



Finance Committee of the Barbican Centre Board

Date: WEDNESDAY, 30 SEPTEMBER 2015
Time: 1.45 pm
Venue: COMMITTEE ROOMS, 2ND FLOOR, WEST WING, GUILDHALL

Members: Deputy John Tomlinson (Chairman)
Deputy Dr Giles Shilson (Deputy Chairman)
Lucy Frew
Emma Kane
Vivienne Littlechild
Deputy Catherine McGuinness
Judith Pleasance
Keith Salway

Enquiries: Gregory Moore
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Lunch will be served in the Guildhall Club at 1pm
N.B. Part of this meeting could be the subject of audio or visual recording

John Barradell
Town Clerk and Chief Executive

AGENDA

1. **APOLOGIES**
2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**
3. **MINUTES**
To approve the public minutes and summary of the meeting held on 1 July 2015.
For Decision
(Pages 1 - 2)
4. **FINANCIAL APPRAISALS**
Report of the Chamberlain.
For Information
(Pages 3 - 18)
5. **GATEWAY 7 OUTTURN REPORT: BUILDING ENERGY MANAGEMENT SYSTEM**
Report of the Director of Operations & Buildings.
For Decision
(Pages 19 - 22)
6. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
7. **ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT**
8. **EXCLUSION OF THE PUBLIC**
MOTION – That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of the Schedule 12A of the Local Government Act.
9. **NON PUBLIC MINUTES**
To approve the non-public minutes of the meeting held on 1 July 2015.
For Decision
(Pages 23 - 26)
10. **OUTSTANDING ACTIONS**
Report of the Town Clerk.
For Information
(Pages 27 - 28)
11. **SBR ROADMAP UPDATE**
Report of the Chief Operating & Financial Officer.
For Information
(Pages 29 - 40)
12. **BUSINESS REVIEW**
Report of the Chief Operating & Financial Officer.
For Information
(Pages 41 - 60)

13. **CREATIVE LEARNING FINANCIALS**
Report of the Director of Creative Learning.
For Information
(Pages 61 - 64)
14. **DEVELOPMENT UPDATE**
Report of the Chief Operating & Financial Officer.
For Information
(Pages 65 - 66)
15. **UPDATE ON CAPITAL WORKS**
Report of the Director of Operations & Buildings.
For Information
(Pages 67 - 76)
16. **GATEWAY 2 PROJECT PROPOSAL: THEATRE MAIN HOUSE AND PIT DIMMERS**
Report of the Director of Operations & Buildings.
For Decision
(Pages 77 - 88)
17. **GATEWAY 1/2/3/4 PROJECT PROPOSAL AND OPTIONS APPRAISAL: BARBICAN FOYER SHOP**
Report of the Director of Operations & Buildings (TO FOLLOW).
For Decision
18. **GATEWAY 3/4 OPTIONS APPRAISAL: LEVEL 4 INVESTMENT**
Report of the Director of Operations & Buildings.
For Decision
(Pages 89 - 108)
19. **GATEWAY 3/4 OPTIONS APPRAISAL: CONCERT HALL 2016**
Report of the Director of Operations & Buildings.
For Decision
(Pages 109 - 122)
20. **GATEWAY 7 OUTTURN REPORT: GARDEN ROOM**
Report of the Director of Operations & Buildings.
For Decision
(Pages 123 - 128)
21. **BARBICAN CAMPUS: PROJECTS UPDATE**
Report of the Director of Operations & Buildings.
For Information
(Pages 129 - 136)
22. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
23. **ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT**

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FINANCE COMMITTEE OF THE BARBICAN CENTRE BOARD

Wednesday, 1 July 2015

Minutes of the meeting of the Finance Committee of the Barbican Centre Board held at Committee Rooms, 2nd Floor, West Wing, Guildhall on Wednesday, 1 July 2015 at 1.45 pm

Present

Members:

Deputy John Tomlinson (Chairman)	Emma Kane
Deputy Dr Giles Shilson (Deputy Chairman)	Deputy Catherine McGuinness
Lucy Frew	Keith Salway

In Attendance

Officers:

Sir Nicholas Kenyon	Managing Director, Barbican Centre
Sandeep Dwesar	Chief Operating & Financial Officer, Barbican Centre
Michael Dick	Director of Operations & Buildings, Barbican Centre
Leonora Thomson	Director of Audiences & Development, Barbican Centre
Niki Cornwell	Head of Barbican Finance, Chamberlain's Department
Gregory Moore	Town Clerk's Department

1. **APOLOGIES**

Apologies were received from Vivienne Littlechild and Judith Pleasance.

