

Committee: Audit and Risk Management – For decision	Dated: 13 December 2022
Subject: Bridge House Estates Annual Report and Financial Statements 2021/22	Public
Which outcomes in the <i>BHE Bridging London 2020 – 2045</i> Strategy does this proposal aim to support?	1, 2, 3
Does this proposal require extra revenue and/or capital spending?	No
Report of: The BHE & Charities Finance Director (representing The Chamberlain) and the Managing Director, Bridge House Estates	For Decision
Report author: Nathan Omane, Head of Finance, Bridge House Estates	

Summary

The draft Annual Report and Financial Statements for Bridge House Estates (BHE) for the year ended 31 March 2022 are provided for review and recommendation for approval to the BHE Board.

The audit work has been substantially completed with Crowe U.K. LLP (Crowe) intending to issue an unqualified opinion.

Crowe commenced its audit on 4 July 2022, conducting their work in-person from Guildhall and remotely. This is the first year of their appointment as auditor to BHE. Representatives from Crowe will attend the Audit and Risk Management Committee meeting to present their report.

Recommendations:

The Audit and Risk Management Committee are asked to:

- Consider the contents of the audit management report issued by Crowe (Report to follow);
- Recommend approval of the BHE Annual Report and Financial Statements for the year ended 31 March 2022 to the BHE Board; and
- Authorise the Managing Director of BHE and the BHE and Charities Finance Director (representing the Chamberlain), in consultation with the Chair and Deputy Chair of the BHE Board, to approve any material change to the financial statements required before the signing of the audit opinion by Crowe.

Main Report

Introduction

1. The 2021/22 Annual Report and Financial Statements for BHE for the year ended 31 March 2022 are presented for review.
2. 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. Unfortunately, the release of the 2021/22 report has been delayed beyond the original timetable due to capacity issues within the City Corporation impacting on the audit of cross-City Corporation activities such as payroll, pensions, and investments.
3. Approval of the 2021/22 Annual Report and Financial Statements will be undertaken by the BHE Board, following review and recommendation by the Audit and Risk Management (ARM) Committee, as per the reference made to ARM Committee by the BHE Board. This is in line with the Terms of Reference of the BHE Board. The approved Report will be presented to the Court of Common Council.

Audit Opinion

4. Crowe intend to issue an unqualified audit opinion. Their report will reference the work undertaken to provide assurance that the financial statements, taken as a whole, are free from material misstatements whether caused by fraud or error.

Statement of Financial Activities

Income

5. Income for the year came to £34.1m, a reduction of £13.3m on the previous year (£47.4m). Prior year total income benefited from restricted grant income of £15.0m received towards the London Community Response Fund (LCRF) - a fund created to meet community needs in London arising from the impact of the Pandemic.
6. Following the lifting of pandemic-related restrictions, Tower Bridge tourism experienced a steady recovery in income. The income derived from visitor admissions, retail and events at Tower Bridge increased to £3.1m from the previous year's £0.5m. March 2022 enjoyed a strong boost in visitor admissions which had an impact on the full year results and has continued into 2022/23.
7. Investment income, made up of rental and other related income from the property portfolio and income from the financial investment holdings of the charity, totalled £30.4m, the same as was achieved in the previous year. Within this total, income received from financial investments increased due to the impacts of the reopening of economies at the beginning of the financial year alongside improved returns on private equity funds however there was a decrease in property rental income. The charity continued to support its tenants with offers such as rent-free

periods, plus due to delayed completion of property refurbishment projects, alongside some tenants exercising lease breaks, there were void periods with no rental income increase.

8. Interest earned from monies placed on treasury deposits and social investments held totalled £0.3m (2020/21: £0.9m). The reduction in interest income reflects lower returns available on the money markets, alongside there being net repayments against social investments held.
9. Other income in 2020/21 included £0.8m in claims under the Government's Coronavirus Job Retention Scheme (CJRS) for staff who were furloughed due to the Covid-19 pandemic. With the phasing out of the CJRS, the amount receivable for 2021/22 totalled £0.2m.

Expenditure

10. Total expenditure for 2021/22 was £66.6m, a reduction of £23.0m on the previous year (£89.6m).
11. Expenditure on charitable activities reduced to £49.0m from the previous year's £72.3m. This reduction was attributable to the decrease in funding activity compared to the record high of commitments made in the previous year, which included grants awarded under the LCRF programme. A pause in grant-making, whilst an interim review of the Bridging Divides programme took place, led to the reduction. Within expenditure on charitable activities, there was an increase in spend supporting and maintaining the bridges with the commencement of the Blackfriars Bridge refurbishment project and other cyclical improvement works for all five bridges. An increase in Tower Bridge tourism expenditure reflected the increased visitor numbers as reported above.
12. Expenditure on raising funds increased to £15.3m (2020/21: £15.0m), with this driven by fees relating to the management of the charity's financial investments, being based on the market value of assets under management which increased over the year. However, property investment expenditure reduced, following an improvement in the collection of rent arrears, with the release of £0.6m of bad debt provision previously provided.

Gains and Losses

13. Net gains on investments totalled £104.5m (2020/21: £155.5m), split between gains on financial investments (£62.4m) and on property investments (£42.3m) and losses on social investments (£0.2m).

Balance Sheet

14. The Balance Sheet depicts the increase in total funds held by the charity of £77.0m, representing a 4.7% increase to £1,720.2m (2021: £1,643.2m). Total funds held comprise:
 - a. the permanent endowment fund at £1,030.1m (2021: £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 £689.6m (2021: £659.9m), being net of the pension deficit of £25.0m (2021: £27.7m). An element of the unrestricted income fund has been designated for agreed purposes, as noted in

paragraphs 15 -16 below; and

- c. a restricted income fund of £0.5m held at the year-end (2021: £3.8m), consisting of amounts given by donors for specific funding programmes.
15. 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 £494.8m (2021: £445.6m), 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 2021/22 £17.1m was transferred to this fund with £56.2m now set aside to cover costs planned over the next five years (2021: £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 £22.5m to £191.2m (2021: £168.7m);
 - 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 £210.3m (2021: £206.9m), a decrease of £3.4m. The charity utilised both unrestricted and restricted funds during the year in making new grant commitments.
 - 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.
 - e. Climate Action fund – a new designated fund created in the year to further progress and potentially accelerate delivery of the Charity’s Climate Action Strategy, with £15.0m transferred in.
16. Deducting the designated funds from the total unrestricted income funds results in a remaining balance of £194.8m, being the free reserves of the charity. Amounts held are £104.8m above the current revised policy, following a strong performance during the year by the investments in which the unrestricted income funds are held. The Trustee remains cautious of the impacts of the uncertain economic climate on its investment portfolio, noting the potential risk of future realised losses and increases in construction costs and continues to review the level of reserves held.

Audit Progress

17. Crowe’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 Crowe to issue an unqualified opinion as stated within paragraph 3 of this report.
18. Crowe 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

19. The Audit and Risk Management Committee are requested to recommend for approval the Annual Report and Financial Statements to the BHE Board, with feedback to be provided to the BHE Board. The Chair and Deputy Chair of the BHE Board will sign the Annual Report under delegated authority from the BHE Board, with the Report to be presented to the Court of Common Council

20. The Annual Report and Financial Statements will be submitted to the Charity Commission and published online.

Contact:

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Appendix 1: Annual Report and Financial Statements for Bridge House Estates 2021/22
Appendix 2: Crowe's Report to the Audit & Risk Management Committee (**to follow**)