

Committee(s): Resource Allocation Sub Committee – For decision Policy and Resources – For decision Finance Committee Court of Common Council	Date(s): 2 May 2019 2 May 2019 21 May 2019 23 May 2019
Subject: Capital Funding Update – Bids for Reprioritisation and Annual Bid Process Details	Public
Report of: The Chamberlain	For Decision
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Summary

This report follows on from the main capital prioritisation paper agreed in April and considers the case for four schemes previously placed on hold to be allowed to progress outside of the fundamental review:

Table 1: Summary of Bids for Consideration		City Fund £000	City's Cash £000	Total Estimated Cost £000	Funding approval required now £000
Changes in Priority Status					
i	Holborn Viaduct and Snow Hill Pipe Subways over Thameslink - Repairs	10,000	-	10,000	-
ii	All Change at Bank (cost range)	4,000 - 18,000	-	4,000 - 18,000	660
iii	Wanstead Park Ponds	-	12,000	12,000	150
Internal Loan Funding - Payback over more than 5 years					
iii	Girls' School Expansion		15,300	15,300	15,300
		14,000 - 28,000	27,300	41,300 - 55,300	16,110

Should these schemes be agreed for progression, Corporate Priorities Board recommends the following sources of funding:

- £660k to be drawn from the balances currently available in the On- Street Parking Reserve.
- £15.45m to be drawn down from the general reserves of City's Cash, subject to the approval of the relevant gateway reports. Since no existing approved

financial provision exists, this will also require agreement of the Finance Committee and Court of Common Council.

The All Change at Bank project is the subject of a resolution from Streets and Walkways Sub Committee to allow the scheme to progress. The total cost of the scheme is currently estimated at between £4m and £18m, with the variance in cost largely driven by the choice of materials used. Officer advice from Priorities Board (including the Director of Built Environment) remains that no further works are needed on Health and Safety grounds, but if Resource Allocation Sub Committee wish to respond positively to the request from the Streets and Walkways Sub Committee, that the funding approval is limited to £4m and that Streets and Walkways Sub Committee consider what could be delivered within this sum.

Confirmation of the scope of funding sources captured by this review has been provided to clarify any areas of uncertainty. The scope relates only to schemes funded from central sources which include the On-Street Parking Reserve, Community Infrastructure Levy (CIL), flexible external contributions (e.g. some Transport for London grants) and additional allocations from the capital or 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 currently excluded, together with schemes wholly funded from external grants, and tenant / developer contributions e.g. under S278 agreements and most S106 deposits.

Members are asked to confirm an important principle of prioritisation to safeguard the robustness of the process going forward. This principle is: to ensure that, in the first instance scheme objectives must be considered against agreed corporate priorities, irrespective of the specific source of central funding to be applied. Therefore, although a scheme may fit within the permissible purpose of a specific source of central funding, such as the On-Street Parking Reserve, it does not follow that it should be given precedence over schemes with a higher corporate priority.

Approval is sought to the proposed annual bid process, which links to the business planning cycle flowing through to financial planning processes and will provide the opportunity to consider all bids across the organisation against the same criteria at the same time. Where schemes currently on hold do not meet criteria for funding following the fundamental review and where third-party funding is repayable this will be considered from central resources on a case-by-case basis. Details of the proposed annual bid process are provided at paragraph 15

Recommendations

Members of the Resource Allocation Sub and Policy and Resources Committees are asked to:

- i. Consider whether four schemes previously placed on hold pending the fundamental review should be allowed to progress:
 - o Repairs to Holborn Viaduct and Snow Hill Pipe Subways over Thameslink

