



Resource Allocation Sub (Policy and Resources) Committee

Date: THURSDAY, 22 OCTOBER 2020

Time: 12.00 pm

Venue: VIRTUAL MEETING

4. **CAPITAL FUNDING UPDATE**

Report of the Chamberlain

For Decision
(Pages 1 – 10)

5. **CAPITAL FUNDING – PRIORITISATION OF 2021/22 ANNUAL CAPITAL BIDS –
INITIAL REVIEW**

Report of the Chamberlain

For Decision
(Pages 11 - 20)

Item received too late for circulation in conjunction with the Agenda.

John Barradell
Town Clerk and Chief Executive

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Agenda Item 4

Committee(s): Resource Allocation Sub Committee Policy and Resources	Date(s): 22 October 2020 22 October 2020
Subject: Capital Funding Update	Public
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	The schemes for which funding is now requested span across a range of corporate outcomes
Does this proposal require extra revenue and/or capital spending?	Yes
If so, how much?	£5.42m
What is the source of Funding?	£4m OSPR, £550k CIL, £800k City Fund Capital Reserves, £70k City's Cash reserves.
Has this Funding Source been agreed with the Chamberlain's Department?	Yes
Report of: The Chamberlain	For Decision
Report author: Dianne Merrifield, Group Accountant	

Summary

This report follows on from previous papers on capital prioritisation and the 2020/21 round of annual capital bids.

The first round of annual capital bids for 2020/21 gave 'in principle' funding approval to 46 bids with a total value of £89m, together with 'in principle' internal loan funding of £47.7m. A subsequent re-prioritisation exercise identified several schemes for deferral which, after allowing for three new essential bids, has reduced the value of bids down to £85m. A schedule of the current bids is included at Appendix 1 for information. To date, drawdown of funding of £10.203m to progress seventeen schemes has been agreed.

This report now proposes the release of £5.42m as summarised in Table 1:

Table 1: Project Funding Requests		Next Gate-	Funding Status	City Fund	City's Cash	Total
				£000	£000	£000
<u>2020/21 New Bids/Approved for Progression Outside of Fundamental Review</u>						
<u>Funding to progress to the next gateway</u>						
(i)	Guildhall - Great Hall Internal Health and Safety and Restoration	G.3 /4	2020/21 New Bid		25.0	25.0
(ii)	Guildhall Event Spaces AV replacement	G.3 /4	2020/21 New Bid		45.0	45.0
<u>Funding for Scheme Implementation/Top-up</u>						
(iii)	Bank Station Improvements (All Change at Bank)	G.5	2020/21 New Bid	4,000.0		4,000.0
(iv)	Beech Street Transportation and Public Realm - additional funding	G.6	Fundamental Review	550.0		550.0
(v)	Frobisher Crescent Fire Safety Works	G.5	2020/21 New Bid	550.0		550.0
"	NEW BID for top-up funding	"	NEW BID	250.0		250.0
	Total Funding Requested for Release			5,350.0	70.0	5,420.0

Of the five schemes, four have previously received 'in principle' approval via the 2020/21 annual capital bids and one (Beech Street) was agreed for progression outside of the fundamental review. However, the cost of the Frobisher Crescent fire safety works has increased and therefore top-up funding of £250k is now requested. Applying the principle of 'one-in one-out' compensating reductions in another City Fund scheme has been identified.

Therefore, the full £5.42m can be met from the provisions set aside from the reserves of the three main funds: £4m from the On-Street Parking Reserve, £550k from CIL, £800k from City Fund capital reserves and £70k from City's Cash reserves. However, in view of the current financial position, Members will first wish to consider whether these schemes remain a priority for which funding should be released at this time.

Recommendations

Members are requested -

1. To review the five schemes listed in Table 1 (detailed in paragraph 6) and, in the context of the current crisis, to confirm their continued essential priority for release of funding at this time.
2. To agree to an increase of £250k in the central funding allocated to the Frobisher Crescent fire safety works to be offset by a compensating reduction in the car park fire safety funding allocation.
3. That subject to recommendations 1 and 2, to agree to the release of up to £5.42m for the five schemes from the reserves of City Fund and City's Cash as set out in Table 1, subject to the approval of the relevant gateway reports.

Main Report

Background

1. As part of the fundamental review, Members agreed the necessity for effective prioritisation of capital and SRP projects, with central funding allocated in a measured way. This has been achieved via the annual capital bid process which applies prioritisation criteria to ensure that corporate objectives are met and schemes are affordable.
2. The following criteria against which capital and supplementary revenue projects are assessed have been agreed as:
 - i. Must be an essential scheme (Health and Safety or Statutory Compliance, Fully/substantially reimbursable, Major Renewal of Income Generating Asset, Spend to Save with a payback period < 5 years.)
 - ii. Must address a risk on the Corporate Risk register; or the following items that would otherwise be escalated to the corporate risk register:
 - a. Replacement of critical end of life components for core services;
 - b. Schemes required to deliver high priority policies; and
 - c. Schemes with a high reputational impact.
 - iii. Must have a sound business case, clearly demonstrating the negative impact of the scheme not going ahead, i.e. penalty costs or loss of income, where these are material.

