

Committee(s)	Dated:
Resource Allocation Sub Committee Bridge House Estates Board Finance Committee Policy & Resources Committee	19 November 2021 24 November 2021 7 December 2021 16 December 2021
Subject: Capital Funding – Prioritisation of 2022/23 Annual Capital Bids - Initial Review	Public
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	These capital bids span all 12 outcomes of the Corporate Plan to some degree
Does this proposal require extra revenue and/or capital spending?	No decisions about specific commitments are required at this stage
If so, how much?	£
What is the source of Funding?	All <u>central</u> funding sources of the three main funds could be impacted
Has this Funding Source been agreed with the Chamberlain's Department?	
Report of: The Chamberlain	For Decision
Report author: Dianne Merrifield, Group Accountant (Capital)	

Summary

In this third annual capital bid round, there are 47 live bids amounting to **£61.9m**. Most of the submissions have been classified as essential and identified against one of the agreed prioritisation criteria. Based on the narrative supporting the bids, an assessment of how essential these schemes appear from a corporate perspective has been undertaken using a RAG rating approach - resulting in £24.3m green, £29.3m amber and £8.4m red.

To set these bids in to some context, £89m of capital bids were originally approved in principle via the 2020/21 annual capital bid process and £83.5m via the 2021/22 bid round. However, these annual levels of bids were considered to be exceptional and unsustainable on an ongoing basis alongside the other current financial priorities and pressures such as the major projects and balancing of the revenue budgets.

Accordingly, through discussions at the Resource Allocation Sub Committee Awayday, the following upper limits of funding for new bids was proposed for City Fund and City's Cash:

- £20m for City Fund (incorporating bids to be funded from the On-Street Parking Reserve, Community Infrastructure Levy and central capital/revenue reserves)
- £10m for City's Cash from general reserves.

This level of funding is broadly in line with the average level of centrally funded schemes over previous years.

The Bridge House Estates funding requirement for these centrally funded schemes is limited to the appropriate share of corporate IT and Guildhall office-related projects and therefore the amounts involved are usually relatively modest.

The initial assessment, which has been determined in consultation with senior officers, has resulted in the current level of green bids, at £24.3m, falling within these limits. Subject to feedback from Members and providing those bids remain within the £30m overall limits, it is therefore proposed that funding for the green bids be approved in principle for 2022/23, to be incorporated into the medium-term financial plans. It is further proposed that amber and red bids are not funded in this annual round, but with amber bids to be placed on a reserve list in the event that headroom in the provisions for green bids is identified.

For Bridge House Estates, the total share of corporate schemes rated as green amounts to £0.1m, which can be accommodated from the balances on the unrestricted income fund. These schemes have senior officer and member oversight and will be taken to the November BHE Board for approval including any updates from this meeting.

Post RASC addendum: At the meeting of RASC on 19th November, delegated authority to consider options for reduced 2022/23 central funding allocations for one amber-rated and one red-rated scheme were agreed:

- St Paul's Gyratory
- St Paul's Cathedral Lighting

It was agreed that officers go away and come back with a revised bid for Walbrook Wharf feasibility.

The draft minute from RASC is added as an appendix .

Recommendation(s)

Members are asked to:

- Note the total value of City Fund and City's Cash bids amounting to £61.9m against a target upper limit of £30m (excl BHE).
- Review the initial RAG rating of £24.3m green, £29.3m amber and £8.4m red contained in the appendices (determined in consultation with senior officers).
- Agree that, subject to Member feedback, funding for the green bids be incorporated into the medium-term financial plans, providing they remain within the £30m overall limits for City Fund and City's Cash and remain at a similar modest level for Bridge House.
- Agree in principle that bids with a final RAG rating of amber and red be deferred, subject to further consideration of reduced funding options for the three schemes highlighted in the RASC draft minute (see appendix.)

- Agree that amber-rated bids be placed on a reserve list to be progressed in the event that funding headroom is identified.
- Note that the final decision on the green-rated bids for inclusion in the 2022/23 draft budgets will be confirmed at the joint meeting of RASC and the service committee and Bridge House Estates Board chairmen in January 2022.

Main Report

Background

1. Members have agreed the necessity for effective prioritisation of capital and SRP projects, with central funding allocated in a measured way via the annual capital bid process by applying 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:
 - 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.

In addition, bids in support of the Climate Action Strategy are to be allowed a degree of priority, subject to affordability.

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 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.
4. In view of the various current financial pressures arising from the pandemic and other high priority initiatives, Chief Officers were requested to submit bids for only the most critical and essential schemes for the 2022/23 bid round.

Current Position

5. Departments have submitted their bids for central funding from 2022/23 which they consider necessary to deliver business plans. It should be noted that whilst these schemes are to be started during 2022/23, costs are anticipated to be incurred over the medium term as the lead-in time for projects mean that they routinely span across more than one financial year.

