

<b>Committee(s)</b>	<b>Dated:</b>
Corporate Asset Sub-Committee – For Decision Finance Committee – For Information	11 July 2019 23 July 2019
<b>Subject:</b> Major Works Maintenance Forecasting and Gap Funding – Operational Property Portfolio	<b>Public</b>
<b>Report of:</b> City Surveyor (CS.277/19)	<b>For Information</b>
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### Summary

Cyclical renewal and maintenance across the operational portfolio is addressed through the Cyclical Works Programme (CWP) or ‘minor works’ maintenance for non-ring-fenced assets. If the maintenance works are over a value threshold of £250k they are dealt with separately via a bid through the Gateway process for individual funding for ‘major works’ maintenance.

This report provides an overview of ‘major works’ maintenance across the operational estate (excluding Housing) with a prioritised list of works due in 2020/21. The recommended major works required for 2020/21 are confined to the London Metropolitan Archives (LMA) at an estimated cost of circa £3.22m (including fees). All other cyclical maintenance across the operational estate (excluding Guildhall and Walbrook Wharf which is the subject of a separate report to this committee) will be bid for as part of the annual Cyclical Works Programme (CWP) except for the ring-fenced properties.

This report also provides an overview of ‘major works’ maintenance required across the portfolio over the next 5 years. The ‘major works’ maintenance items are taken from the same 20 year Forward Maintenance Plans which inform the CWP and bid for annually. The proposed major works for 2020/21 and subsequent years is currently unfunded.

The major works programme across the operational estate is complex with implications on service delivery, sustainability and potential business disruption where major capital items need repair or replacement. Further detailed analysis will be required, including consideration of alternative options and resource implications for delivery before future ‘major works’ maintenance can be finalised for Member approval. The report reaffirms the requirement for a strategy of rationalisation of the operational estate to reduce running costs, including maintenance liability, going forward.

Member approval is sought in principle for the major works maintenance for 2020/21 which will form part of the new Annual Bid Process. Members are also requested to note the full potential liability of all ‘major works’ maintenance projects across the

operational estate over the next 5 years, not visible or possible to implement through the CWP due to current budget availability.

### **Recommendation(s)**

Members are asked to:

- Note the potential funding requirement for the prioritised major works maintenance across the operational estate due from 2020/2021 and within the next 5 years which will be subject to future prioritisation and the subsequent Annual Bid Process.
- Approve in principle a major works maintenance bid for the LMA at an estimated sum of £3.22m which will be subject to the Annual Bid Process this year and subject to the Fundamental Review
- Note a further report on CWP minor works maintenance will follow in the Autumn this year
- Reaffirm the requirement for a strategy of rationalisation of the operational estate to help reduce the potential running costs, including maintenance liability going forward.

### **Main Report**

#### **Background**

1. The Cyclical Works Programme (CWP) provides maintenance forecast for repairs across the operational estate (excluding Housing) under a threshold of £250k based on 20 year Forward Maintenance Plans. These works are reviewed and prioritised, and a budget allocation provided annually (next to be reported to this committee in the Autumn). At present there is no equivalent forecast for major works maintenance across the operational estate (excluding Housing) i.e. routine revenue projects or capital projects over £250k for the same period.
2. The annual bid for the CWP is usually approximately £12 million per annum and identified in the medium-term financial forecast as an appropriate level of spend. However, each year the list of maintenance requirements far exceeds this amount and projects are deferred to the following year.
3. Members have previously been advised on the total backlog of maintenance (circa £79m – see Appendix 1 Backlog of Cyclical Maintenance Update – July 2019) across the operational estate (excluding Housing) in a report to this committee in September 2018. An update on the current level will be reported to Resource Allocation Sub Committee at the next Away Day. By way of confirmation, this report concerns forthcoming major works maintenance only.
4. Currently, major works maintenance items above the £250k threshold are dealt with separately i.e. they are brought forward only when there is a compelling operational priority and/or sufficient availability of resources (staff and finance) to

deliver. It is recognised that such a gap represents a risk in terms of financial forecasting and in turn the ability to report on the financial sustainability of the entire operational portfolio.

5. Accordingly, due to the Fundamental Review and an annual bid process officers have proposed that a prioritised major works maintenance list for 2020/21 be considered for approval in principle in order that further due diligence be undertaken to prepare a detailed brief, associated works programme and options analysis prior to refined estimated costs for final approval. The total estimated cost of the works recommended to be undertaken from 2020/21 is £3.22m and is confined to the London Metropolitan Archives (LMA). All other recommended maintenance from the 20 year Forward Maintenance Plans due in 2020/21 will be included in the CWP bid process and reported later this year for approval.
6. The City is already making a significant investment in its operational estate. The CWP has an annual programme of £12m pa and in addition there is a £4m pa programme of additional funding for City Fund projects. Schemes are prioritised and whilst not everything makes the cut for funding, a reserve list is maintained to allow substitution should one of the agreed projects not go ahead. There are some projects that are not being progressed but there is sufficient funding to allow all urgent projects to be tackled
7. The major works maintenance recommended by the City Surveyor at the LMA is estimated as follows. Subject to comments provided in paragraphs 17 and 18 below and to be confirmed on submission of the actual bid, partial recovery of the eventual cost of the works is expected via the service charge with the tenant of part (Finsbury Business Centre): -
  - a. External Decoration - £300,000
  - b. Fire Alarm Replacement - £300,000
  - c. Landlords Lighting and Power Rewire - £500,000
  - d. Heating System Replacement - £1.7 million
  - e. Professional fees and Surveys - £422,000