2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**

There were none.

3. **MINUTES**

The public minutes and summary of the meeting held on 21 May 2015 were approved.

4. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**

There were no questions.

5. **ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT**

There were no urgent items.

6. **EXCLUSION OF THE PUBLIC**

RESOLVED – That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of the Schedule 12A of the Local Government Act.

7. **NON PUBLIC MINUTES**
The non-public minutes of the meeting held on 21 May 2015 were approved, subject to one typographical error.
8. **OUTSTANDING ACTIONS**
The Committee received a report of the Town Clerk setting out the outstanding actions list and noted the various updates and additions.
9. **CAPITAL CAP ANNUAL REPORT**
The Committee considered and approved a report of the Managing Director setting out the final outturn position for the second year (2014/15) of the Cap 3 period and presenting a revised project programme and expenditure plans for the final two years of Cap 3 (2015/16 & 2016/17).
10. **BUSINESS REVIEW**
The Committee received a report of the Chief Operating & Financial Officer presenting the Business Review for the Period 2 Accounts 2015/16.
11. **MUSIC FINANCIALS**
The Committee received a report of the Director of Arts setting out the financial performance of the Music department for 2014/15.
12. **DEVELOPMENT UPDATE**
The Committee received a report of the Chief Operating & Financial Officer which set out the latest fundraising results against budget.
13. **REPORT OF URGENT ACTION TAKEN**
The Committee received a report of the Town Clerk advising of one action taken in accordance with urgency procedures since the last meeting.
14. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
There were no questions.
15. **ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT**
There were no urgent items.

The meeting ended at 2.45 pm

Chairman

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Committees:	Dates:
Finance Committee Finance Committee of the Barbican Centre Board (for information)	21 July 2015 30 September 2015
Subject: Chamberlain's Financial Appraisals of Third Party Entities	Public
Report of: The Chamberlain	For Decision

Summary

The Chamberlain's Department undertakes financial appraisals on potential commercial tenants, suppliers and service providers. Such appraisals have been undertaken based on practical experience and knowledge using an internally developed procedure guide. In February 2015 new procurement regulations were transposed into UK law with an increased requirement on transparency and compliance in respect of selection criteria. The new regulations also require a 'light touch' regime for low value contracts below the OJEU threshold. Consequently, the procedure guide was amended to incorporate selection criteria required by the new regulations, and the assessment methodology is disclosed to suppliers up front to ensure transparency. Pre-Qualification Questionnaires (PQQ) now include, where relevant, explicit financial criteria from the procedure guide, against which potential tenderers can assess their own suitability on a pass/fail basis. For contracts below the OJEU threshold, the procedure guide was revised to allow a proportional approach based upon the risk of the contract. Ensuring the procedure guide has official status represents a logical development that protects the City from external challenge, and makes the procurement process more accessible to SMEs.

This report presents this procedure guide for formal adoption by the City Corporation. The new regulations will require modest changes to the working practices of the appraisals team, however it is expected that this can be accommodated within existing resources.

Recommendations

Members are asked to:

- a) Note the report
- b) Adopt the financial appraisal procedure guide
- c) Delegate authority to the Chamberlain to amend the guide as necessary to comply with United Kingdom and European Community procurement law and any other legal and accounting requirements which may arise in due course.

Main Report

Background

1. The City Corporation has a diverse range of commercial and business interests which require it to interact financially with the wider world, which exposes its financial resources to risk, either by losing income or by incurring excessive expenditure when interacting with third parties. Financial appraisals are a means of mitigating that risk in some part.
2. The main areas of risk are retail and commercial leases, property developments, contracts for goods or services and the Approved List of Caterers for Guildhall functions.
3. In February 2015, the Public Contract Regulations 2015 (PCR 2015) were transposed into UK law, with increased requirements on transparency and compliance in respect of selection criteria used in financial appraisals. The new requirements have resulted in financial appraisals coming under more scrutiny as they represent a visible and important facet of the procurement process. As such they are exposed to challenge, particularly where an adverse financial appraisal is given.
4. Members of the Barbican Board have queried the appropriateness of financial appraisal procedures applied and the Chairman of Finance Committee has agreed that a review of the procedures should be undertaken.
5. This report seeks Members' approval for the formal adoption of the current financial appraisal procedure guide to be used when undertaking financial appraisals of third party entities.