- All Change at Bank
 - Wanstead Park Ponds
 - City of London Girls' School Expansion – Loan facility
- ii. To consider placing a limit on the funding envelope for the All Change at Bank scheme of £4m.
 - iii. Subject to (i) above, to agree the release of the following funding
 - £660k to be drawn from the balances currently available in the On- Street Parking Reserve.
 - The £15.45m to be drawn down from the general reserves of City's Cash, subject to the approval of the relevant gateway reports.
 - iv. Seek the approval of the Finance Committee and Court of Common Council to allocate up to £15.45m from the general reserves of City's Cash to provide loan funding for the Girls' School expansion project and fees to commence the Wanstead Ponds project.
 - v. Note the scope of central funding sources captured within this review as set out in paragraph 8 and confirm the principle of prioritisation to be adopted when considering funding allocation, in the first instance considering the scheme objectives against agreed corporate priorities, irrespective of the specific source of central funding to be applied.
 - vi. Note that the case for central support to cover loss experienced by third party funders as a direct result of schemes being deferred or cancelled due to the fundamental review will be considered on a case by case basis.
 - vii. Approve the details of the annual bid process set out in paragraph 19.

Main Report

Background

1. Members agreed it is essential to prioritise effectively which capital and supplementary revenue projects should progress, with funding allocated in a measured way, by applying a process of prioritisation that ensures the right schemes are progressed in order to meet corporate objectives.
2. Consequently, all pre-Gateway 5 projects funded from central resources have been placed on hold pending the fundamental review of services and the establishment of a system of corporate prioritisation, subject to an interim assessment against the following criteria:

Projects classified as **essential** which:

- i. Address a risk on the corporate risk register;

- 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); and
- iii. Fall within the following categories:
 - Health and safety compliance
 - Statutory compliance
 - Fully/substantially reimbursable
 - Spend-to-save or income- generating, generally with a short payback period (as a rule of thumb within 5 years)
 - Major renewals of income generating assets
 - Subsidiary categories to allow schemes that will ultimately result in a corporate risk:
 - replacement of critical end-of-life components for core services;
 - schemes required to deliver high priority policies; or
 - schemes with a high reputational impact.

Current Position

Principle of Funding Prioritisation

3. The scope of the interim review relates only to schemes funded from **central sources**, which include the **On Street Parking Reserve (OSPR)**, **Community Infrastructure Levy (CIL)**, **flexible external contributions** (e.g. some Transport for London grants) 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. Such ring-fenced schemes progress as usual.
4. The central sources have various degrees of flexibility, e.g. City CIL which can be used for the provision of infrastructure, the On Street Parking Reserve which can be applied to certain highways and public realm environmental improvements (in accordance with the Road Traffic Regulation Act 1984), capital reserves derived from the proceeds of asset disposals which can be used only for capital expenditure and general revenue reserves which can be applied for purposes within the general local authority remit.
5. To help Members to prioritise the allocation of specific City resources to projects from the range of available central funding sources, the Corporate Priorities Board was created to provide a more holistic approach to the allocation of project finance, by considering bids for funding from the range of available central sources.
6. In the current constrained financial climate, it is important to focus on the corporate priority assessment, in the first instance considering the scheme objectives against

agreed corporate priorities, irrespective of the specific source of funding to be applied. Therefore, although a scheme may fit within the permissible purpose of a specific source of central funding, such as the OSPR, it does not follow that it should be given precedence over higher corporate priority schemes. For example, the OSPR should logically be applied to finance essential public realm works (not covered by CIL) including the transport and public realm works necessary to facilitate the major projects at the New Museum and Fleet Street sites, since these costs are dependencies. This would relieve pressure on other more flexible sources of funding.

7. Members are asked to confirm this important principle to ensure the robustness of the prioritisation process going forward.

Abortive costs

8. It is recognised that there may be some increase in costs caused by delays arising from placing schemes on hold. Abortive costs relating to schemes that are not eventually progressed are also an accepted risk inherent in the gateway process, as in the normal course of business a project does not get a green light to proceed until gateway 5. In the current process, a project can be stopped at any gateway including gateway 5 (although few have been, in practice, stopped). However, sensible steps should be taken to minimise the potential impact and any issues arising from loss experienced by third party funders (such as recompense for parents' school fees) will need to be considered on a case by case basis.

