

Committee(s): Resource Allocation Sub-Committee – For decision Policy and Resources Committee – For decision	Date(s): 8 April 2019 11 April 2019
Subject: Capital Funding – Interim Revised Prioritisation and Project Funding Update	Public
Report of: The Chamberlain	For Decision
Report author: Caroline Al-Beyerty, Deputy Chamberlain	

Summary

Whilst the City Corporation is able to fund the projects (major and second-tier) that are currently in flight during 2019/20, resources are significantly constrained beyond next year. At the Finance Committee and Policy and Resources Committee meetings in February 2019 Members agreed to hold a special meeting of Resource Allocation Sub Committee to scrutinise the capital funding bids and prioritise central resources. Members agreed the following additional interim criteria which have been used to prioritise the capital funding bids:

- a. A hold on gateway 5 approvals in the project procedure and all new projects pending the review. Resource Allocation Sub-Committee could defer projects that are not critical for 1 year; and only
- b. Approve essential schemes that:
 - i. Address a risk on the corporate risk register, and
 - ii. Have a sound business case that clearly demonstrates the negative impact of deferring the scheme, i.e. penalty costs or loss of income, where these are material (if any schemes are deferred, cancelled or scope reduced there will inevitably be some abortive costs).

This prioritisation process needs to align with the priorities identified from the fundamental review of revenue budgets. However, the consequent criteria will take time to formulate and the need for prioritisation is immediate.

Only schemes funded from central resources are within scope of this exercise. Current capital schemes have a total central funding requirement of £429m. The following table summarises how these schemes have been categorised and the result of the prioritisation exercise:

Table 1: Summary of Current Funding Bids	City Fund £000	City's Cash £000	Total £000
Bids fulfilling interim prioritisation criteria	11,215	5,936	17,151
Other bids for member consideration	20,101	8,181	28,282
Internal Loans and Payback Bids	2,300	21,939	24,239
Bids relating to Major Projects	19,000	-	19,000
Deferred/Pipeline Bids	162,827	177,072	339,899
	215,443	213,128	428,571

As a result of the prioritisation exercise it is proposed that schemes with a value of £340m are deferred for consideration in the fundamental review and schemes with a value of £89m are considered for continuation. An annual capital bid process should be introduced to set the budget from 2020/21 and inform the Medium-Term Financial Strategy against the revised prioritisation criteria.

Recommendations

Members are asked to:

- Approve the prioritisation of new capital projects in 2019/20 in accordance with the criteria in paragraph 6 and 7 and confirm any additional interim criteria to be applied pending the fundamental review (paragraph 18).
- Consider the schemes in paragraph 13 (Tables 2 - 4 and Appendices 1 – 4) for release from hold to continue through the Gateway procedure, with a combined value of £89m should they all be approved.
- Consider approving now £23.622m of funding for schemes detailed in Appendix 6 as follows:
 - internal loan funding with:
 - payback periods of 5 years or less of up to £3m; and
 - payback periods of more than 5 years of up to £18.818mto be allocated from the reserves of City Fund and City's Cash, subject to other relevant approvals including gateways and Court of Common Council. Each scheme will be considered under its own merits.
 - funding of up to £1.804m for the other bids be drawn from the unallocated balances remaining in the 2018/19 City Fund and City's Cash provisions for new schemes.
- Defer the approval of funding for schemes identified in Appendix 5A and 5B with a current value of £340m pending the fundamental review of services.
- Note that the unallocated balances remaining in the 2018/19 annual provisions for new schemes will be returned to the centre.
- Approve the introduction of an annual capital bid process to ensure that proposed new schemes are affordable and properly prioritised against criteria developed to reflect the new corporate model.

Main Report

Background

1. The City Corporation has a significant programme of major projects together with property investments and works to improve the operational property estate and the public realm. Spending on these types of activity is classified as capital expenditure.
2. The "Supplementary Revenue Projects" (SRP) classification was created to cover project expenditure controlled in the same way as capital projects that does not meet the accounting definition of capital expenditure, e.g. does not produce an

asset, such as preliminary project costs for feasibility and option appraisal. The relevant expenditure and income on such projects is posted to revenue accounts, rather than capitalised at year end.

