

Committees:	Dates:
Bridge House Estates Board Court of Common Council – for decision	16 February 2022 10 March 2022
Subject: Bridge House Estates (BHE) (Reg. Charity No. 1035628) – Revenue Budget 2022/23 and Medium-Term Financial Plan	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: The Managing Director of BHE and The BHE & Charities Finance Director (representing the Chamberlain)	For decision
Report Author: Karen Atkinson, BHE & Charities Finance Director	

Summary

This report updates on the 2021/22 latest forecast and presents the 2022/23 revenue budget and Medium-term Financial Plan (MTFP), covering financial years 2023/24 – 2025/26, for Bridge House Estates (BHE).

The past year has been one of significant change for the charity in terms of its governance, with the establishment of the BHE Board. Operationally, the focus has been on managing the impacts of the pandemic, be that with the reopening of Tower Bridge as a visitor attraction in May 2021, keeping on track with our bridge maintenance programme or reviewing our funding programmes to meet specific needs of Londoners. Economic factors, such as increasing inflation, low interest rate levels and the impacts of the Government's plans to address the pandemic continue to cause uncertainties for the cost of various projects, the Tower Bridge visitor operations and the ability of our investments to raise sufficient income to undertake plans.

The previous and ongoing prudent management of unrestricted income funds by the City of London Corporation acting as BHE trustee has ensured that the charity continues to have 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 revised approach to the longer-term release of surplus income for this purpose; noting the requirement for a charity to utilise its free reserves on a timely basis.

In line with the agreed Climate Action Strategy, options are presented to designate a sum within unrestricted income funds to progress the work to achieve the targets set for Net Zero,

considering improving the charity's investment property portfolio's sustainability alongside a focus on projects supporting our bridges.

Options are provided in respect of the level of free reserves to be maintained across the planning period: the recommendation being that an amount above the agreed minimum policy level of £35m should be held, as a risk mitigation (with scenario planning suggesting that these funds may be required to meet the primary objective). Members should note the future opportunity available to BHE in utilising investment growth within the permanent endowment fund as income, upon the express grant of relevant powers within the new Supplemental Royal Charter.

Recommendations

It is recommended that Members, in discharge of functions for the City Corporation as Trustee of BHE (charity no. 1035628) and solely in the charity's best interests:

1. Note the latest revenue forecast for 2021/22 (paragraphs 7 to 10);
2. Approve the 2022/23 revenue budget and Medium-Term Financial Plan for period 2023/24 – 2025/26 (paragraphs 11 to 14);
3. Approve the creation of a designated fund for the Climate Action Strategy and consider the options for the amount to be moved to this fund from the Unrestricted Income Reserves. The amount held within this designated fund to be reviewed on an annual basis with permitted spend in any year to be within the full balance available in the designated fund (paragraph 14(m));
4. Consider the options for the level of free reserves to be maintained over and above the agreed minimum 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 15);
5. Approve the 2022/23 capital and supplementary revenue project budgets, which have been included within the calculations for reserves (paragraph 19);
6. Approve that all departments within the City Corporation managing budgets on behalf of BHE prepare these for 2023/24 under a zero-based budgeting basis (paragraph 21);
7. Note that a revised Medium-Term Financial Plan for the charity will be developed, once the power for total return accounting for endowed charities is granted by Supplemental Royal Charter, currently under final approval by the Privy Council's Office (paragraph 18); and,
8. Endorse this report for onward approval to the Court of Common Council.

Main Report

Background

1. BHE is an unincorporated charitable trust and a registered charity (Registered Charity Number 1035628). The charity is permanently endowed which imposes particular restrictions and legal duties on the charity's 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; and
 - b. act responsibly and honestly and demonstrate that they are complying with the law.

As a result of the Covid Pandemic, the Charity Commission issued guidance advising trustees to keep their charity's operations and finances under regular review and take any additional actions as necessary¹. As we continue to deal with the pandemic, our regulator expects both this and their routine guidance to be applied with regular assessment and monitoring of the overall financial position and funds being used to deliver the charity's objects.