Bids for Funding Approval

9. The interim review of all relevant pre-gateway 5 projects was undertaken in April and identified those schemes to be placed on-hold pending the fundamental review. There are now four schemes with a total value ranging from £41.3m to £55.3m to be considered for release from being on hold, two from City Fund and two from City's Cash resources.

10. City Fund

Corporate Priorities Board has considered two City Fund requests against the corporate prioritisation criteria agreed by Policy and Resources Committee and has then considered them for best fit against the available resources. Members should note that should all schemes which could be funded from the OSPR and CIL currently on hold be approved the forecast balance of the funds is overcommitted and by 2023 would be exhausted. The OSPR Forecast is attached at Appendix 1 for information.

- i. Holborn Viaduct and Snow Hill Pipe Subways over Thameslink Repair (estimated cost of up to £10m)
 - This project concerns repairs to the roof slabs and maintenance works to the metal supporting girders of the pipe subways that carry utilities plant through Holborn Viaduct and Snow Hill. These pipe subways traverse the Thameslink railway tunnel and therefore require permission from Network Rail to facilitate access, which is costly.
 - When previously assessed, this project did not meet the interim prioritisation

criteria as it did not address a specific risk on the Corporate Risk Register. However, these highway structures are subject to ongoing monitoring with visual inspections indicating that their condition is poor and deteriorating, making the delivery of the repairs and maintenance work both essential and increasingly urgent.

- Repair works are also required to the Thameslink tunnel lids located on the new site of the Museum of London at Smithfield which are in close proximity to the pipe subways. These works also require Network Rail access permissions.
- **Prioritisation Assessment:** Access to the tunnels requires the closedown of the Thameslink rail service at considerable cost and therefore it makes sense to co-ordinate the Holborn/Snow Hill and Museum tunnel lids projects to minimise this expense. The Museum works are on the critical path for delivery of the Museum relocation major project and therefore it is proposed to allow the Holborn Viaduct/Snow Hill project to progress in tandem. Should Members agree to release the hold on this project, the Corporate Priorities Board recommends the OSPR as the most appropriate source of funding, subject to the requisite gateway approvals.

ii. All Change at Bank (estimated cost between £4m and £18m)

- The Bank on Safety scheme installed measures at Bank Junction to address serious pedestrian and cyclist safety concerns and air quality issues. These measures have delivered the required outcomes and Members have decided to retain the traffic restrictions on a permanent basis.
- The 'All Change at Bank' project to incorporate the traffic restrictions and consider further safety measures in an enhanced public realm at Bank junction was placed on hold pending the fundamental review as it did not meet the essential criteria for funding. However, a resolution passed by the Streets and Walkways Sub Committee (reported elsewhere on this agenda) has requested that Resource Allocation Sub Committee reconsider the priority status of the project and allow it to continue during the fundamental review on grounds of road safety and air quality risks and potential reputational damage. The total cost of the scheme is currently estimated at between £4m and £18m, the variance in cost is largely driven by the choice of materials used. Resource Allocation Sub Committee may consider requesting Streets and Walkways Sub Committee to investigate what could be delivered within a funding envelope of £4m in order to prioritise funding. The request for funding of £660k to be released now from the On-Street Parking Reserve will allow progression to the next gateway.
- **Prioritisation Assessment:** The primary objectives of the traffic measures at Bank junction have been largely achieved through the Bank on Safety scheme. Therefore the 'All Change at Bank' project, previously classified as non-essential, did not fulfil the interim criteria for funding priority and under the current arrangements would have remained on hold pending the fundamental review. However, mindful of the important principle of prioritisation, should Members wish to re-designate the scheme as essential with funding support to reach the next gateway, a sum of £660k could be allocated from the OSPR. Members may also wish to place a limit on the funding envelope for the scheme in total. Officer advice from Priorities Board (including the Director of Built Environment) remains that no further works are needed on Health and Safety grounds, but if Resource Allocation Sub Committee wish to respond positively to the request from the Streets and Walkways Sub Committee, that the funding approval is limited to £4m and

that Streets and Walkways Sub Committee consider what could be delivered within this sum.