3. The City Fund, City's Cash and Bridge House Estates capital and supplementary revenue project budgets were approved by the Court of Common Council in March 2019. They include only those budgets which are approved to spend in accordance with the corporate project procedures.
4. The current capital and SRP programme has not required the City Corporation to enter into external borrowing to fund projects, being able to fund projects from internal resources or external funding. With the inclusion of the Major Projects, the City Corporation will need to take on external borrowing on both City Fund and City's Cash. There are also a significant number of pipeline projects for which funding has yet to be determined. Such projects would previously have been funded from reserve balances of the relevant City Corporation Fund.
5. In light of the scale of potential capital requirements, which exceed available resources, in terms of both funding and officer capacity, Members agreed it will be essential to prioritise effectively which capital and SRP projects should progress. Funding will need to be allocated in a measured way, by applying a process of prioritisation that ensures the right schemes are progressed in order to meet corporate objectives.
6. In June 2012, the Policy and Resources Committee agreed only projects that are considered essential and which fit within the following categories may be approved at Gateways 1-4 of the Project Procedure, until further notice:
 - 1) Health and safety compliance
 - 2) Statutory compliance
 - 3) Fully/substantially reimbursable
 - 4) Spend-to-save or income- generating, generally with a short payback period (as a rule of thumb within 5 years)

In addition, under exceptional circumstances, other projects considered to be a priority by the Resource Allocation Sub-Committee will be allowed to proceed.

In December 2017, the Policy and Resources Committee agreed the addition of a further eligible essential category:

7c) Major renewals of income generating assets.

7. In addition, in March 2019, the Policy and Resources Committee agreed that only projects that are considered essential and which meet the interim prioritisation criteria should be allocated funding. The agreed criteria are:
 - a. A hold on gateway 5 approvals in the project procedure and all new projects pending the review. Resource Allocation Sub-Committee could defer projects that are not critical for 1 year; and only
 - b. Approve essential schemes that:
 - i. Address a risk on the corporate risk register, and

- ii. Have a sound business case that clearly demonstrates the negative impact of deferring the scheme, i.e. penalty costs or loss of income, where these are material (if any schemes are deferred, cancelled or scope reduced there will inevitably be some abortive costs).
8. The scope of the interim review relates only to schemes funded from central sources, which include the provisions for new schemes, On Street Parking Reserve, Community Infrastructure Levy (CIL), flexible external contributions and additional 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.

Current Position

9. The majority of projects working their way through the early gateways are generally funded either from internal existing local risk budgets and ring-fenced sources such as the City Surveyor's Designated Sales Pools or from external sources such as Section 106 deposits and Government/Transport for London grants which are restricted for specific purposes.
10. Ad hoc funding for small one-off schemes is through the £3m annual provisions for new schemes and therefore the need for a more robust prioritisation process applies in particular to focus on larger value requests (>£1m) which cannot generally be accommodated within the annual provisions.
11. A prioritisation exercise has been completed by officers to assess the unfunded pipeline capitals schemes that have not yet reached Gateway 5. Departments have provided commentary against the prioritisation criteria and added further unfunded pipeline schemes that had not been identified during the budget setting process earlier in the year.
12. The process followed by officers to assess the schemes was as follows:
 - a. Bids for loan funding/payback schemes were identified first. (NB many of these do not meet the prioritisation criteria).
 - b. All remaining bids were then assessed against the prioritisation criteria.
 - c. A second sift of schemes was undertaken to identify those which may be recommended.
 - d. Schemes which are direct dependencies for the confirmed Major Projects were separately identified.
 - e. The remaining schemes are recommended for deferral pending the outcome of the fundamental review.
13. This has resulted in schemes being categorised into the following groups. Members are asked to consider releasing these schemes from being on hold and allow them to progress through the gateway process. Where funding is required to enable projects to progress now (or pending an imminent decision from Resource Allocation Sub-Committee), this is shown against each bid.