6. There are 47 live bids amounting to £61.9m, most of which have been classified as essential and identified against one of the agreed prioritisation criteria. Based on the narrative supporting the bids, an assessment of how essential these schemes appear from a corporate perspective has been undertaken using a RAG rating approach where:

Green = demonstrates the essential criteria

Amber = essential criteria less clear

Red = does not demonstrate essential criteria/not essential to do now.

7. The table below shows the outcome, with £24.3m green, £29.3m amber and £8.4m red.

	Green	Amber	Red	Total
	£000	£000	£000	£000
Critical End of Life Replacement	5,280	10,030	3,065	18,375
Statutory Compliance/Health and Safety	7,784	-	2,774	10,558
High Profile Policy Initiative	11,236	19,120	-	30,356
Other	-	100	2,500	2,600
	24,300	29,250	8,339	61,889

Listings of the projects within each of the green, amber and red categories are attached in the appendix, together with a brief commentary on each to inform the red/amber/green rating.

8. This analysis has been determined in consultation with senior officers, with particular discussion around the amber and red rated bids to ensure consistency and consensus of approach. For example, during discussions the top-up bid for the Guildhall Masterplan feasibility (£1.15m) was moved to green as completion was considered essential to inform the potential of this major initiative, whilst the Hampstead Heath Pergola bid (£1.5m) was moved to red to reflect the proposed external funding approach.

Affordability

9. To set these bids in to some context, £89m of capital bids were approved in principle via the 2020/21 annual capital bid process and £83.5m via the 2021/22 bid round. However, bids of this magnitude were considered to be exceptional and unsustainable on an ongoing basis alongside the other current financial

priorities and pressures such as the major projects and balancing of the revenue budgets.

10. Accordingly, through discussions at Resource Allocation Sub Committee Awayday, the following target allocations of funding for new bids was proposed:

- £20m for City Fund (incorporating bids to be funded from the On-Street Parking Reserve, Community Infrastructure Levy and central capital/revenue reserves
- £10m for City's Cash from general reserves.

11. In order to further assess affordability, bids have been identified against the relevant funding source as summarised below:

	Green	Amber	Red	Total
City Fund:	£000	£000	£000	£000
-OSPR	3,450	18,320	1,000	22,770
-CIL	7,533	-	-	7,533
-Capital	2,211	8,670	3,827	14,708
-Revenue	1,947	496	-	2,443
City Fund	15,141	27,486	4,827	47,454
City's Cash	9,044	1,670	3,487	14,201
BHE	115	94	25	234
Total	24,300	29,250	8,339	61,889

12. The following analysis shows the level of green bids against the individual target funding allocations:

	Funding Targets	Green Bids	Headroom
	£000	£000	£000
City Fund	20,000	15,141	4,859
City's Cash	10,000	9,044	956
BHE	N/A	115	N/A
	30,000	24,300	5,815

This headroom allows a degree of flexibility to take on board Member feedback and comments arising from the joint meeting of RASC and service committee chairmen, or other urgent needs that may arise in 2022/23.

13. As a consequence, it is therefore proposed that bids with a final RAG rating of amber and red will not be funded at this time, although amber schemes will be placed on a reserve list, to be progressed in the event that funding headroom is identified.

14. Bridge House Estates funding towards these centrally funded schemes is limited to the appropriate share of corporate IT and Guildhall office-related projects and therefore the amounts involved are usually relatively modest. The total share of such corporate, green-rated bids amounts to £0.1m, which

can be accommodated from the balances on the unrestricted income fund following approval by Bridge House Estates Board.

Next Steps

15. Based on the current assessment, it is proposed that the green bids be modelled in the draft medium term financial plans to inform the 2022/23 budget proposals (Amber and red bids to be deferred).
16. Next steps will be to take on board member feedback with confirmation of the green-rated bids via the joint meeting of RASC and service committee and Bridge House Board chairman in January 2022

Conclusion

17. In this third annual capital bid round, there are 47 live bids amounting to **£61.9m**. Most of the submissions have been classified as essential and identified against one of the agreed prioritisation criteria. Based on the narrative supporting the bids, an assessment of how essential these schemes appear from a corporate perspective has been undertaken using a RAG rating approach - resulting in £24.3m green, £29.3m amber and £8.4m red.
18. A target allocation of £30m (£20m City Fund and £10m City's Cash) for the 2022/23 capital bids was agreed at the Resource Allocation Sub Committee Awayday. At £24.3m, the current level of green rated bids falls within these limits, also allowing a degree of flexibility to take on board Member feedback and comments arising from the joint meeting of RASC and service committee chairmen.
19. Recommendation bids with a final rating of amber and red will not be funded at this time, although the amber list schemes will be placed on a reserve list to be progressed in the event that any funding headroom is identified.

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Appendices: Green/Amber/Red Bids
Draft Minute from RASC 19/11/21