Current Position

6. Financial appraisals are undertaken on third party entities which are:
 - a. taking tenancies of City commercial and retail properties;
 - b. undertaking developments of City property holdings;
 - c. being shortlisted for City Corporation contracts with a value in excess of £172,000 for goods and services or £400,000 for works;
 - d. being retained on the Approved List of Caterers for Guildhall functions.
7. A procedure guide has been developed from existing documentation, current working practices and practical experience. The intention has been to codify City practice, ensure robust assessment procedures to mitigate financial risk, and demonstrate compliance with Regulation 58 (Selection Criteria – Economic and Financial Standing) of PCR 2015. The guide is a living document which continues to be amended as necessary in the light of experience and in response to changing statutory requirements. It currently has no formal status, being an internal working document used to ensure that all financial appraisals are undertaken to the same standards of analysis.

8. During 2014 the financial appraisal practices in nine other local authorities were benchmarked against the City's current practice. Within these nine examples practice ranged from one instance of sole reliance on Credit Reference Agency (CRA) to sole reliance on analysing company accounts (three instances). Four authorities analysed company accounts supplemented by CRA. One authority was implementing an on-going project to move away from financial appraisals in favour of risk based assessment. There appeared to be no standard model or guidance for financial appraisals in use.
9. The City uses company accounts supplemented by the background information provided in Credit Reference Agency reports for financial appraisals. This compares favourably to those authorities that only used information from a single source, and would accord with the practices of the majority of those authorities included in the benchmarking.

Proposals

10. It is proposed that the procedure guide should be adopted as the City's standard procedure to be applied for all financial appraisals undertaken by the Chamberlain's Research and Technical section.
11. It is also proposed that authority should be delegated to the Chamberlain to amend the guide as necessary, once adopted, in order to reflect the continuing development of procurement policy under PCR 2015 and any other legal and accounting requirements which may arise.
12. The main change to existing procedures is to incorporate mandatory assessment criteria required by PCR 2015, such as those relating to turnover thresholds. The revised procedures are more transparent, with the financial criteria and method of assessment communicated to prospective suppliers up front. This enables them to undertake a measure of self-assessment to determine whether they have the financial and economic standing to perform the contract.
13. The procedures also incorporate the requirements of PCR 2015 relating to low value contracts below the OJEU threshold. For these tenders, contractors submit a self-assessment against the City's evaluation criteria and the financial appraisal process is only applied to the winning bidder. The revised procedures allow a proportional approach to the appraisal criteria based upon the size of the contract, and the pool of likely contractors.
14. The procedure guide is attached at Appendix 1 and incorporates the financial appraisal criteria used in the Pre-Qualification Questionnaire (PQQ) for contracts being let by City Procurement e.g. the calculation of turnover requirements, standard accounting ratios, and Altman's Z- Score.

Implications

15. With the advent of PCR 2015 it is imperative that the procurement process should demonstrate transparency and compliance with the new regulations. The financial appraisal of potential tenderers is a part of the procurement process which does come under scrutiny and challenge by external parties exercising their rights to challenge contract awards in accordance with regulations 88-104

(Chapter 6 Applications to the Court) of PCR 2015. Adopting the procedure guide and its PQQ criteria will underpin the already robust procurement procedures in place.

16. The procedures are compliant with regulation 111 (Assessing suitability – Chapter 8 Below threshold contracts) of PCR 2015, which requires a light touch procurement regime for low value contracts. Compliance with the new regulations reinforces the City's support for SME's, making it easier for them to engage with the procurement process and ensuring that any appraisal undertaken is proportionate to the risk of the contract.
17. Should the procedure guide and its PQQ criteria *not* be adopted, the financial appraisal elements of procurement projects will potentially breach statutory requirements and also leave such projects open to challenge by external parties. In addition the current unofficial status of the procedure guide detracts from the robustness of the actual procedures themselves and the validity of a strong corporate response to challenge.
18. It is not expected that adoption of the procedure guide will result in any adverse financial or HR implications. The revised procedures will require modest changes to the working practices of the appraisals team, however these changes can be accommodated within existing resources.

Conclusion

19. The financial appraisals of third party entities are coming under greater scrutiny as a result of PCR 2015. The adoption of the procedure guide and associated PQQ criteria will give formal status to what is currently an internal departmental working document and will also present the opportunity to demonstrate transparency and compliance as procurement practices develop.

Appendices

- Appendix 1 – Chamberlain's Financial Appraisals: Procedure Guide and Manual, including Pre-Qualification Questionnaire financial criteria.