3. This report presents an update on the latest forecast for 2021/22, the budget for 2022/23 and the Medium-Term Financial Plan (MTFP) covering the period 2023/24 – 2025/26. 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*' has the vision that '*Every person in London becomes truly connected*'. 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, appropriate free reserves must be agreed and maintained (e.g. £35m was approved by Members in March 2020 with an additional £55m for 2021/22).
5. The Board will be aware that this continues to be a transitional period for BHE, as we await approval of the Supplemental Royal Charter (see **Appendix 5**), embed the BHE Leadership Team structure (effective from 04 January 2022) and continue to review the resourcing needs and operating costs across the charity. Building upon the lessons

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

learned in 2021, BHE will continue to fulfil its role in bridging and connecting London, for the benefit of Londoners today and for generations to come. BHE will use a joined up strategic approach to advance its primary and ancillary objects, collaborating more cohesively as one charity across all its activities, and working closely with the City Corporation as its Trustee. The charity will:

- continue to keep its operating governance structure under review to ensure that it operates effectively and efficiently; and, in accordance with best practice in charity governance;
- deliver excellent bridge engineering management services for all five Bridges; and
- utilise its expertise in charitable funding to support a reduction in inequality in London and to foster stronger, more resilient and thriving communities.

6. The budget and medium-term plan presented today are well placed to support this strategy.

Current Position – update on 2021/22 budget

7. The original 2021/22 budget anticipated an in-year deficit of £115.1m, with total funds of the charity being £1,383.4m of which free reserves were budgeted at £81.5m. Subsequent to the budget being approved, the opening free reserves were agreed at a higher level, with the gains on investments for 2020/21 recognised at £178.7m (£147m above budget). Due to this stronger than expected performance, BHE was better placed at the starting point for the current year than expected.
8. The latest forecast presents an in-year deficit of £37.5m, with **Table 1** depicting the summarised revenue position alongside detail of the funds of the charity. The in-year dashboard presenting the financial position as at 31 December 2021 is included at **Appendix 2**. Note that total funds brought forward at 1 April 2021 has been updated within the original budget to match the actual amount held. The income of the charity was unusually high in 2020/21 due to the receipt of £13.1m of grants for distribution under the London Community Response Fund.

Table 1**Current position - update on 2021/22 budget****Statement of Financial Activities**

	2020/21 Actual £m	2021/22 original budget £m	2021/22 latest forecast £m
Income	47.4	33.2	32.5
Expenditure	(89.6)	(148.3)	(70.0)
	(42.2)	(115.1)	(37.5)
Gains/(losses) on investments/pension scheme	149.0	69.3	69.3
Net movement in funds	106.8	(45.8)	31.8
Funds b/fwd as at 01 April	1,536.4	1,643.2	1,643.2
Total funds c/f	1,643.2	1,597.4	1,675.0
Funds of the charity:			
Permanent endowment funds	979.5	946.0	1,022.6
Restricted Funds	3.8	0.0	0.4
Designated funds	445.6	355.9	445.7
Free reserves	214.3	295.5	206.3
	1,643.2	1,597.4	1,675.0

9. The most significant change in-year has been within charitable funding, with commitments & associated costs expected to be £75m lower than budget. An interim review of the Bridging Divides programme led to a revised timeline with increased commitments now anticipated to be spread across a 4-year period (2021/22 – 2024/25), reducing back to a lower amount from 2025/26 onwards.

10. Other changes to note include:

- a. Income: investment income reduced by a net £1.1m (Properties - £1.4m/Securities, SIF & cash +£0.3m), with the reduction in rental & service charge income reflecting rent free periods, exercise of lease breaks & property voids due to the delayed completion of refurbishments, in particular Candlewick House (120 Cannon Street) due to factors including the pandemic; partially mitigated by Tower Bridge visitor activities uplift of £0.4m following stronger than anticipated visitor numbers.
- b. Expenditure on raising funds: net increase of £0.9m, driven by increased management fees on securities due to higher values of assets held. Netted against this is savings on various operational costs within the property portfolio.
- c. Expenditure on charitable activities: in addition to the reduction in grant commitments noted above, bridges expenditure is reporting a total decrease of £4.4m driven by a delay in the timeline for the High Voltage System replacement at Tower Bridge and for the refurbishment of Blackfriars Bridge, alongside

savings at Millennium Bridge with work on the retention cables not required as anticipated.