The above criteria were used as the basis for prioritising the 2020/21 annual capital bid submissions.

3. The scope of schemes subject to this prioritisation relates only to those funded from central sources, which include the On-Street Parking Reserve, Community Infrastructure Levy (CIL), flexible external contributions and allocations from the general reserves of City Fund, City's Cash or Bridge House Estates*. This means that projects funded from most ring-fenced funds, such as the Housing Revenue Account, Designated Sales Pools and Cyclical Works Programmes are excluded, together with schemes wholly funded from external grants, and tenant/ developer contributions e.g. under S278 agreements and most S106 deposits.

*Contributions from Bridge House Estates are limited to its share of corporate schemes such as works to the Guildhall Complex or corporate IT systems.

Current Position

Approved 2020/21 Annual Capital Bids

4. The first year of the new annual capital bid process gave 'in principle' funding approval to 46 bids with a total value of £89m across the three main funds, together with 'in principle' internal loan funding of £47.7m. A subsequent re-prioritisation exercise identified several schemes for deferral which, after allowing for three new essential schemes, has reduced the value of bids down to £85m as summarised in Table 1 below. A detailed schedule of the latest successful bids is included in Appendix 1 for information.

Table 2: Summary of approved 2020/21 annual capital bids (across all years)	New Bids	Loan Facilities	Total
	£m	£m	£m
City Fund	66.5	37.1	103.6
City's Cash	17.6	10.6	28.2
Bridge House Estates	0.9	-	0.9
	85.0	47.7	132.7

5. Provisions were included in the medium-term financial plan to demonstrate affordability – used as the basis for the 2020/21 budgets agreed by the Finance Committee and Court of Common Council.

Proposals

Current Requests for Release of Funding

6. Since July, four further schemes arising from the 2020/21 round of new bids and one scheme approved to continue outside of the Fundamental Review have progressed through the gateways, for which release of £5.42m is now requested (including top-up funding of £250k). In the first instance, in the context of the current crisis, Members will wish to confirm that these schemes remain a priority for funding to be released at this time. Details of the schemes are provided below:

(i) Guildhall Great Hall Internal Health and Safety and Restoration Works - £25k now requested to reach the next gateway

- The project seeks to resolve the health and safety concerns over the medieval interior stonework and 1950's ceiling timberwork after a series of incidences of falling stone and timberwork. There are also concerns regarding the fixings into the stonework/panelling that hold the sword & mace and other substantial artefacts as these are loose in some places.
- This project was originally expected to be undertaken in 2022/23 and would have required an arched movable scaffold to enable works to be undertaken in phases over nine months while events continued at a reduced capacity. However due to Covid 19 restrictions, commercial and City hospitality events in the Great Hall are suspended, meaning that a less elaborate scaffold and a much shorter works period of four to five months would be possible and could generate savings.
- The 'in principal' funding approval was based on the health and safety concerns arising from the falling stonework and timberwork at a total estimated cost of up to £2m.
- Given the need to construct a scaffold, there is an opportunity to also inspect the 1950's stained-glass glazing for lead creep which can result in the loss of glass which is also a health and safety matter. The glazing works are additional scope, but options to undertake this works at the same time as the timber and stonework repairs will be explored for further consideration.

- A detailed survey by a historic buildings architect was undertaken over the summer via the CWP. The current request is to draw down funds of £25k to determine the essential works required, informed by the detailed survey.

(ii) Guildhall event spaces AV replacement / upgrade – £45k now requested to reach the next gateway

- The project is for the replacement of the existing end-of-life analogue AV system and equipment in Guildhall's eleven event spaces with a new, separate digital network and upgraded infrastructure and equipment, in order to continue to support the delivery of both City Corporation and commercial events.
- This business case for this project is now deemed to be more pressing as a result of Covid-19, with demand for more extensive virtual and technological elements (including mixed virtual and physical ('hybrid') events).
- The 'in principal' funding approval was based on the essential need to replace the critical end of life AV systems for the Guildhall event spaces at a total estimated cost of up to £330k.
- The release of £45k of funding now requested is for the installation of high density wi-fi and hard wired connectivity (Phase 1) and surveys to inform the options for the AV equipment purchase (Phase 2) at the next gateway.

(iii) Bank Junction Improvements Project: All Change at Bank - £4m now requested to implement the scheme

- This scheme is to improve the safety, air quality and pedestrian experience of the area around the Bank junction to reflect the historic and iconic surroundings with the appropriate sense of place.
- The 'in principal' funding approved as part of the 2020/21 capital bids with an upper limit of £4m, was based on the desire to progress the underlying high profile policies of air quality and road safety, particularly in the light of the completion of the Bank Station Capacity Upgrade in late 2022. Whilst it also assumes that that the forecast pedestrian growth within the City will continue post- Covid, the proposed works are considered to deliver the minimal and therefore essential elements.
- The additional budget required to reach the next gateway is £542k, of which £202k can be met from unspent S106 contributions, leaving a balance of £340k of central funding from the On-Street Parking Reserve now requested, plus a risk allowance of £95k. Approval to release the remaining balance of the £4m allocation to implement the scheme is also sought, subject to the approval of authority to start work at gateway 5.