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City of London Corporation

CHAMBERLAIN'S FINANCIAL APPRAISALS

Procedure Guide and Manual

Michael Clarke
Clem Harcourt

SECTION 1: INTRODUCTION

1.1 ABOUT THIS PROCEDURE GUIDE

This procedure guide has been written to replace several existing documents within Corporate Treasury in order to present a consistent approach to financial appraisals regardless of the source of the request e.g. commercial lettings, City property developments, procurement projects, and ad hoc background checks. The guide seeks to incorporate best practice and officers' experience and knowledge developed over several years. The main changes to previous practice brought about by the Public Contract Regulations 2015 [PCR 2015] are that only 2 years' full signed accounts can be requested for appraisal in respect of procurement projects and the Pre-Qualification Questionnaire now discloses financial criteria to potential tenderers to facilitate self-assessment. All other appraisals remain outside of these changes. In every respect however – analytical techniques, quality of evidence, and interpretation of results - all financial appraisals are undertaken in a standard manner and this guide should be read accordingly.

1.2 WHAT IS A FINANCIAL APPRAISAL?

1. A financial appraisal of a company [or other entity which produces accounts – e.g. charity, limited liability partnership, sole trader] in the context of the Research and Technical team [R&T] is a desk top evaluation of publically available financial information, usually in the form of published accounts or summaries thereof. Constituent members of consortia are treated as standalone individual entities for the purposes of financial appraisals; the format of a consortium will determine the impact of the appraisal results.
2. A financial appraisal undertaken on a set of accounts is valid and relevant solely to that set of accounts at the time of the appraisal.
3. A financial appraisal is not:
 - a. An exercise in due diligence [which is a phrase with a very specific meaning in law];
 - b. A guarantee of future performance, whether good or bad;
 - c. An opinion which applies forever afterwards;
 - d. Fool proof, as it can only be as good as the available information;
4. All appraisals are undertaken to common standards of analysis and presentation and also require the same standard of information to be provided to the R&T team. City Procurement requests are based on 2 years' full signed accounts. Other departments' requests are based on 3 years' full signed accounts.

1.3 WHY UNDERTAKE A FINANCIAL APPRAISAL?

5. The City of London Corporation [CoL] has a diverse range of commercial and business interests. This means that its financial resources are exposed to risk, either by loss of income or by incurring excessive expenditure, when engaging with other entities. Financial appraisals are a means of mitigating that risk in some part.
6. The main areas of risk are retail and commercial leases, property developments, contracts for the supply of goods or services and the Approved List of Caterers for Guildhall functions.

1.4 WHAT SOURCES OF INFORMATION ARE USED?

7. The principal sources of information are company accounts, management accounts and business plans with financial information.
8. Credit reference agency reports are used for accounts information, company structure, shareholdings and directorship histories and not for the credit rating/procurement limits suggested by the agency. There are several reasons for this – credit ratings utilise information to which the CoL is not privy, the information is analysed by methodologies which are not disclosed and the ratings themselves are not directly applicable for the purposes of a Chamberlain's financial appraisal.
9. Companies [or other entities] which are recently incorporated or still in inception will not have accounts as such to be appraised. In such instances business plans and supporting financial information are acceptable.
10. Accounts provided for appraisal should be:
 - a. The accounts of the entity in question
 - b. The latest available set;
 - c. Fully signed where required;
 - d. Full and not abbreviated accounts.
11. In the case of contract tenders, if at the date of the tender the last accounts were for a period ended more than ten months previously, interim management accounts and/or turnover statements for the current period should be provided.

SECTION 2: TECHNICAL

2.1 QUALITY OF THE INFORMATION REQUIRED

1. Where accounts are requested R&T requires full signed accounts which should meet the criteria in paragraph 10 above. The only exception allowable to this is where an entity has not been in existence long enough to file or produce this information. Prior year comparatives are not an acceptable substitute as they are usually lacking detailed notes.
2. Where a business entity is yet to be incorporated or has not yet filed any accounts it is the usual practice to request business plan type information and other ancillary information as follows:
 - a. An opening balance sheet;
 - b. Management accounts for the initial trading period to latest period [including detailed income/expenditure or profit & loss and latest balance sheet];
 - c. A medium term trading/cash flow forecast [preferably first year analysed month by month] or medium term business plan;
 - d. Information concerning the owners/partners/directors [names, dates of birth and addresses with postcodes];
 - e. Information about parent and ultimate parent companies [names and registrations numbers] if applicable.

This information should be produced and signed by a person in a senior position within the business.