2022/23 Revenue budget and Medium-term forecast position

Forecast position within current governance arrangements

11. 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. Only the gains made on investments representing the unrestricted income funds are available to support the primary and ancillary objectives.

12. An overview of the proposed budget for 2022/23 and across the medium-term planning horizon is shown in **Table 2** below, with **Appendix 3** providing further detail:

Table 2

2022/23 Budget & Medium Term Financial Plan

Statement of Financial Activities

	2021/22 latest forecast £m	2022/23 budget £m	2023/24 forecast £m	2024/25 forecast £m	2025/26 forecast £m
Surplus/(Deficit) prior to charitable giving	(2.0)	(14.6)	(4.5)	(9.2)	10.6
Charitable giving	(35.5)	(108.5)	(101.3)	(78.4)	(47.4)
	(37.5)	(123.1)	(105.8)	(87.6)	(36.8)
Gains/(losses) on investments/pension scheme	69.3	93.3	87.5	69.4	68.0
Net movement in funds	31.8	(29.8)	(18.2)	(18.3)	31.2
Funds b/fwd as 1 April	1,643.2	1,675.0	1,645.2	1,627.0	1,608.7
Total funds c/fwd	1,675.0	1,645.2	1,627.0	1,608.7	1,639.9
Funds of the charity:					
Permanent endowment funds	1,022.6	1,077.3	1,129.7	1,166.2	1,202.9
Restricted Funds	0.4	0.0	0.0	0.0	0.0
Designated funds	445.7	362.1	305.0	265.9	275.1
Free reserves	206.3	205.8	192.3	176.6	161.9
	1,675.0	1,645.2	1,627.0	1,608.7	1,639.9

13. The 22/23 budget and future forecast has been produced in a period of economic uncertainty, with inflation running high and the government's varying plans to address the pandemic having impacted on many aspects of daily life. In part due to this, the central contingency² held has been increased by £2.2m to £3.3m to provide for potential risks that may arise, as detailed in para 14 (i). However, BHE's strong reserves position has enabled the charity to continue to pursue its current strategy, supported by a higher than expected level of free reserves held as at April 2021 together with continued strong performance within gains on the investments that represent these reserves.

² Annual budgets prepared by departments for the activities of BHE that are within their responsibility do not hold any significant contingencies. The budgets directly overseen by the BHE Board include central contingencies to meet unforeseen and/or exceptional items that may be identified across the range of activities undertaken by the charity.

14. A revenue deficit of £123.1m is presented for 2022/23. The Grant commitments included are funded from the grant-making designated fund, which includes the balance of the £200m allocated by Court in March 2020. Deficits are reported across each year under review, with the grants designated fund planned to reduce to £40m by 2025/26. Assumptions and key risks for 2022/23 and the planning period include:

Income

- (a) A breakeven position is forecast for Tower Bridge tourism activities, ahead of accounting for all applicable central recharges from other departments. This places income at 60% of levels experienced prior to the pandemic. With international travel remaining limited as a result of the pandemic, this cautious approach remains appropriate as the charity works towards the continued recovery of Tower Bridge's tourism and education offering.
- (b) Investment property income is included at levels forecast by the City Surveyor, which reflects expected delays in the reletting of refurbished properties following the impact of the pandemic on the occupational market. Notable is the impact from Candlewick House (120 Cannon Street) with the increased vacancy period reducing rental income that would have been received in 2022/23 by £1.4m.
- (c) The majority of financial investments are held on a total return basis, with growth recognised 'below the line' within gains. For those holdings that do generate income, a return of 1.1% has been incorporated.
- (d) Voluntary income, at £0.1m, includes grants from known partnerships at the time of preparation of the budget. Should further collaborations arise during the year, adjustments will be made within future forecasts.