Estimated total (excluding Risk) - £3.22m

8. Officers estimate the total unfunded major works maintenance across the entire operational assets over the next 5 years to be approximately £35m as detailed in Appendix 2. At this stage this is a provisional estimate and again further detailed analysis of the specific repair or replacement of items is required before a funding request can be made. No financial provision for the above backlog is currently recorded. However, as reported in the Asset Management Service Based Review (AM SBR) there is a need to deliver better asset management information to support financial sustainability across the operational estate.
9. The major works maintenance programme across the operational estate is complex with implications on service delivery, sustainability and potential business disruption where major capital items need repair or replacement. Further detailed analysis will be required, including the impact of potential business disruption on service delivery i.e. due to possible need to temporarily

decant, consideration of alternative options and resource implications for delivery before a prioritised list can be offered for member approval.

10. Partial mitigation of the total outstanding major works maintenance is provided by planned capital projects currently in the Gateway process e.g. Guildhall Masterplan, City of London School for Boys' Masterplan, Conversions of Barbican Exhibition Halls, Markets Consolidation Project, City of London Freeman's, Police Accommodation and New Courts Facility etc. However, these projects are not yet in the delivery phase and the extent to which they mitigate the specific maintenance backlog is difficult to estimate without further substantial detailed assessment as highlighted in paragraph 6 above.
11. Given the funding gap and the likelihood that all works will be required at some point within the next 5 years it is proposed that this potential liability be communicated to Resource Allocation Sub-Committee as part of the Annual Bid Process. The intention being to provide members with better asset management information to support financial sustainability across the operational estate.
12. A separate report that includes major works maintenance due at Guildhall and Walbrook Wharf is on this committee's agenda. Given these works along with those listed above for the LMA represent all the major works maintenance bids for 2020/21, i.e. no further prioritisation, it is recommended all works are approved in principle.

### **Corporate & Strategic Implications**

13. The ability to accurately forecast capital requirements across the operational estate assists with financial sustainability and resource (both staff and capital) planning. Greater visibility of future capital projects also helps plan major works across the operational estate. The Corporate Property Asset Management Strategy currently states that assets will be maintained in 'good' condition. However, if funding is not available annually to maintain all assets to that standard officers will continue to have to prioritise maintenance, inevitably with some not capable of meeting the stated corporate standard.
14. This proposal is consistent with the current Corporate Property Asset Management Strategy and the recommendation within the Asset Management Service Based Review (AM SBR) to identify and deliver better asset management information to support financial sustainability across the operational estate.

### **Financial Implications**

15. There are significant potential capital commitments across the operational estate, which because of the limits on resources, are unlikely to be all funded over the current planning and choices will need to be made. This underlines the need to review the operational estate and where possible rationalise it to reduce future maintenance liability and Members are asked to continue to endorse this view.

16. It is noted that the future liabilities are across both City Fund and City Cash assets. Those responsible for authorising maintenance on ring fenced assets are advised annually via the CWP process of minor works maintenance due that year. This report now identifies major works maintenance over the 5 year forecast, noting however works are funded separately due to funding source e.g. City of London schools, City of London Police etc.

### **Next steps**

17. Officers need to further review the implications of the major works maintenance included in Appendix 2 before forming part of the future Annual Bid Process. This review will require input from the relevant department service managers and City Surveyors in order to agree a potential programme of investment.

18. Given the complex nature of major works repair or replacement, it is proposed that building specific officer groups (to include the relevant asset manager, facilities manager, project manager and service department representative) are set up for priority ranked projects (if approved in principle) with the specific objective of considering options prior to bids in the Annual Bid Process. For works in 2020/21 this is confined to the LMA but will be relevant in future years.

19. It is further proposed that any major works items recommended to be undertaken by the City Surveyor but deferred at the request of the relevant service department due to operational reasons, will be reported back to this committee to provide corporate oversight of deferred maintenance and liability backlog.

20. The proposed works in 2020/21 are subject to the Annual Bid Process and the Fundamental Review. The implications of not undertaking the works, in terms of maintaining the operational status of the facility and/or contractual obligations to the tenant of the LMA will be outlined in the actual bid.

### **Conclusion**

21. Currently there is no approved major works maintenance programme across all the operational estate. Capital maintenance is currently dealt with via the Gateway process as and when capital replacement items or routine revenue projects over £250k are necessary. Consequently, whilst the CWP provides financial forecasting for minor works across the operational estate there is no equivalent for major works items. This report provides a prioritised major works maintenance forecast for works due in 2020/21.

22. The report also provides corporate oversight of major works maintenance across the operational estate over the next 5 years that will assist capital and resource planning. This report aligns with the AM SBR recommendation to deliver better asset management information to support financial sustainability across the operational estate.

## **Appendices**

- Appendix 1 – Backlog of Cyclical Maintenance Update – July 2019
- Appendix 2 – List of all Major Works Maintenance Forecast due across the operational estate (excluding Housing) in the next 5 years

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