3. Not every entity is obliged to produce accounts for filing or external scrutiny e.g. Limited Partnerships [N.B. these are distinct from Limited Liability Partnerships which are regulated in a similar manner to companies], sole traders. In such cases the certification or otherwise of the accounts can vary widely but as far as is practicable the same standard of verification should be applied. In all cases the standards of appraisal remain the same – the status of an entity does not influence the final opinion.
4. Business entities may be registered with regulatory bodies other than Companies House e.g. The Charity Commission, Financial Conduct Authority, and these can have different requirements for the filing of accounts. Companies registered in Crown dependencies or foreign countries are not necessarily governed by the same standards of certification and audit as mainland UK companies.
5. In such cases, if accounts are provided however they should still be checked for compliance with local statute/regulation as far as this can be ascertained. It is the general practice of R&T to accept such accounts as provided in good faith, subject to any additional source of information

available which can be cross checked to information in credit reference reports.

2.2 HOW FINANCIAL APPRAISALS ARE UNDERTAKEN

6. A financial appraisal is initiated by a request from another officer and should include all of the following information where applicable:
 - a. The name of the contract;
 - b. The total amount of contract [actual or estimated];
 - c. The length of the contract in years;
 - d. If the contract is more than 12 months in length - the specific phasing of contract amounts in each of the succeeding periods;
 - e. The names of the tendering entities and company registration numbers [which should be sourced from PQQ/application form not financial accounts supplied];
 - f. The reasons for particular concern if the contract cost is below any pre-determined de minimis level;
 - g. Which OJEU procedures are applicable to the contract procurement;
 - h. Whether or not the provision of financial statements was a mandatory condition under the OJEU procedure or similar.
 - i. The name of the relevant contact officer; and
 - j. The name of the Head of Finance who will financially review the associated Committee Report [if applicable].
7. The City Surveyor's department has a standard procedure to determine whether or not an appraisal is required and uses a request form which should include all of the relevant information for an appraisal if required.
8. The standard timescale applies to all appraisals but in cases where a short list exceeds 6 companies, an extension to this time should be agreed and confirmed with the requesting officer as soon as possible.
9. Once the information received for an appraisal is confirmed as being complete and correct the appraisal proper can commence.

2.3 HOW FINANCIAL APPRAISALS ARE UNDERTAKEN: ANALYSING THE FINANCIAL INFORMATION

10. Financial appraisals are conducted on a case-by-case basis and there is no set formula or threshold applied, provided the organisation has not failed in respect of any initial pass/fail criteria published on the PQQ. The results of the appraisal are down to the analysis of the information provided and the judgement of the individual R&T officers undertaking the appraisal.
11. In cases where the provision of financial information is a mandatory condition of a procurement exercise, R&T does not have freedom of action to obtain or utilise financial information unless it has been provided directly as part of the exercise. Once the information has been checked for quality

[see above section on quality] a standard working paper is completed. This applies regardless of whether a company files full accounts or not. Credit reference reports are to be obtained as near to simultaneous real time as possible to demonstrate equity of treatment.

12. Where an entity has not yet filed or published accounts then such business plan information as is supplied which also satisfies the quality requirements above may be used. This information rarely includes profit and loss accounts so it is not usually the case that a working paper can be completed. Credit reference agency reports should be obtained if available as these contain useful background information.

13. In general, the main items examined include, but are not limited to:

- a. Turnover;
- b. Profitability;
- c. Working capital;
- d. Net worth;
- e. Cash flow;
- f. Funding;
- g. Intercompany trading;
- h. Company ownership;
- i. Directors' appointments;
- j. The auditor's report;
- k. The directors' report;

14. Standard accounting ratios and Altman's Z-Score are used on PQQ as an initial check on financial suitability. Entities which fail to meet these criteria as published on the PQQ are not appraised. Entities which do meet these criteria will not necessarily be appraised as financially satisfactory.

15. In the case of charity accounts the proportion of restricted funds received and held should be noted. The charity's general effectiveness is more properly assessed from its level of general reserves and unrestricted incoming resources. The reserves policy should also be noted, whether or not this has actually been achieved. The relevance of restricted funds is not solely financial e.g. a charity's priorities may be dictated by the need to meet service delivery conditions attached to a restricted grant received.

16. The results of financial appraisals are reported to the requesting officer and the relevant departmental finance head if applicable.