Expenditure

- (e) Key projects within the bridges' maintenance expenditure include the repainting and refurbishment of Blackfriars Bridge, a project that commenced in 2021/22 with a total budgeted works cost of £12m across 3 years; continuation of the high voltage system replacement project at Tower Bridge, with timing for this extended into 2022/23; alongside enhancements to the security systems across the bridges. Addressing several outstanding maintenance issues within operational buildings linked to Tower Bridge is further included in the budget at £1.5m.
- (f) As noted in paragraph 9, plans for commitments against the surplus income allocated to the grant-making designated fund are now spread across a four-year period. Expenditure is expected to peak across both 2022/23 and 2023/24 at close to £100m in each year. With CBT adopting a more collaborative approach, timings may vary as plans are developed with other funders. As to be expected, the costs associated with funding activity increase across this period. These remain within 10% of commitments made.

- (g) The costs of managing the investments of the charity remain fairly stable across the planning period. 2021/22 saw an increase in the cost of managing the financial investment portfolio, with fees being based upon performance levels. Should returns continue to grow at similar levels, fees will increase. The analysis of contingency balances at Para 14(i) notes a provision for refurbishment costs should property void levels increase.
- (h) 2022/23 will be the first full year with the BHE leadership team established, with the budget assuming all roles being covered on either a permanent or interim basis. The costs of this team, alongside other central BHE roles, are recharged across the expenditure headings of the charity in accordance with activity levels. Analysis of the needs for staffing to support the leadership team is yet to commence, with possible impacts upon resourcing to be considered in due course. A full review of the operational costs of the charity, including those recharged from the City Corporation, is planned to commence during 2022/23.
- (i) As stated in para 13, the contingency balances held within the 2022/23 budget have been reviewed in light of the ongoing impacts of the pandemic. Following discussions, consistency has been sought where appropriate in the treatment of potential issues that are common across all Funds managed by the City Corporation. The following contingency balances are held by BHE:

Table 3

Summary of BHE contingencies for budget & MTFP

	21/22	22/23	23/24	24/25	25/26
	£000	£000	£000	£000	£000
Central contingency	850	850	867	884	902
Apprentices	175	142	145	148	151
Contribution pay	-	-	50	51	52
Joint projects with other Funds of the City Corporation	50	50	51	52	53
Properties - refurbishment of void spaces	-	500	-	-	-
Climate action strategy	-	500	2,000	2,000	2,000
Inflationary increases	-	1,259	742	394	402
	1,075	3,301	3,854	3,529	3,560

Additional sums have been set aside to enable refurbishments to take place should there be an increase in void periods within the property portfolio, enabling the Board to release these against future forecasts should the need arise without the need to reconsider other plans. Regarding inflation, the budget is based upon an uplift of 2%, with a central contingency providing for an additional 3% across relevant expenditure in 22/23. Provision for up to 4 apprentices has been included. £500k has been included to provide the charity with the option to advance works within its directly managed investment property portfolio to address the targets set within its Climate Action Strategy, in particular achieving EPC 'B' by 2030 and net zero carbon by 2040. Further

flexibility is proposed with the establishment of a designated fund for the Climate Action Strategy (para 14(m)). The central contingency retained for as yet unknown requests has been held at £850k, noting that £610k of the balance for 2021/22 has been utilised to date. Inflationary uplifts are applied to future years across the planning period.

- (j) The above 2022/23 budget and MTFP have assumed that the full £125m approved for the Bridging Divides policy over five years (2018 – 2023) will be committed, alongside the additional £200m allocation approved by Court in March 2020. Noting the value of free reserves available, an increased annual allocation to £40m is proposed for the following three years of the MTFP period, noting the requirement for the charity to utilise surplus income funds.

Funds

- (k) Alongside the bridges expenditure included within the revenue budget, annual transfers to both the Bridges' Repair and Bridges' Replacement designated funds are provided for, to ensure that the charity maintains these funds at appropriate levels to meet future need. Increased inflation at 5% & 3% respectively has been applied to the amounts set aside for 2022/23 & 2023/24.
- (l) The 2022/23 budget and MTFP include an assumption of 6.11% 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 these investments are held. To note:
 - 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 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 4 sets out the financial impact of reductions in returns from financial securities for a couple of scenarios of future levels of charitable funding.

