5m, 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 £659.9m, being net of the pension deficit of £27.7m. An element of the unrestricted income fund has been designated for agreed purposes, as noted in section 18 below; and
 - c. a restricted fund of £3.8m held at the year-end, being the balance

of donations received from various funders and a contribution by BHE, after grant commitments to LCRF and the Cornerstone fund and the Resilience to Risk programme.

17. 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 £445.6m (2020: £440.7m), 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 2020/21 £15.2m was transferred to this fund with £48.1m now set aside to cover costs planned over the next five years (2020: £48.1m);
- 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 £10.2m to £168.7m (2020: £158.5m);
- 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. The balance on the grant-making fund at year-end is £206.9m (2020: £219.2m), a decrease of £12.3m. The charity utilised both unrestricted and restricted funds during the year in achieving its highest ever level of giving in a single year; 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.

18. Deducting the designated funds from the total unrestricted income funds results in a remaining balance of £214.3m, being the free reserves of the charity. Amounts held are £124.3m above the current revised policy, following a strong performance by the investments in which the unrestricted income funds are held. The current revised policy permits an additional amount of up to £55m (giving a total of £90m) to be held due to the uncertainties resulting from the Covid-19 pandemic. This amount is subject to annual review. The Trustee remains cautious on the long-term impacts of the Covid-19 pandemic across its investment portfolio, noting the potential risk of future realised losses, and against the potential of increased future construction costs and continues to review plans for the future use of reserves held.

Accounting Estimates and Judgements

19. Following discussions with BDO, additional disclosures are now included within the Accounting Policies Note of the BHE Annual Report and Financial Statements 2020/21. These expanded disclosures explain key judgements underpinning the valuation of Investment Properties, Financial Investments and Social Investments. This change has been included to demonstrate best practice and provide greater clarity on the valuation methods of all investments held at Balance Sheet date.

Audit Progress

20. BDO's audit work is substantially complete, apart from final reviews prior to sign-off. It is anticipated that the audit will be concluded satisfactorily to enable BDO to issue an unqualified opinion as stated within paragraph 3 of this report.

21. The Audit Panel review took place on 19 November 2021, with the result due to be communicated with the Chamberlain on 29 November 2021. It is expected that the review will be concluded satisfactorily with no concerns. BDO representatives will attend the Audit and Risk Management Committee to present their completion report, update on the status of the audit and to clarify any points or issues raised.

Conclusion

22. The Audit and Risk Management Committee are requested to recommend for approval the Annual Report and Financial Statements to the BHE Board. The Chair and Deputy Chair of the BHE Board will sign the Annual Report following Court approval on behalf of the trustee.

23. 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 (to follow)