SECTION 3: DEVELOPMENTS

3.1 CHALLENGES FACING FINANCIAL APPRAISALS

1. The financial and operational environment in which the City must function is changing, particularly with regard to contracts and tendering, procurement initiatives and accounting regulation. It is important that R&T keeps abreast of changes in order to maintain relevance and accuracy.
2. The main challenges identifiable in early 2015 include:
 - a. Closer regulation of procurement and prescription of financial appraisal requirements under EU directives e.g. Directive 2014/24 was transposed into UK law as PCR 2015 with effect from 26 February 2015;
 - b. Greater transparency of procedures required by City Procurement to meet challenges to tender evaluation results;
 - c. The effects of using strict financial criteria on PQQ as an initial self-certifying assessment by prospective tenderers;
 - d. How to monitor contractors' financial accounts over the life of contracts where the term extends past the next accounting date [as a minimum];
 - e. How to deal with consortia/Joint Venture Companies and remain compliant with EU regulation where applicable;
 - f. How to maintain a robust analysis in cases where usual appraisal practices are not ideally suited e.g. contracts tendered specifically with community interest companies/charities/social enterprises in mind;
 - g. Incorporation of more factors into the appraisals themselves e.g. cash flow analysis, cost benefit analysis of rent free periods vs. empty rates costs, weighting of risk assessment of money vs. time period.
 - h. Potential incorporation of more detailed financial appraisal information into committee reports which will raise the profile of R&T and emphasise the need for robust and defensible appraisal opinions in the face of member challenge.
3. How and when R&T meets these challenges will depend on the source – for example, forthcoming procurement regulation changes will be externally imposed and require immediate implementation whereas accounting standards will require internal review of working papers in the period after 2015.

SECTION 4: ANNEXES

ANNEXE 1: PQQ FINANCIAL CRITERIA

Appraisal Of Applicants' Financial And Economic Standing

1. Applicants are required to pass the City's appraisal of their financial and economic standing. The appraisal consists of three parts as described below:

PART A: Applicants are required to satisfy minimum standards with regards to their turnover requirement, standard accounting ratios and Altman's Z Score. Details of these standards and their calculation are set in para 2 to 5 below.

PART B: The Applicants' accounts will be examined following the process described in para 5 to 7 below to determine whether there is material evidence to show that they do not have the financial and economic standing to perform the contract.

PART C: Applicants with accounts that display any of the factors listed in para 8 below will automatically result in a failed appraisal. Applicants with accounts that display any of the factors listed in para 9 below will be failed unless there are strong mitigating circumstances.

Applicants Must Pass All Three Parts Of The Appraisal Process

PART A:

Turnover Ratio

2. Minimum Turnover Requirement:

The turnover requirement is calculated as the annual average of the last two reported financial years, divided by the estimated annual contract value. Applicants will be required to have a result of '**2.0**' or greater.

Standard Accounting Ratios

3. Applicants will be required to meet minimum standards with regards to the following accounting ratios calculated from their last reported set of financial accounts.

- a. Current Ratio: being total current assets divided by total current liabilities. Applicants will be required to have a result of '**Y.Y**' or greater.

- b. Quick Ratio: being total current assets excluding stock and work in progress divided by total current liabilities. Applicants will be required to have a result of '**Z.Z**' or greater.
- c. Profits before interest and tax as a percentage of an entity's turnover: Applicants are expected to be profitable and not to be loss making. No minimum profit percentage is prescribed as long as the applicant is profitable.
- d. Profits before interest and tax as a percentage of total assets: Applicants are expected to be profitable and not to be loss making. No minimum profit percentage is prescribed as long as the applicant is profitable.

Altman's Z Score

4. A definition and explanation of Altman's Z score and its calculation can be found on: http://en.wikipedia.org/wiki/Altman_Z-score

5. Applicants are required to have an Altman's Zones of Discrimination score of '**1.8**' or greater calculated as follows from the latest reported set of financial accounts:

- a. The sum of [Working Capital divided by Total Assets] multiplied by 1.2; plus
- b. The sum of [Retained Earnings divided by Total Assets] multiplied by 1.4; plus
- c. The sum of [Profits before interest and tax divided by Total Assets] multiplied by 3.3; plus
- d. The sum of [Market Capital divided by Total Liabilities] multiplied by 0.6; plus
- e. The sum of [Turnover divided by Total Assets] multiplied by 1.0.
- f. The sum of factors (a)-(e) above is compared to Altman's Zones of discrimination to reach a numerical score.