(vi) Beech Street Experimental Traffic Scheme - £515k now requested to cover cost increases (including risk)

- The completion of the public consultation and final decision on the experimental traffic scheme to improve air quality in Beech Street has been deferred due to the pandemic. This extension of time to the middle of 2021 results in cost increases of up to £380k plus an uplift in the risk allowance of £135k.
- The essential costs of the Beech Street proposals were agreed for progression outside of the Fundamental Review, to be funded from CIL.

(vi) Frobisher Crescent Fire Safety Improvement Works – Approval to the release of £800k including top-up funding of £250k to deliver the scheme

- Members have previously agreed 'in principle' funding of £550k for essential fire safety improvement works to the three residential floors (levels 7, 8 and 9) of Frobisher Crescent on the Barbican Estate. The work entails the removal, and subsequent replacement, of existing internal partition walls and ceilings to facilitate the installation of approved fire compartmentation solutions to ducts, risers, service pipes, cabling and other structural penetrations to bring the residential floors up to the required levels of fire safety. The work also includes the upgrading of a limited number of fire doors within the residential corridors where appropriate, as well as the completion of all necessary associated building works.
- At the time of submitting the central funding bid last year, the cost was estimated at £550k. However, now that the detailed survey and investigation works have been completed, the estimated cost based on industry comparisons for similar works and guidance from an external consultant, has risen by £250k to £800k. Consequently a bid for additional funding in 2020/21 outside of the annual bid process is also being made – this request is addressed below.
- Subject to the uplift, the request is to draw down funding of £60k to produce a detailed design specification using suitable fire engineering solutions, with the release of the remaining £720k being subject to the approval of authority to start work by the Chief Officer at gateway 5.

Funding for each of these schemes can be met from the provisions set aside from the reserves of the three main funds for the scheme approved for progression outside of the Fundamental Review (Beech Street)/ the 2020/21 annual bids, subject to Members confirming the priority of these schemes for the release of funds at this time.

Top-up Capital Funding Bid outside of the Annual Bid Process

7. Members have agreed that the 'one-in-one-out' principle be applied for in-year requests for additional funding outside of the annual bid process. Therefore, the bid for an additional £250k for Frobisher Crescent fire safety works requires the identification of an approved bid of equivalent value from City Fund reserves.
8. In the first instance, Members are asked to confirm that this scheme is of sufficient priority to warrant the approval of an uplift of £250k of central funding outside of the annual bid process.
9. 'In principle' funding of up to £1.032m was agreed towards essential fire safety works in car parks. The recent gateway report identified a much lesser sum being required from central City Fund resources, which would provide more than sufficient headroom (up to £600k) to support the Frobisher Crescent top-up. Members will also recall the net headroom of £2.5m realised from the lower than anticipated cost of the Barbican Exhibition Halls essential health and safety works after the reallocation of £905k for the new in-year bid for the Phase 3 Covid19 transportation response.

10. It is therefore proposed that the additional £250k of City Fund resources for Frobisher Crescent fire safety works be met from the savings identified against the other City Fund allocations.

Conclusion

11. A total of £136.7m of central funding was agreed 'in principle' for the delivery of essential schemes as part of the 2020/21 annual capital bid process. This has subsequently been reduced by a net £4m to £132.7m following a reprioritisation exercise. Of this sum, £10.203m has previously been agreed for release.
12. Requests for the release of £5.42m to allow five schemes to progress to the next gateway are set out in Table 1 (details in paragraph 6). In the first instance, in the context of the current crisis, Members will wish to confirm that these schemes remain an essential priority for funding to be released at this time.
13. Of the five schemes, four have previously received 'in principle' approval via the 2020/21 annual capital bids and one (Beech Street) was agreed for progression outside of the fundamental review. However, the cost of the Frobisher Crescent fire safety works has increased and therefore additional funding of £250k is also requested. Applying the principle of 'one-in one-out' compensating reductions in other City Fund schemes have been identified.
14. Therefore, the full £5.42m can be met from within the existing provisions set aside from the reserves of the three main funds: £4m from the On Street Parking Reserve, £550k from CIL, £800k from City Fund capital reserves and £70k from City's Cash reserves.