a. Funding bids which fulfil the prioritisation criteria and are recommended for approval (Appendix 1)

Bid Number	Table 2: Schemes fulfilling prioritisation criteria (Appendix 1)	City Fund £000	City's Cash £000	Total £000	Of which Funding required now £000	Of which Funding Previously Approved £000
Q1	Hostile Vehicle Mitigation Security Programme	3,615	-	3,615	-	-
Q2	Bank on Safety (residual to complete interim scheme)	400	-	400	-	-
Q3	Security Enhancements CoL Buildings	7,200	2,800	10,000	-	7,000
Q4	Baldwins & Birch Hall Park Ponds (Epping)	-	2,500	2,500	-	-
Q5	Guildhall School Fire Alarm Renewal (Silk St & John Hosier Annex)	-	636	636	-	636
		11,215	5,936	17,151	-	7,636

b. Funding bids that require Member consideration (Appendix 2)

Bid Number	Table 3: Other Bids for Member Consideration (Appendix 2)	City Fund £000	City's Cash £000	Total £000	Of which Funding required now £000	Of which Funding Previously Approved £000
	<u>Replacement of Critical End of Life Assets/significant service implications</u>					
C1	Library Self Service Kiosks	70	-	70	70	-
C2	Cremator Replacement & Mercury Abatement	1,070	-	1,070	1,070	-
C3	Planning & Regulatory Services Casework Management System	496	-	496	-	496
C4	Guildhall Event Chairs	-	454	454	-	454
C5	Corporate IT service contract - Outsourcing Transition and Migration	-	1,200	1,200	100	-
	<u>Police Projects</u>					
C6	Police IT Modernisation (Office 365, Desktop refresh)	4,630	-	4,630	365	-
C7	Police Digital Interview Recording Solution	363	-	363	-	-
C8	Police Airwave Radio (Tetra) replacement	1,250	-	1,250	-	-
C9	Police Intranet/SharePoint	250	-	250	-	-
	<u>Policy Implementation</u>					
C10	Beech Street Tunnel Transport and Public Realm	11,355	-	11,355	-	-
C11	Electric Vehicle charging points for transition to a zero emission fleet	83	75	158	158	-
C12	Electric Charging Points at Walbrook Wharf (including new electrical supply)	-	3,395	3,395	-	-
C13	City Mental Health Centre (Funded through CIL)	493	-	493	-	493
	<u>Reputational schemes</u>					
C14	St Lawrence Jewry Church	-	3,057	3,057	-	1,915
C15	Guildhall West Wing Provision of upgraded lavatories and cloakroom facilities for members and Guildhall Guests (top-up funding)	41	-	41	41	-
		20,101	8,181	28,282	1,804	3,358

- c. Funding bids which require internal loans or have a payback period that require Member consideration (Appendix 3)

Bid Number	Table 4: Bids for Internal Loans/ Payback (Appendix 3)	City Fund £000	City's Cash £000	Total £000	Of which Funding required now £000	Of which Funding previously approved £000
Payback within 5 years						
L1	Electric Vehicle Replacements Internal Loan facility (excluding Police)	500	700	1,200	1,200	-
L2	Police Electric Vehicle Replacements Internal Loan facility	1,800	-	1,800	1,800	-
Payback over more than 5 years						
L3	Freemen's School Masterplan Phase 1		18,818	18,818	18,818	
Spend to Save (Operational Property Review)						
L4	L5-West Ham Park Nursery	-	1,704	1,704	-	-
L5	AWOW - Vacation Walbrook Wharf to Guildhall	-	717	717	-	-
		2,300	21,939	24,239	21,818	-

- d. Schemes which are dependencies for the Major Projects are recommended to continue through the gateway process to maintain pace. Three schemes have been identified (shown in Appendix 4) with a current total estimated funding requirement of £19m, although there are no funding requests for immediate approval.

