

<b>Committee(s):</b> Policy and Resources	<b>Date(s):</b> 8 July 2021
<b>Subject:</b> Capital Funding Update	<b>Public</b>
<b>Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?</b>	The schemes for which funding is now requested span across a range of corporate outcomes
<b>Does this proposal require extra revenue and/or capital spending?</b>	Yes
<b>If so, how much?</b>	£2.245m
<b>What is the source of Funding?</b>	£121k City Fund Capital Reserves, £1.978m City's Cash reserves and £146k BHE reserves.
<b>Has this Funding Source been agreed with the Chamberlain's Department?</b>	Yes
<b>Report of:</b> The Chamberlain	<b>For Decision</b>
<b>Report author:</b> Dianne Merrifield, Group Accountant	

### Summary

This report follows on from previous papers on capital prioritisation and the 2020/21 and 2021/22 rounds of annual capital bids.

Members are reminded of the two-step funding mechanism via the annual capital process:

- Firstly, within available funding, 'in principle' approval to the highest priority bids is sought and appropriate provisions are set aside in the annual capital and revenue budgets and the MTFPs.
- Secondly, following scrutiny via the gateway process to provide assurance of robust option appraisal, project management and value for money, RASC are asked to confirm that these schemes remain a priority for which funding should be released at this time.

The purpose of this report is two-fold - approval to the reallocation of funding between schemes to address an anticipated budget shortfall *and* to the release of funding post gateway approvals to allow schemes to progress.

The approved annual capital bids for 2020/21 total £85m of which £23.1m has been drawn down to date. A schedule of the current 2020/21 allocations is included in Appendix 1 for information. The second annual bid round for 2021/22 granted in principle funding approval to bids with a total value of £83.5m of which draw down of £5.387m has been agreed. A schedule of the current 2021/22 allocations is included in Appendix 2 for information.

There is one project for the replacement of Guildhall Chiller Plant reporting a funding shortfall of £1.433m. Adopting the 'one-in, one-out' approach, the required funding has been identified from compensating savings against other centrally funded projects as summarised in Table 1 (para. 9). Approval is sought to make these funding substitutions to remain within existing provisions.

In addition, the release of £2.245m to allow progression of two schemes summarised in Table 2 (para 10) is now proposed – the Guildhall Great Hall internal health and safety and restoration project (£1.715m) and additional funding for the OPN replacement project (£530k). Funding for these schemes can be met from the provisions set aside from the reserves of the three main funds: £121k from City Fund capital reserves, £1.978m from City's Cash and £146k from Bridge House Estates.

Members will recall that financial disciplines currently in place include that central project funding may be withdrawn for schemes that slip by more than one year. A review is underway and a report detailing any unallocated central funding provisions will be brought to committee for review after the recess.

The release of capital funding is normally within the remit of the Resource Allocation Sub-Committee. However, due to the cancellation of the July meeting, this report is being submitted to the Grand Committee before the summer recess to avoid undue delay to the progression of schemes.

### **Recommendations**

Members are requested:-

1. To reallocate £1.433m to provide top-up funding for the Guildhall chiller plant replacement project by applying the 'one-in, one-out' approach – as summarised in Table 1.
2. To review the schemes summarised in Table 2 and, particularly in the context of the current financial climate, to confirm their continued essential priority for release of funding at this time.
3. To agree the release of up to £2.245m for the schemes in Table 2 from the reserves of City Fund, City's Cash and Bridge House Estates as appropriate, subject to the required gateway approvals.
4. To note that in order to maintain sound financial discipline a review of unallocated central project funding provisions will be brought to Members after the recess.

### **Main Report**

#### **Background**

1. As part of the fundamental review, Members agreed the necessity for effective prioritisation of capital and SRP projects, with central funding allocated in a measured way. This has been achieved via the annual capital bid process which applies prioritisation criteria to ensure that corporate objectives are met and schemes are affordable.

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

The above criteria were used as the basis for prioritising the annual capital bids.

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

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

4. Members are reminded of the two-step funding mechanism via the annual capital process.
  - Firstly, 'in principle' approval to the highest priority bids within available funding is sought and appropriate provisions are set aside in the annual capital and revenue budgets and the MTFPs.
  - Secondly, following scrutiny via the gateway process to provide assurance of robust option appraisal, project management and value for money, RASC are asked to confirm that these schemes remain a priority for which funding should be released at this time.

## **Current Position**

5. For the financial year 2020/21, Members approved £85m of new capital bids across the three main funds. To date, £23.1m has been drawn down to allow 35 of these schemes to be progressed. A schedule of the current 2020/21 allocations is included in Appendix 1 for information.
6. Members have also agreed 'in principle' funding of a further £83.5m across the three main funds for the 2021/22 new bids and to date drawdown of £5.387m has been approved in respect of 8 schemes. A schedule of the 2021/22 allocations is included in Appendix 2 for information.