Appendices

Appendix 1– 2020/21 Approved Bids

Background Papers

- Annual Capital Prioritisation Report, 12 December 2019 (Non-Public).
- Prioritisation of Remaining 2020/21 Annual Capital Bids (Deferred from December 2019 Meeting), 23 January 2020 (Non-Public)
- Re-prioritisation of 2020/21 Approved Capital Bids, 18 September 2020 (Non-Public)

Dianne Merrifield

Group Accountant, Capital

Email: [dianne.merrifield @ cityoflondon.gov.uk](mailto:dianne.merrifield@cityoflondon.gov.uk)

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Approved Bids 2020/21							
Project Name	City Fund £'m	City's Cash £'m	BHE £'m	Total Funding Allocation £'m	Fundng Allocation After Re- prioritisation	Release of Funding Previously agreed	Release of Funding now requested
Critical End of Life Replacement							
Barbican Replacement of Art Gallery Chiller	0.300	-	-	0.300	0.300	0.018	-
Car Park - London Wall Joints and Waterproofing	2.000	-	-	2.000	2.000	-	-
Car Park - Hampstead Heath, East Heath Car Park Resurface	-	0.415	-	0.415	0.415	0.387	-
Central Criminal Court - Replacement for Heating, Cooling and Electrics for the East Wing Mezzanine including the sheriff's apartments.	1.000	-	-	1.000	1.000	-	-
Finsbury Circus Garden Re-instatement	2.558	-	-	2.558	2.558	0.081	-
Guildhall - North and East Wing Steam Generator replacement – including Art Gallery	0.744	0.396	0.060	1.200	1.200	0.107	-
Guildhall - West Wing - Space Cooling - Chiller Plant & Cooling Tower Replacement	1.860	0.990	0.150	3.000	3.000	0.174	-
Guildhall event spaces - Audio & Visual replacement / upgrade	-	0.330	-	0.330	0.330	-	0.045
Guildhall Yard - Refurbishment/ Replacement of Paviments	-	3.000	-	3.000	3.000	-	-
I.T - Computer Equipment rooms (CER) Uninterrupted Power Supplies (UPS)Upgrades and Replacements	0.090	0.100	0.010	0.200	0.200	-	-
I.T - Essential Computer (Servers) operating system refresh programme	0.068	0.075	0.008	0.151	0.151	-	-
I.T - Personal device replacement (Laptops, Desktops and tablet/mobile device)	1.013	1.125	0.112	2.250	2.250	-	-
I.T - Rationalisation of Financials, HR & Payroll Systems	2.654	2.949	0.295	5.898	5.898	-	-
I.T - Telephony replacement	0.873	0.343	0.034	1.250	1.250	-	-
LMA : Replacement of Fire Alarm, Chillers and Landlords Lighting and Power	1.397	-	-	1.397	1.397	-	-
Oracle Property Management System Replacement	0.713	0.380	0.058	1.151	1.151	0.075	-
Structural - Lindsey Street Bridge Strengthening	5.000	-	-	5.000	5.000	-	-
Structural - Dominant House Footbridge	1.025	-	-	1.025	1.025	-	-
Structural - West Ham Park Playground Refurbishment	-	1.279	-	1.279	1.279	0.863	-
Fully or substantially reimbursable							
Barbican Turret John Wesley High Walk	0.043	-	-	0.043	0.043	0.043	-
Chingford Golf Course Development Project	-	0.075	-	0.075	0.075	-	-
High Profile Policy Initiative							
Bank Junction Transformation (All Change at Bank)	4.000	-	-	4.000	4.000	-	4.000
Culture Mile Implementation Phase 1 incl CM experiments and Culture Mile Spine	0.580	-	-	0.580	0.580	0.580	-
I.T - Smarter working for Members and Officers	0.113	0.125	0.013	0.251	0.251	0.185	-
Rough Sleeping - assessment hub	1.000	-	-	1.000	1.000	-	-
Rough Sleeping High Support Hostel - Option 3	0.500	-	-	0.500	0.500	-	-
Secure City Programme	15.852	-	-	15.852	15.852	3.306	-
Statutory Compliance/Health and Safety							
Barbican Exhibition Halls	5.000	-	-	5.000	1.549	1.548	-
Barbican Podium Waterproofing, Drainage and Landscaping Works (Ben Jonson, Breton & Cromwell Highwalk) Phase 2 – 1st Priority	13.827	-	-	13.827	13.827	1.517	-
Covid19 Phase 3 Transportation Response*	-	-	-	-	0.568	0.568	-
City of London Primary Academy Islington (COLPAI) temporary site	-	0.300	-	0.300	0.583	0.583	-
Golden Lane Lighting and Accessibility	0.500	-	-	0.500	0.500	-	-
Guildhall - Great Hall - Internal Stonework Overhaul	-	2.000	-	2.000	2.000	-	0.025
Guildhall - Installation of Public Address & Voice Alarm (PAVA) and lockdown system at the Guildhall (Security Recommendation)	0.930	0.495	0.075	1.500	1.500	0.118	-
I.T - Critical Security Works agreed by the DSSC	0.112	0.125	0.013	0.250	0.250	-	-
I.T - GDPR and Data Protection Compliance in addition saving money in being able to share and find information quickly	0.090	0.100	0.010	0.200	0.200	-	-
Confined and Dangerous Spaces - Barbican Centre	2.000	-	-	2.000	2.000	-	-
Confined and Dangerous Spaces - GSMD	-	0.400	-	0.400	0.400	-	-
Fire Safety - Car Park London Wall - Ventilation, electrics, lighting and fire alarm works	1.370	-	-	1.370	1.370	-	-
Fire Safety - Works in car parks	1.032	-	-	1.032	1.032	-	0.250
Fire Safety - Frobisher Crescent, Barbican Estate (compartmentation)	0.550	-	-	0.550	0.550	-	0.800
Fire Safety - Smithfield sprinkler head replacement and fire door replacement.	-	0.150	-	0.150	0.150	-	-
Queen's Park Public Toilet Rebuild	-	0.380	-	0.380	-	-	-
Spitalfields Flats Fire Door Safety	0.146	-	-	0.146	0.146	-	-
Spend to save with a payback < 5 years							
Energy programme of lighting and M&E upgrade works (Phase 1)	0.440	0.489	0.049	0.978	0.978	0.050	-
I.T - GDPR Compliance Project Unstructured data	0.112	0.125	0.013	0.250	-	-	-
Wanstead Flats Artificial Grass Pitches (spend to save > 5 years)	-	-	-	-	1.700	-	-
The Monument Visitor Centre	-	2.500	-	2.500	-	-	-
Total Approved Funding Bids	69.492	18.646	0.900	89.038	85.008	10.203	4.620
Loan Facilities							
City of London Police and Housing Revenue Account	37.100	-	-	37.100	37.100	-	-
City of London School	-	10.600	-	10.600	10.600	-	-
Total Loan Facilities	37.100	10.600	-	47.700	47.700	-	-
Total Central Funding	106.592	29.246	0.900	136.738	132.708	10.203	4.620