14. The bids that are requested for approval by Members to progress are at various stages of the gateway procedure. The progress of each scheme will be one of the following routes:

- some have reached gateway 4a or gateway 5 and require a funding decision now (as highlighted in the tables above)
- some have previously received funding approval and can progress
- the remainder can be released from 'on hold' and be allowed to progress through the approval process for final funding confirmation at gateway 4a/5 as appropriate.

15. There are 9 new requests for funding comprising up to £21.818m of internal loan funding and £1.804m of central financial support. The Corporate Priorities Board proposes the following financing strategy (detailed in Appendix 6):

- the loan funding be allocated from the reserves of City Fund and City's Cash as appropriate, subject to other relevant approvals including gateways and Court of Common Council.
- funding for the other bids be drawn from the unallocated balances remaining in the 2018/19 City Fund and City's Cash provisions for new schemes.

16. If the above allocations from the 2018/19 provisions for new schemes are approved, unallocated balances of £1.110m will remain for City Fund and

£3.218m for City's Cash. It is proposed that these sums be returned to the balances of the respective funds. The future relevance of the annual provisions for new schemes will be considered in the context of the proposed new annual capital funding bid process (see para 19 and 20 below).

17. A summary of remaining schemes that are recommended for deferral is shown at Appendices 5A (City Fund) and 5B (City's Cash). Detailed schedules are available on request.

Further Proposals

18. Following the prioritisation exercise completed by officers, Members are asked to consider if any amendments to the interim prioritisation criteria in advance of the fundamental review should be agreed e.g.

- a. replacement of critical end-of-life components for core services;
- b. schemes required to deliver high priority policies
- c. schemes with a high reputational impact.

19. The fundamental review will assess the services provided by the City Corporation presenting a series of options for consideration at the RASC away day. The capital programme can then be assessed and reviewed against the revised corporate model, developing a set of prioritisation criteria for approval by Policy and Resources Committee.

20. An annual capital bid process will be introduced to set the budget from 2020/21 and inform the Medium-Term Financial Strategy against the revised prioritisation criteria. Bids will be assessed against criteria reflecting the new corporate model. This will avoid any waste of resources by progressing only those schemes with confirmed funding through the gateways.

21. Financial provision for those schemes approved for funding through the annual bid process will be incorporated into the MTFPs to demonstrate the affordability and prudence of our capital plans.

Conclusion

22. The current prioritisation criteria for capital schemes are not effectively determining which projects should be funded. A revised set of criteria need to be agreed with Members. This will form part of the fundamental review.

23. In the meantime, schemes progressing in 2019/20 will be subject to interim prioritisation criteria, deferring projects where possible to be assessed by the revised criteria.

24. This report sets out the schemes that officers are asking Members to consider for continuation in the Gateway procedure and those schemes being recommended for deferral.

Appendices

- Appendix 1 – Funding bids with internal loans/payback
- Appendix 2 – Funding bids which fulfil the prioritisation criteria
- Appendix 3 – Funding bids which are recommended for further consideration
- Appendix 4 – Major Project dependant funding bids
- Appendix 5A – Current City Fund bids recommended for deferral
- Appendix 5B – Current City's Cash bids recommended for deferral
- Appendix 6 – Financing strategy for approved schemes

Background Papers

- Capital Programme – Project Funding: Policy and Resources Committee, 7 June 2012 (Non-Public)
- Risk Management Update – Audit and Risk Management Committee, 15 January 2019 (Public)
- Capital and Supplementary Revenue Project Funding – Fundamental Review and Interim Revised Prioritisation Process: Policy and Resources Committee, 21 February 2019 (Public).

Caroline Al-Beyerty

Deputy Chamberlain

T: 020 7332 1113

E: Caroline.Al-Beyerty@cityoflondon.gov.uk