## Proposals

### 'One-in, One-Out' Reallocation of Funding

7. Members have previously agreed that requests for additional funding outside of the annual capital bid process should be met from within the existing sums set aside for new schemes on a 'one-in, one-out' basis. There is currently one project - for the replacement of Guildhall Chiller Plant - reporting a funding shortfall of £1.433m. This scheme was prioritised on health and safety grounds as part of the 2020/21 annual capital bid process to resolve serious issues with environmental conditions, particularly in the West Wing.
8. At outline options appraisal stage it became clear that the cost of replacing the chilling plant would exceed the £3m in-principle funding allocation by some £1.433m. However, as part of the Public Sector Decarbonisation Scheme (PSDS), the City has been fortunate in receiving government grant which will cover the cost of the Guildhall Steam Humidification plant project and other energy reduction works for which in principle central funding had also been agreed as part of the 2020/21 capital bids.
9. Adopting the 'one-in, one-out' approach, approval is sought to reallocate central funding from these two grant-funded schemes to meet the shortfall, as set out in Table 1 below:

<b>Table 1: 'One-In, One-Out' Proposals</b>		<b>Capital Bid Round</b>	<b>City Fund</b>	<b>City's Cash</b>	<b>Bridge House Estates</b>	<b>Total</b>
<b>Additional Funding Required:</b>			£m	£m	£m	£m
	Guildhall Chilling Plant Replacement	2020/21	0.645	0.717	0.071	1.433
<b>Funding to be reallocated from:</b>						
	Guildhall Steam Humidification Plant Replacement	2020/21	0.539	0.599	0.060	1.198
	Energy Reduction Programme Phase 1	2020/21	0.106	0.118	0.011	0.235
	Total to be reallocated		0.645	0.717	0.071	1.433

Both Corporate Asset Sub and Projects Sub Committees have agreed the proposed way forward to deliver the Guildhall Chiller replacement project.

### Current Requests for the Release of Funding

10. There are two schemes arising from the 2020/21 round of new bids that have progressed through the gateways for which release of £2.245m is now requested as summarised in Table 2:

<b>Table 2: Project Funding Requests</b>	<b>Next Gate-way</b>	<b>City Fund</b>	<b>City's Cash</b>	<b>Bridge House Estates</b>	<b>Total</b>
		£m	£m	£m	£m
<b><u>In principle Funding via 2020/21 New Bids :</u></b>					
<b><u>Full Funding for Scheme Implementation</u></b>					
(i) Guildhall Great Hall Internal Health and Safety and Restoration	G5	-	1.715	-	1.715
(ii) OPN Replacement (top-up)	G6	0.121	0.263	0.146	0.530
<b>Total Requested for Release of Funding</b>		<b>0.121</b>	<b>1.978</b>	<b>0.146</b>	<b>2.245</b>

Further details of the individual schemes are provided in Appendix 3 attached. An additional appendix 3(a) providing details of the anticipated benefits and efficiencies of the new OPN system is also included.

11. In accordance with step two of the capital funding mechanism, Members will wish to confirm that these schemes remain a priority for funding to be released at this time particularly in the context of the current financial climate.
12. The funding for these schemes can be met from the existing provisions set aside from the relevant reserves of the three main funds as set out in Table 2 and agreed via the 2020/21 annual capital bids.

### **Financial Discipline**

13. Members will recall that financial disciplines currently in place allow for central project funding to be withdrawn for schemes that slip by more than one year - unless an exceptional case is agreed by the Resource Allocation Sub Committee. There is currently a significant number of schemes with either minimal or zero drawdowns against central funding allocations that were either agreed as part of the fundamental review or via the 2020/21 annual capital bids. Accordingly a review is currently in progress to identify any schemes that are not being actively progressed, to be reported after the recess. This will ensure that any unrequired funding is available to redirect to the highest priority areas.

### **Conclusion**

14. The purpose of this report is two-fold - approval to the reallocation of funding between schemes to address unexpected shortfalls *and* to the release of funding post gateway approvals to allow schemes to progress.
15. Adopting the 'one-in, one-out' approach, the reallocation of £1.433m to provide top-up funding for the Guildhall Chilling Plant replacement scheme is requested as set out in Table 2 (paragraph 9).
16. Requests for the release of £2.245m to allow two schemes to progress are set out in Table 2 (paragraph 10 and appendix 3).
17. The funding for these schemes can be met from the existing provisions set aside from the relevant reserves of the three main funds as set out in Table 2, which

were agreed via the 2020/21 annual capital bids: £121k from City Fund capital reserves, £1.978m from City's Cash reserves and £146k from Bridge House Estates unrestricted income fund.

18. Members will recall that financial disciplines currently in place include that central project funding may be withdrawn for schemes that slip by more than one year. Therefore, a review of unallocated central funding provisions is underway which will be brought to committee for review after the recess.

### **Appendices**

Appendix 1– 2020/21 Approved Bids

Appendix 2 - 2021/22 Approved Bids

Appendix 3 – Requests for Release of Funding – Scheme Details

Appendix 3(a) – OPN Replacement Project Anticipated Benefits and Efficiencies

### **Background Papers**

- Annual Capital Prioritisation Report, 12 December 2019 (Non-Public).
- Prioritisation of Remaining 2020/21 Annual Capital Bids (Deferred from December 2019 Meeting), 23 January 2020 (Non-Public)
- Re-prioritisation of 2020/21 Approved Capital Bids, 18 September 2020 (Non-Public)
- Capital Funding – Prioritisation of 2021/22 Annual Capital Bids – Stage 2 Proposals, 10 December 2020 (Public)

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