* excludes loss of OSPR income £336k

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Agenda Item 5

Committee(s):	Date(s):
Resource Allocation Sub Committee Policy and Resources Committee	22 October 2020 22 October 2020
Subject: Capital Funding – Prioritisation of 2021/22 Annual Capital Bids - Initial Review	Public
<i>Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?</i>	<i>These capital bids span all 12 outcomes of the Corporate Plan to some degree</i>
<i>Does this proposal require extra revenue and/or capital spending?</i>	<i>No decisions about specific commitments are required at this stage</i>
<i>If so, how much?</i>	
<i>What is the source of Funding?</i>	<i>All <u>central</u> funding sources of the three main funds could be impacted</i>
<i>Has this Funding Source been agreed with the Chamberlain's Department?</i>	
Report of: The Chamberlain	For Decision
Report author: Dianne Merrifield, Group Accountant (Capital)	

Summary

In this second annual capital bid round, there are 51 bids amounting to **£146m** of which £76m (13 bids) relates to the Climate Action Strategy. An initial sift has identified **£105m** relating to projects of a capital nature, with the remaining **£41m** falling outside the scope of the capital funding bid process since they:

- will not result in a capital project i.e. the type of expenditure and required funding stream is **revenue** in nature (13.5m); or
- do not require *central* capital funding as they rely on local **ring-fenced** sources of funding e.g. City's Cash and BHE Designated Sales Pools (£27.5m).

The £13.5m of bids requiring **revenue** resources all relate to Climate Action across a four year period, for which funding plans are being worked on as part of the medium-term financial planning.

The £76m of Climate Action bids exceeds the £68m quoted within the Climate Action Strategy document, with some of the bids submitted under the Climate Action heading being additional proposals from departments. The Climate Action Team will be undertaking a review of the bids to confirm priorities and profiles of proposed expenditure, to be brought back for consideration in December as part of the overall funding prioritisation.

Most of the £105m of capital bid submissions have been classified as essential and identified against one of the agreed prioritisation criteria. Based on the narrative supporting the bids, an assessment of how essential these schemes appear from a

corporate perspective has been undertaken using a RAG rating approach - resulting in £82.4m green, £14.1m amber and £8.3m red. Of the £82.4m green, £45.5m relates to business as usual (BAU) and £36.9m to Climate Action.

To set these bids in to some context, £89m of capital bids were approved in principle via the 2020/21 annual capital bid process. However, at that time it was anticipated that such a high level was exceptional and would not be sustainable on an ongoing basis alongside the other current financial priorities and pressures such as the major projects and balancing the revenue budgets, now further impacted by the pandemic.

- For City Fund, a large element of the £62m of green rated bids (£53m) would naturally fall to be funded from the capital reserves. However, this would leave capital balances severely depleted by the end of the medium term (<£20m) *before* making allowance for certain other potential commitments e.g. future years' bids for essential schemes, cash flow loans for the HRA etc. Capital reserves are a finite resource that can only be replenished through the sale of assets which would in turn impact on revenue income from rents. On this basis the current green rated City Fund bids amounting to £62m is not sustainable. An affordable funding envelope will be played out as part of the MTFP modelling for the 2021/22 budget.
- For City's Cash, funding for the £20m of green rated bids would require disposal of investments which would also in turn impact on revenue. Therefore, whilst £20m for the green schemes may not appear to be excessive compared to asset balances, this needs to be considered in the context of all the other pressures, including the need to balance the revenue position, the impacts of funding the Major Projects etc. An affordable level of bids needs to be built into the new City's Cash MTFP model to address the significant risk of unsustainability over the 10-year horizon.