11. City's Cash

iii. Wanstead Park Ponds (estimated cost £12m)

- A cascading chain of three ponds located in Wanstead Park have been designated by the Environment Agency as High Risk under the Flood and Water Management Act 2010. The City Corporation has a statutory duty to ensure that the pond structures meet the required standards.
- As a first step, the capacity of the pond structures during extreme weather needs to be assessed and a budget of £150k is requested now to undertake the engineering assessment and modelling of the pond system.
- Should the current capacity not be adequate the project will be progressed to develop further options on how to bring the structures up to the required standard. Wanstead Park is a Grade II* listed historic landscape which is on the Heritage at Risk register and the project scope also includes repair and improvements to address the at risk status. From a previous similar project at Hampstead Heath the importance of coherent engagement with stakeholders is well understood and therefore there is provision within the £150k budget for a communications officer resource.
- **Prioritisation Assessment:** The High Risk designation by the Environment Agency clearly demonstrates the potential health and safety risks associated with this project and it should therefore be allowed to progress outside of the fundamental review. Once the engineering assessment has been undertaken the priority status of the scheme will be reviewed against the prioritisation criteria.

12. In April, the Policy and Resources Committee decided that due to the magnitude of the loan funding being requested by the three private schools and the resulting impact on the financial capacity of City's Cash in the medium term, a decision should be deferred pending the fundamental review. This was with the exception of the Phase 1 Main House scheme at the Freemen's School which was already well advanced and had incurred considerable costs to date.

A request to reconsider the case for advancing a loan for the Girls' School has now been made.

iv. City of London Girls' School Expansion (loan funding of £15.3m)

- The £17m expansion plan for the Girls' School requires cash flow funding in the form of a £15.3m loan from City's Cash resources. The business case for these expansion works rests on the creation and full take up of additional pupil places to facilitate pay back of the loan within 11 years - and thereafter embed a more resilient financial position.
- The request to reconsider the approval of loan funding is particularly pertinent in the light of commitments of some £600k raised on the project to date which would become abortive if loan funding was denied by the City and will fall to be met from parents' school fees income.
- **Prioritisation Assessment:** The arguments for deferring a funding decision remain valid as the financial capacity of City's Cash is at issue. However, the school has built its latest business plan assuming the funding would be forthcoming and, during the intervening period since the loan request was

first submitted in January, has been progressing the design at risk to maintain pace. Should the scheme be deferred for a year or halted potential abortive costs of up to £600k would need to be justified to parents. This sets the Girls' School case aside from the Boys' and Freemens' School (Phase 2) which are both less well advanced with longer term payback proposals. Should Members agree funding for a loan it would need to be met from City's Cash reserves, supplemented by external loans as appropriate. The precise terms of internal loan facilities are to be the subject of a report to Finance Committee in May.

Release of funds now requested

13. Should Members agree to release the four projects from being on hold, authority to allocate funding of up to £16.11m would be required as summarised in Table 1 in the summary.

14. Corporate Priorities Board proposes the following sources of central funding:

- the £660k to be drawn from the balances currently available in the On-Street Parking Reserve.
- The £15.45m loan facility to be drawn down from the general reserves of City's Cash, subject to the approval of the relevant gateway reports. Since no existing approved financial provision exists, this will also require agreement of the Finance Committee and Court of Common Council.

Annual Bid Process

15. Members have approved 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. This approach will provide the opportunity to consider all bids across the organisation against the same criteria at the same time. An outline of the intended process is provided below.