- (m) To enable BHE to further progress and potentially accelerate delivery of its Climate Action Strategy (CAS), it is proposed that Members of the Board consider establishing a designated fund within the unrestricted income reserves of the charity. Members have indicated they are supportive of early achievement of the targets to reach Net Zero. Where possible, the charity would look to advance work required to reach our ambitious targets, notably - but not exclusively - within our directly managed investment property portfolio. Funds set aside within this designated fund would provide the charity with the flexibility to fast forward works where deemed by the BHE Board to be effective and appropriate. Surveys are currently being undertaken across our property portfolio.

Earlier reports suggested the potential for costs of approx. £9m to achieve the 2030 deadline, although these used benchmark costs applied across floor area which are not considered to be sufficiently accurate, hence the need for the surveys of each building. Whilst some of these costs may be incorporated within refurbishment projects, Members may consider designating funds to cover actions resulting from the surveys that can be addressed at an earlier timeline. Detailed work on the needs of our bridges as we move to Net Zero is yet to be undertaken to inform this decision. The options presented for consideration in moving unrestricted income funds to this designated fund are:

- a. Option 1: to move £5m, as an initial provision towards costs relating to the investment property portfolio
- b. Option 2: to move £10m, to provide for the initial estimate relating to the investment property portfolio, alongside a contribution towards projects relating to the bridges
- c. Option 3: to move £15m, to provide as stated in Option 2 with a further statement of intent to cover projects within the charity

Timelines and specific projects for utilisation of this designated fund can be developed in line with progress of this challenging strategy. The decision for Members is whether they wish to prioritise funding Climate Action requirements ahead of other potential usage of surplus income under the Bridging Divides funding policy, with the aim of earlier achievement of Net Zero targets. Future additions or reductions to designated funds can be approved within the annual budget setting process.

Officers recommend Option 2, which designates an amount based upon previous work undertaken to assess requirements within the property portfolio noting that this full balance would not be required for immediate expenditure plans.

- (n) Whilst £500k has been included within the contingency budget for both 2022/23 and future years across the planning period, the CAS designated fund will be available to manage additional requirements identified during both this and subsequent years. The BHE Board will be presented with a proposal on the operation of this fund, should the designation be recommended for approval, which will include the approval of individual bids.

- 15. The above analysis of potential impacts highlights that the charity continues to exist within an uncertain environment, albeit with the benefit of currently holding free reserves above the latest target set of £90m. Minor movements in key 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 4** lead to the recommendation for Members to consider various options in retaining between £29 -

74m 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. The options for consideration are:

- a. Option 1: to hold additional free reserves of £29m, reflecting a reduction in financial investments growth of 1% giving a total of £64m
- b. Option 2: to hold additional free reserves of £74m, reflecting a reduction in financial investments growth of 2% giving a total of £103m
- c. Option 3: to hold additional free reserves of £55m, maintaining the current approved level of free reserves of £90m

Officers recommend Option 3, to maintain the current level of free reserves within the reserves policy of the charity noting that a further review will take place once the new Supplemental Royal Charter is in place.

Impact of future changes to the Charity's governing documents

16. As stated in **Appendix 5**, it is anticipated that BHE will 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.

17. 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** and in **Appendix 3**, with the permanent endowment fund

continuing to grow in proportion to the value of total funds held, and the unrestricted income fund reducing.

18. Once the power for total return accounting for endowment funds is in place within the charity's governing documents, revised financial modelling will be developed 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 deliver 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 the revised Investment Strategy Statement to be adopted for BHE with the next steps for this having been agreed at the November 2021 Board meeting. This will include consideration of matters such as diversification of investment assets and the weighting across each of the funds held by the charity. Consideration of the required level of free reserves to be held will form part of these considerations, including proposals to meet the target level proposed.

Capital and supplementary revenue project forecast expenditure

19. The BHE capital and supplementary revenue project budgets comprise forecasts of expenditure which have been approved for various capital projects, alongside indicative costs of future projects. The majority of this expenditure relates to the programme of improvements relating to the charity's investment property portfolio, which includes potential costs relating to the Climate Action Plan (some of which Members may decide are to be funded from within the designated fund for Climate Action, should this be approved). The total anticipated costs are as stated in **Table 4**. Bridge repair costs are incorporated within annual revenue budgets, to match statutory reporting requirements.