Therefore, even if the bids classified as amber and red were to be deferred, the level of remaining green bids at £82.4m is considered to be too high and will require further scrutiny before final bid proposals can be agreed in December as part of the build up to the 2021/22 budget round. Therefore, the proposed way forward is:

- Chief Officers be requested to further consider the ranking of their bids in consultation with the service committee chairs (if not already done so) to identify the most critical proposals (with innovation and reputational impact uppermost) and that bids ultimately RAG rated as amber and red be deferred.
- A review of Climate Action bids be undertaken in liaison with the Climate Action Team, to confirm the priority of proposals alongside the business as usual bids.
- The affordability of the highest- ranking new bids to be determined via the MTFP modelling which will inform sustainable 2021/22 budget proposals for Members to consider in December.

Recommendation(s)

Members are asked to:

1. Note the total value of bids amounting to £146m of which £27.5m are to be funded from existing local resources and £13.5m which do not meet the capital criteria and would need to be funded from revenue resources.
2. Agree that the remaining £105m of capital bids is currently unsustainable and therefore Chief Officers, in consultation with Service Committee Chairs, be requested to further consider ranking of schemes to identify the most critical bids, with innovation and reputational impact uppermost.
3. Subject to the outcome of Chief Officer rankings, to agree in principle that bids with a final RAG rating of amber and red be deferred.
4. Note that the Climate Action Strategy bids will be subject to further review to confirm the priority of proposals.
5. Note that options for revenue funding of the Climate Action revenue bids that do not meet the capital criteria (currently £13.5m) will be brought forward in December.

Main Report

Background

1. Members have agreed the necessity for effective prioritisation of capital and SRP projects, with central funding allocated in a measured way via the annual capital bid process by applying prioritisation criteria to ensure that corporate objectives are met and schemes are affordable.
2. The following criteria against which capital and supplementary revenue projects are assessed have been agreed:
 - i. Must be an essential scheme (Health and Safety or Statutory Compliance, Fully/substantially reimbursable, Major Renewal of Income Generating Asset, Spend to Save with a payback period < 5 years.)
 - ii. Must address a risk on the Corporate Risk register; or the following items that would otherwise be escalated to the corporate risk register
 - a. Replacement of critical end of life components for core services;
 - b. Schemes required to deliver high priority policies; and
 - c. Schemes with a high reputational impact.
 - iii. Must have a sound business case, clearly demonstrating the negative impact of the scheme not going ahead, i.e. penalty costs or loss of income, where these are material.

In addition, bids in support of the Climate Action Strategy are to be allowed a degree of priority, subject to affordability.

3. The scope of schemes subject to this prioritisation relates only to those funded from central sources, which include the On-Street Parking Reserve, Community

Infrastructure Levy (CIL), flexible external contributions and allocations from the general reserves of City Fund or City's Cash. This means that projects funded from most ring-fenced funds, such as the Housing Revenue Account, Designated Sales Pools and Cyclical Works Programmes are excluded, together with schemes wholly funded from external grants, and tenant/developer contributions e.g. under S278 agreements and most S106 deposits.

4. In view of the various current financial pressures arising from the pandemic and other high priority initiatives, Chief Officers were requested to submit bids for only the most critical and essential schemes for the 2021/22 bid round.

Current Position

5. Departments have submitted their bids for central funding from 2021/22 which they consider necessary to deliver business plans. It should be noted that whilst these schemes are to be started during 2021/22, costs are anticipated to be incurred over the medium term as the lead-in time for projects mean that they routinely span across more than one financial year.
6. An initial assessment of the bids is summarised below:

Initial Assessment	BAU £000	Climate Action £000	Total £000
Qualifying Capital Bids:			
Capital Bids - Operational	67,435	18,991	86,426
Capital Bids - Investment	500	17,891	18,391
Total Capital Bids	67,935	36,882	104,817
Outside Scope Bids:			
Revenue (BBB Fund?)	-	13,470	13,470
To be funded from local sources	1,700	25,850	27,550
Total Outside Scope Bids	1,700	39,320	41,020
Total All Bids	69,635	76,202	145,837

7. There are 51 bids amounting to £146m of which £76m (13 bids) relates to the Climate Action Strategy. This initial sift identified £105m relating to projects of a capital/SRP nature, with the remainder of £41m falling outside the scope of the capital funding bid process since they:
 - will not result in a capital project i.e. the type of expenditure and funding stream is **revenue** in nature (£13.5m), or
 - do not require *central* capital funding as they rely on local **ring-fenced** sources of funding (£27.5m) e.g. City's Cash and BHE Designated Sales Pools.