Indicative timing	Action	Responsibility
July	Business Planning Process concludes	Chief Officers Service Committees
July	Agree corporate priority assessment criteria and framework	Town Clerk and Chamberlain Resource Allocation Sub-Committee Policy and Resources Committee (discuss at awayday)
July-September	Service Committees to receive capital bid proposals and agree a prioritised order for their services for submission to RA Sub and P&R Committees	Chief Officers Service Committees
October	Capital bids from service committees assessed against criteria	Town Clerk Chamberlain
November	RA Sub and P&R Committees review bids from service committees and provide in principle funding approval to schemes for progression	Resource Allocation Sub-Committee Policy and Resources Committee

December/January	Indicative costs of agreed schemes incorporated into medium term financial plans to assess financial impact/affordability in context of each Corporation Fund	Town Clerk Chamberlain RA Sub Resource Allocation Sub-Committee Policy and Resources Committee
February/March	Approval of budget for ensuing year which will include confirmation of supported bids	Finance Committee Court of Common Council

- Successful implementation is dependent on
 - Clear links to the business planning cycle flowing through to financial planning processes
 - Clearly defined outcomes of each proposal with value for money uppermost
 - A transparent and equitable prioritisation process that can be applied objectively.
- Members will agree corporate priorities via the fundamental review and the assessment framework/criteria to be applied to project bids.
- Over the summer, Chief Officers will compile the capital bids for new funding arising from departmental business plans. These bids will need to incorporate any projects currently on hold.
- Each service committee will consider bids from Chief Officers, prioritise them against service objectives and agree which bids are to be submitted to Resource Allocation Sub and Policy and Resources Committees for 'in principle' funding approval.
- Bids from service committees will be aggregated across the organisation and submitted to RA Sub and P&R for consideration, set within the framework of the new corporate prioritisation criteria. This will provide transparency so that services are informed of how their projects score from a corporate perspective and will help to manage service expectations.
- The financial implications of schemes with 'in principle' funding approval will be modelled into the MTFP of the relevant Corporation Fund to assess affordability, sustainability and prudence in accordance with the Prudential Code.
- Supported new bids will be confirmed as part of the annual budget setting process.
- Links to Corporate Project Procedure
 - Annual bids submissions to be based on the existing Gateway 1 Project Briefing documentation to avoid duplication.
 - To avoid a waste of resources in progressing unfunded schemes, only projects with 'in principle' approval to funding will be allowed to progress through the gateway process.

- Schemes approved in principle in March can then progress to Gateway 2 through to Gateway 4 by which time costs will be firmed up.
- Corporate Projects Board to apply additional challenge to ensure focus/scope is restricted to critical outcomes of each scheme.
- Projects will progress to Gateway 4(a) for Resource Allocation Sub and Policy and Resources Committees to consider a final bid for funding.

16. It is recognised that there is a potential timing conflict in this first year of the annual process arising from the overlap between finalising the prioritisation criteria and service committees agreeing their bids. Any future reviews of prioritisation criteria will need to be timed appropriately.

Conclusion

17. Four schemes with a total value ranging from £41.3m - £55.3m previously placed on hold are considered for progression. Should they all be agreed, release of £16.11m of funding will be required now of which £660k is to come from the On-Street Parking Reserve and £15.45m from the general reserves of City's Cash. The latter amount will be subject to specific approval of the Finance Committee and Court of Common Council.

18. The All Change at Bank project is the subject of a resolution from Streets and Walkways Sub Committee to allow the scheme to progress. The total cost of the scheme is currently estimated at between £4m and £18m, with the variance in cost largely driven by the choice of materials used. Resource Allocation Sub Committee may wish to consider requesting Streets and Walkways Sub Committee to consider what could be delivered within a funding envelope of £4m in order to prioritise funding.

19. The scope of central funding sources captured within this review have been clarified (as set out in paragraph 8) and Members are requested to confirm the important principle of prioritisation to be adopted when considering funding allocation, in the first instance considering the scheme objectives against agreed corporate priorities, irrespective of the specific source of funding to be applied.

20. The case for central support to cover loss experienced by third party funders as a direct result of schemes being deferred or cancelled as part of the fundamental review will be considered on a case by case basis.

21. Details of the annual bid process which links to the business planning cycle flowing through to financial planning processes and will provide the opportunity to consider all bids across the organisation against the same criteria at the same time are set out for Member approval in paragraph 15.

Appendices

- Appendix 1 - On Street Parking Reserve Forecast (non-public)

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).
- Capital Funding – Interim Revised Prioritisation and Project Funding Update April 2019 (Public)

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