PART B:

Assessment of financial statements for evidence of financial and economic standing

5. In addition to the requirements set out in Part A above, the City will critically examine the following items in the accounts to determine whether the applicant has the financial and economic standing to perform the contract:

- a. Turnover
- b. Profitability
- c. Working Capital
- d. Net Worth
- e. Cash Flow
- f. Funding

- g. Intercompany Trading
- h. Company Ownership
- i. Directors Appointments
- j. Auditors Report
- k. The director's report
- l. Indices calculated on turnover, retained profit and working capital over three years.
- m. Notes to the accounts

Where the applicant is a charity, the following items will also be considered:

- a. The proportion of restricted funds received and held;
- b. The level of general reserves;
- c. The level of unrestricted incoming resources;
- d. The reserves policy, and whether or not this has actually been achieved;

6. In relation to the items above, the City will examine year to year changes, the accuracy of the data, any unexplained large movements, any changes in ownership, unexplained restating of prior year comparative figures and any relevant narrative to establish whether the applicant has the financial and economic standing to perform the contract.

7. The applicant will be failed if in making the assessment above, there is material evidence to show that the applicant lacks the financial and economic standing to perform the contract.

PART C:

Factors which will lead to a failed appraisal of the applicant's economic and financial standing

8. The following factors **will** result in a failed appraisal of the applicant's financial and economic standing:

- a. A qualified audit report on the latest set of accounts;
- b. Loss making entities with negative working capital and negative net worth
- c. Entities in administration;
- d. A refusal to provide 2 years' full signed accounts where it is known that such information exists;
- e. Signed accounts which are numerically inaccurate, incomplete or which contradict other versions of the same accounts;
- f. Accounts with pages inserted belonging to other entities;

Factors which will lead to a failed appraisal of the applicant's economic and financial standing unless there are strong mitigating circumstances

9. Applicants with accounts displaying any of the factors listed below will result in a failed appraisal of their economic and financial standing unless

there are strong mitigating circumstances shown in the accounts, or other financial documents that the applicant is able to provide to the satisfaction of the Chamberlain:

- a. Accounts overdue for filing by more than one month;
- b. Accounts disclosing a loss with negative working capital and whose net worth is negative if intangible assets are discounted.
- c. Three or more late filings out of the last five of documentation required by Companies House eg the annual return or accounts;
- d. Registrar's Motions to Strike Off from the register of Companies;
- e. Entities operating under a Corporate Voluntary Arrangement or other such agreement with creditors;
- f. An Emphasis of Matter raised by the Auditor eg on the validity or otherwise of a going concern statement;
- g. Failure to disclose a conflict of interest revealed by examination of the accounts.

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Agenda Item 5

Committees:	Dates:
Finance Committee of Barbican Centre Board Projects Sub Committee Barbican Centre Board	30/09/2015 08/10/2015 14/10/2015
Subject: Gateway 7 Outcome Report: Building Energy Management System (BEMS)	Non-Public
Report of: Managing Director, Barbican Centre	For Decision

Summary

Project Status Compared to GW2	Budget : Green Specification: Green Programme: Red
Project Status Compared to GW5	Budget: Green Specification: Green Programme: Red
Timeline	The project is complete pending approval of this report and final retention payment to contractor.
Total Estimated Cost @ Gateway 5	£788,922.42 (plus staff costs of £30,000)
Currently Approved Budget	£788,922.42
Spend to date	£767,680.84 (plus staff costs of £47,466)
Spend Profile * all expenditure, where appropriate, includes amounts 'accrued' at end of year based upon the estimated outturn position at the time. Occasionally the full amount is not required and the balance is 'returned', which then shows as negative expenditure.	2007/08 - £7k (pre evaluation) 2010/11 - £41k 2011/12 - £116k 2012/13 - £588k 2013/14 - £22k 2014/15 – (£2k)* 2015/16 – (£4k)*
Overall project risk	Green

Summary of Project Completed

Please see section 2, assessment of project success against criteria.

Recommendations

It is recommended that the lessons learnt be noted and, following processing of the final contractors payment, the project be closed.