Table 4: Capital & Supplementary Revenue Projects

	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Investment Properties	28,783	30,856	13,689	15,390	-	88,718
Shared projects with CoL	448	126	132	471	471	1,648
Bridges Repairs	6,549	13,775	5,292	460	-	26,075
	35,779	44,757	19,113	16,321	471	116,441

Risk

20. There are risks to the achievement of the budget and forecasts presented, as noted within paragraph 14. 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).

Future basis of budget preparation

21. At present, the basis upon which the budget presented to you is prepared under varying styles for the different activities within BHE. Zero based budgeting is adopted for some – notably for Tower Bridge and CBT – where the starting place is effectively a blank sheet of paper, building up the planned activities for the year against the approved strategy with all amounts requiring justification. For other areas, the traditional approach within the City Corporation is to commence with the previously approved budget and adjust for known changes. Zero based budgeting has a number of advantages, including increased transparency and a clearer link to the latest strategy. Members are recommended to approve that all departments within the City Corporation managing budgets on behalf of BHE prepare these for 2023/24 under a zero-based budgeting basis, being consistent with a change recommended by the Finance Committee of the City Corporation.

Conclusion

22. The above sets out the continued uncertain times within which this budget and 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 and embed the new leadership team. Members are recommended to approve the revenue budget for 2022/23 and the MTFP for the period 2023/24 – 2025/26, alongside the capital and supplementary revenue spend budgets. As a further mitigation against risk, Members are recommended to consider maintaining unrestricted income funds at between £29 - 74m above the approved reserves policy of £35m, dependent upon the preferred option recommended. Members are also recommended to consider designating a sum in support of the delivery of the Climate Action Strategy. The MTFP proposed is subject to redevelopment once the new governance powers are in place, following granting of the Supplemental Royal Charter, with the reserves policy also to be reconsidered.

Appendices

- Appendix 1 – Financial plan strategy & assumptions
- Appendix 2 – Financial Reporting Dashboard as at 31 December 2021
- Appendix 3 - 2022/23 budget & medium-term financial plan
- Appendix 4 – Potential scenarios based on reduced growth rates on financial securities
- Appendix 5 – BHE Strategic Governance Review

Appendix 1

Medium Term Financial Strategy & Assumptions

The strategy and assumptions in relation to Bridge House Estates (BHE) 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 object 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 (save for Tower Bridge which is differently maintained due to its' world class status) 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 both the DSP and any potential designated sum to be agreed by the BHE Board, subject to approval.
5. Assumptions relating to inflation (as applied to costs relating to the bridges) and investment growth included within the main budget (additional provision for inflation held within contingencies):

	21/22	22/23	23/24	24/25	Ongoing
Inflation	2.00%	2.00%	2.00%	2.00%	2.00%
Bank base rate - average	0.10%	0.93%	1.25%	1.50%	1.63%
Securities growth	4.47%	6.11%	6.11%	6.11%	6.11%
Securities fees	0.75%	0.61%	0.61%	0.61%	0.61%
Property growth	4.36%	5.00%	5.00%	3.10%	3.10%
Property yields	Forecast	Forecast	Forecast	Forecast	Flat

Note: Forecast for property yields is based on the latest rent estimates provided by the City Surveyor.