The bids requiring **revenue** resources amount to £13.5m all relating to Climate Action across a four year period, for which funding plans are being worked on as part of the medium-term financial planning.

8. The £76m of Climate Action bids exceeds the £68m quoted within the Climate Action Strategy document, with some of the bids submitted under the Climate Action heading being additional proposals from departments. The Climate Action Team will be undertaking a review of the bids to confirm priorities and profiles of proposed expenditure, to be brought back for consideration in December.
9. Most of the £105m of capital bid submissions have been classified as essential and identified against one of the agreed prioritisation criteria. Based on the narrative supporting the bids, an assessment of how essential these schemes appear from a corporate perspective has been undertaken using a RAG rating approach where:
- Green = demonstrates the essential criteria
 - Amber = essential criteria less clear
 - Red = does not demonstrate essential criteria.

The table below shows the results, with £82.4m green, £14.1m amber and £8.3m red.

Analysis by Category of Bid	Green £000	Amber £000	Red £000	Total Capital Bids
Critical End of Life Replacement	4,738	1,320	-	6,058
Statutory Compliance/Health and Safety	33,348	12,250	2,965	48,563
High Profile Policy Initiative	5,089	-	-	5,089
Spend to save with a payback < 5 years	2,375	500	5,350	8,225
	45,550	14,070	8,315	67,935
Climate Action	36,882	-	-	36,882
	82,432	14,070	8,315	104,817

To set these bids in to some context, £89m of capital bids were approved in principle via the 2020/21 annual capital bid process. However, at that time it was anticipated that such a high level was exceptional and not sustainable on an ongoing basis alongside other current financial priorities and pressures, such as the major projects and balancing the revenue budgets.

Therefore, even if the bids classified as amber and red were to be deferred, the remaining green bids at £82.4m is still considered to be too high and requires further scrutiny.

Of the £82.4m green bids:

- Business as usual schemes total £45.5m
Analysis of centrally funded schemes over recent years gives a broad average of £30m per annum which is a further indication that the current level of bids is high.
- Climate action bids total £36.9m
Climate Action capital bids have been assessed as green **for the time being** and the spend is currently profiled fairly evenly across the medium

term. The Climate Action Team will be reviewing to confirm the priorities and profiling.

Additionally, initial discussions with Chief Officers on potential classification indicate a difference of opinion on which are more important, e.g. surveyors may have a view on structural urgency, but this needs to be overlaid with service priority.

Affordability

10. In order to further assess affordability, bids have been identified against the relevant fund as summarised below:

Capital Bids by Fund	City Fund	City's Cash	BHE	Total
BAU				
Green	38,734	6,687	129	45,550
Amber	12,605	1,450	15	14,070
Red	3,106	5,181	28	8,315
Total BAU	54,445	13,318	172	67,935
Climate Action				
Green	23,730	12,761	391	36,882
Total Capital Bids	78,175	26,079	563	104,817

Affordability – City Fund

11. Of the £78m City Fund Capital Bids, £62m are rated as green, £13m amber and £3m red.

City Fund Analysis by Category	Green £000	Amber £000	Red £000	City Fund £000
BAU:				
Critical End of Life Replacement	3,543	120	-	3,663
Statutory Compliance/Health and Safety	28,258	12,250	260	40,764
High Profile Policy Initiative	4,739	-	-	4,739
Spend to save with a payback < 5 years	2,194	235	2,850	5,279
Total BAU	38,734	12,605	3,110	54,445
Climate Action	23,730	-	-	23,730
Total City Fund Capital Bids	62,464	12,605	3,110	78,175

There is a predominance of statutory compliance/health and safety schemes, although not all appear to comply with the criteria (hence ambers and reds). Possible funding of the City Fund capital bids is as follows:

City Fund Sources of Funding	OSPR	CIL	Reserves	Total
<u>BAU</u>				
Green	-	4,515	34,219	38,734
Amber	12,000	250	355	12,605
Red	-	-	3,106	3,106
Total BAU	12,000	4,765	37,680	54,445
<u>Climate Action</u>				
Green	-	-	23,730	23,730
Total Capital Bids	12,000	4,765	61,410	78,175

Of the total, £12m could be funded from OSPR and £5m from CIL, leaving £61m to be met from City Fund Reserves. If only green status projects were progressed the total funding would reduce to £62m, with £4m from CIL and £58m from reserves (predominantly capital reserves £53m and £5m revenue reserves).

It is important to bear in mind that there are other potential calls on City Fund capital resources on top of this year's capital bids, such as:

- internal borrowing for the HRA (may be delivered via external PWLB borrowing)
- Cyclical replacement of major components for the operational estate over the medium term and beyond
- Other future years' capital bids for the remainder of the medium term
- Highways and Street scene works for major projects £28m for the demolition of current Museum site; £66m public realm: presumably these will need to come out of CIL and OSPR.

It is noted that Climate Action Bids have resulted in exacerbating funding pressures, emphasising the need for further prioritisation.