Main Report

<p>1. Brief description of project</p>	<p>This project was to migrate the remaining plant controlled by the Centre's obsolete 'Satchwell' Building Energy Management System to the new 'Trend' System, previously installed as part of an air handling replacement scheme. The scheme involved:-</p> <ul style="list-style-type: none"> • Provision of new control graphics • Replacement of 59 Satchwell Outstations with new Trend Units • Upgrade of 22 Mechanical Control Centres • Connection of 2,548 existing control points • Provision of a new Energy Monitoring and Targeting Package
<p>2. Assessment of project against success criteria</p>	<ol style="list-style-type: none"> 1. Migrate plant from obsolete to new control system – this was the main objective of the project and was achieved. 2. Project Completed within the (Gateway 5) budget - achieved. 3. Project completed on time – not achieved (see section 4). 4. Project to the required specification/quality – achieved 5. Reduction in energy costs of £72k per annum – achieved – during the 17 month period from the end of July 2013 and the end of December 2014 cost savings were £180,127 at an average of £10,596 per month. This was achieved via system 'optimisation' actions carried out by the engineering dept. 6. Reduction in carbon emissions of 500 tonnes per annum – not achieved – during the same 17 month period mentioned above the estimated reduction in carbon emissions was 305 tonnes. 7. Reduction in maintenance costs of £13k per annum – assumed achieved – because of the way the Centre is invoiced for BRM it has not been possible to confirm that this saving has been made but, as we are now using a single company instead of two, and that was the basis on which the saving was calculated, it is a safe assumption to make.
<p>3. Was the project specification fully delivered (as agreed at Gateway 5 or any subsequent Issue report)</p>	<p>Yes</p>

<p>4. Programme</p>	<p>The project was not completed within the agreed programme</p> <p>The contractor's progress on site suffered from</p> <ul style="list-style-type: none"> • The contractor being initially slow to familiarise themselves with the site and did not provide the initial graphics packages and method statements. This led to a delayed start on site. • Once on site the contractor's progress was further delayed by the required IT data points not being installed in advance of the contractor starting work. This was the Centre's responsibility. • Changes in project scope requested from the Client department which necessitated works being carried out in the subsequent summer months (because it involved taking heating units off line) following the original completion date. 																																
<p>5. Budget</p> <p>Final Account Verification</p>	<p>The project was completed within the agreed budget</p> <p>The project was commenced prior to the introduction of the Gateway process so there isn't a report that is equivalent to a Gateway 2 report. The budget at the various stages of the project are set out in the table below:-</p> <table border="1" data-bbox="566 1171 1444 1742"> <thead> <tr> <th>Ref:</th> <th>Gateway 3/4 (Evaluation) £'000</th> <th>Gateway 5 (Tender Report) £'000</th> <th>Gateway 7 £'000</th> </tr> </thead> <tbody> <tr> <td>Pre Evaluation</td> <td>6,720</td> <td>6,720.00</td> <td>6,720.00</td> </tr> <tr> <td>Works</td> <td>971,000</td> <td>656,452.42</td> <td>691,383.84</td> </tr> <tr> <td>Fees</td> <td>75,000</td> <td>75,000.00</td> <td>69,577.00</td> </tr> <tr> <td>Contingency</td> <td>60,000</td> <td>50,750.00</td> <td>0.00</td> </tr> <tr> <td>Total</td> <td>1,106,000</td> <td>788,922.42</td> <td>767,680.84</td> </tr> <tr> <td>Staff Costs</td> <td>30,000</td> <td>30,000</td> <td>47,466</td> </tr> <tr> <td>Total</td> <td>1,142,720</td> <td>818,922.42</td> <td>815,146.84</td> </tr> </tbody> </table> <p>The works and fee final accounts have been verified by the Chamberlain's Department.</p> <p>There are no outstanding issues.</p>	Ref:	Gateway 3/4 (Evaluation) £'000	Gateway 5 (Tender Report) £'000	Gateway 7 £'000	Pre Evaluation	6,720	6,720.00	6,720.00	Works	971,000	656,452.42	691,383.84	Fees	75,000	75,000.00	69,577.00	Contingency	60,000	50,750.00	0.00	Total	1,106,000	788,922.42	767,680.84	Staff Costs	30,000	30,000	47,466	Total	1,142,720	818,922.42	815,146.84
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Review of Team Performance

6. Key strengths	The project manager for taking over the project after the tender stage and resolving, as best he could, the numerous technical difficulties that arose throughout this project.
7. Areas for improvement	Communication across all parties to this contract could have been better. These communication failings led to several misunderstandings about what should have been in/out of project scope and how plant is required to operate.
8. Special recognition	The project manager mentioned in section 6. This was an exceptionally technically complex project carried out in a live operational environment

Lessons Learnt

9. Key lessons	There was a lot of confusion about what was in/out of scope and how plant is required to operate.
10. Implementation plan for lessons learnt	For future projects of this nature it is essential that the project manager ensures that the client dept. is fully aware of the project scope, and that it is signed off by the relevant manager in advance of seeking tenders for the work.

Contact

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