Appendix 2

Financial Reporting Dashboard as at 31 December 2021



Appendix 3

Medium term financial plan

	2020/21 actuals £m	2021/22 latest forecast £m	2022/23 budget £m	2023/24 forecast £m	2024/25 forecast £m	2025/26 forecast £m
Voluntary income	15.4	0.2	0.1	0.0	0.0	0.0
Charitable activities - Tower Bridge	0.5	3.1	4.1	5.0	6.0	6.2
Investment income:						
- Property Investments	27.0	25.5	24.5	25.3	28.8	32.5
- Financial Investments	2.5	3.2	2.9	3.0	3.0	3.0
- Interest receivable	0.9	0.3	0.3	0.5	0.6	0.9
Total Investment income	30.4	29.0	27.7	28.8	32.5	36.4
Other income	1.1	0.2	0.3	0.0	0.0	0.0
Total income	47.4	32.5	32.2	33.8	38.5	42.6
Raising funds:						
- Property Investments	(9.1)	(8.7)	(8.6)	(8.7)	(8.9)	(9.1)
- Financial Investments	(5.9)	(6.7)	(6.0)	(6.0)	(5.7)	(5.4)
Total expenditure on raising funds	(15.0)	(15.4)	(14.6)	(14.8)	(14.7)	(14.5)
Charitable activities:						
- Repair & maintenance of bridges	(9.4)	(13.1)	(22.4)	(14.3)	(24.0)	(8.2)
- Tower Bridge	(4.3)	(4.5)	(5.3)	(4.2)	(4.3)	(4.4)
- Charitable funding	(58.6)	(35.5)	(108.5)	(101.3)	(78.4)	(47.4)
Total expenditure on charitable activities	(72.3)	(53.1)	(136.2)	(119.8)	(106.8)	(60.0)
Other expenditure - pension scheme costs	(2.3)	(1.1)	(1.1)	(1.1)	(1.1)	(1.2)
Other expenditure - contingencies	0.0	(0.4)	(3.3)	(3.9)	(3.5)	(3.6)
Total expenditure	(89.6)	(70.0)	(155.2)	(139.6)	(126.1)	(79.4)
Net (expenditure)/income	(42.2)	(37.5)	(123.1)	(105.8)	(87.6)	(36.8)
Gains/(losses) on investments/pension scheme	149.0	69.3	93.3	87.5	69.4	68.0
Net movement in funds	106.8	31.8	(29.8)	(18.2)	(18.3)	31.2
Funds b/f as 01 April	1,536.4	1,643.2	1,675.0	1,645.2	1,627.0	1,608.7
Total funds c/f	1,643.2	1,675.0	1,645.2	1,627.0	1,608.7	1,639.9
Funds of the charity:						
Permanent endowment funds	979.5	1,022.6	1,077.3	1,129.7	1,166.2	1,202.9
Restricted Funds	3.8	0.4	0.0	0.0	0.0	0.0
<i>Designated funds:</i>						
Bridges repairs	48.1	49.0	36.0	30.0	19.7	27.6
Bridges replacement	168.7	155.4	161.2	167.3	173.7	180.5
Grant-making	206.9	209.2	133.1	77.7	44.2	40.4
Climate Action	0.0	10.0	9.5	7.5	5.5	3.5
Social investment fund	21.5	21.7	21.9	22.1	22.4	22.7
Property dilapidations/service charges	0.4	0.4	0.4	0.4	0.4	0.4
	445.6	445.7	362.1	305.0	265.9	275.1
General funds	242.0	241.8	249.3	243.9	236.3	230.1
Pension reserve	(27.7)	(35.5)	(43.4)	(51.5)	(59.8)	(68.2)
Free reserves	214.3	206.3	205.8	192.3	176.6	161.9
	1,643.2	1,675.0	1,645.2	1,627.0	1,608.7	1,639.9

Appendix 4

Potential scenarios based on reduced growth rates on financial securities & differing levels of grant commitments

Scenario	Annual deficit	Change in unrealised gains	Designated Funds	Free reserves
Financial investment growth reduced by 1%, grantmaking at £40m	Minimal	Reduction of £6 -7m per year	Year 1 increase in value of 29.2m needed	Free reserves remain positive throughout MTFP
Financial investment growth reduced by 1%, grant commitments at £30m	Minimal to 2023/24 then annual reduction of £10m p.a.	Reduction of £6 -7m per year	Year 1 increase in value of 29.2m needed	Free reserves remain positive throughout MTFP
Financial investment growth reduced by 2%, grant commitments at £40m	Minimal	Reduction of £13-14m per year	Year 1 increase in value of 74.1m needed	Free reserves remain positive but fall below baseline £35m target in 25/26
Financial investment growth reduced by 2%, grant commitments at £30m	Minimal to 2023/24 then annual reduction of £10m p.a.	Reduction of £12-13m per year	Year 1 increase in value of 74.1m needed	Free reserves remain positive throughout MTFP

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 updates for 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 13% 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 16 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.