City Fund Capital Reserves

12. The last MTFP anticipated capital reserves balances of approximately £70m by the end of 2022/23. The latest position remains to be confirmed as part of the update of the City Fund MTFP, currently underway. Using this indicative figure, progression of all the green bids would result in minimal capital reserves by the end of the planning period (< £20m) after a £53m drawdown. Capital Reserves are a finite resource, with replenishment requiring disposal of City Fund assets. An asset disposal programme would likely reduce rent income with negative impact on our ability to fund revenue activities.

City Fund Revenue Reserves

13. We are holding considerable general fund reserves of £80m as part of the financing strategy for the City Fund major projects. However, the general fund reserves also underpin any loss in investment property rental income as a result of COVID and failure to deliver the flightpath of savings required over the MTFP.

Choices would need to be made if Members wished to continue the current level of spend on the annual programme which will be played out during the modelling of the latest MTFP.

On-Street Parking Reserve and CIL

14. Both of these funds are already largely committed to existing schemes including highways and streetscene works for the major projects. However, it is anticipated that the £4m of CIL required to fund the green rated schemes could be accommodated within anticipated balances.

City Fund Affordability - Conclusion

15. Choices would have to be made if Members wished to continue the proposed level of spend required by these annual bids. Further ranking and prioritisation of the BAU bids will assist in identifying a reasonable funding envelope during the modelling of the latest MTFP. Further review of the Climate Action costs will be undertaken to confirm priorities.

Affordability City's Cash

16. The City's Cash bids of £26m would fall to be funded from general reserves - requiring asset disposal from either financial investments or property. This would reduce to £20m if only green rated bids were progressed, which includes £13m for Climate Action.

City's Cash Funding	Reserves
<u>BAU</u>	
Green	6,687
Amber	1,450
Red	5,181
Total BAU	13,318
<u>Climate Action</u>	
Green	12,761
Total Capital Bids	26,079

Whilst £20m for the green schemes may not appear to be excessive compared to asset balances, this needs to be considered in the context of all the other pressures, including the need to balance the revenue position and the impacts of funding the Major Projects.

In addition, other potential calls on City's Cash reserves include internal loans for schools and future operational estate cyclical requirements.

City's Cash Affordability - Conclusion

17. In conclusion, there is a need for further challenge to identify the most critical schemes in order to address the significant risk of unsustainability over the 10-year horizon. These costs will need to be built into the new City's Cash MTFP model to assess the financial impact.

Affordability - Bridge House Estates

18. Bridge House Estates bids amount to £563k in total or £520k if only green rated schemes are progressed:

Bridge House Estates Funding	Income Fund
<u>BAU</u>	
Green	129
Amber	15
Red	28
Total BAU	172
<u>Climate Action</u>	
Green	391
Total Capital Bids	563

These bids relate to the BHE share of corporate capital schemes (Guildhall complex or corporate IT systems) and would fall to be met from the unrestricted income funds - it is anticipated that these relatively modest sums would be affordable. Note that any costs of Climate Action relating to BHE investment property would be funded from the designated sales pool which is part of the permanent endowment.

Conclusion

19. In this second annual capital bid round, there are 51 bids amounting to **£146m** of which £76m (13 bids) relates to the Climate Action Strategy. An initial sift has identified **£105m** relating to projects of a capital nature, with the remaining **£41m** falling outside the scope of the capital funding bid process either because they are wholly revenue in nature (£13.5m) or should be funded from local sources e.g Designated Sales Pools (£27.5m).
20. The £13.5m of bids requiring **revenue** resources all relate to Climate Action across a four year period, for which funding plans are being worked on as part of the medium-term financial planning. Most of the £105m of capital bid submissions have been classified as essential and identified against one of the agreed prioritisation criteria. Based on the narrative supporting the bids, an assessment of how essential these schemes appear from a corporate perspective has been undertaken using a RAG rating approach - resulting in £82.4m green, £14.1m amber and £8.3m red. Of the £82.4m green, £45.5m relates to BAU and £36.9m to Climate Action.
21. However, even if the bids classified as amber and red were to be deferred, the remaining green bids at £82.4m is considered to be too high and will require further scrutiny before final bid proposals can be agreed in December as part of the build up to the 2021/22 budget round. Therefore, the proposed way forward is:

- Chief Officers be requested to further consider the ranking of their bids in consultation with the service committee chairs (if not already done so) to identify the most critical proposals (with innovation and reputational impact uppermost) and that bids ultimately RAG rated as amber and red be deferred.
- A review of Climate Action bids be undertaken in liaison with the Climate Action Team, to confirm the priority of proposals alongside the business as usual bids.
- The affordability of the highest- ranking new bids to be determined via the MTFP modelling which will inform sustainable 2021/22 budget proposals for Members to consider in December.

Report author

Dianne Merrifield

Group Accountant, Capital

E: dianne.merrifield@cityoflondon.gov.uk

T: contact via Teams whilst working from home