

Committee(s): Resource Allocation Sub Committee – for Decision Bridge House Estates Board – for information	Date(s): 17 December 2021 11 January 2022
Subject: Capital Funding Update on Previously Approved Bids	Public
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	The schemes for which funding is now requested span across a range of corporate outcomes
For Bridge House Estates (BHE), which outcomes in the BHE Bridging London 2020 – 2045 Strategy does this proposal aim to support?	1,2&3
Does this proposal require extra revenue and/or capital spending?	Yes
If so, how much?	£518k(+ £229k reallocation of existing funding)
What is the source of Funding?	£467k from various City Fund Reserves and £51k from City's Cash reserves. (+ £229k of City Fund and City's Cash reserves reallocated)
Has this Funding Source been agreed with the Chamberlain's Department?	Yes
Report of: The Chamberlain	For Decision
Report author: 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 bid 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 currently total £84.9m of which £31.5m 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 current value of £82.8m of which draw-downs of £6.4m have been agreed. A schedule of the current 2021/22 allocations is included in Appendix 2 for information.

The Building Energy Management (BEMS) Phase1 scheme requires additional central funding of £229k following detailed technical surveys which revealed the need for previously unforeseen enabling works. To remain within existing provisions, the 'one-in, one-out' approach has been adopted to identify funding from savings on another bid. The central funding requirement for the Phase 1 Energy Reduction Programme has reduced significantly, mainly as a result of the successful bid for central government grant via the PSDS scheme. Therefore, it is proposed to reallocate £229k of these savings to provide funding for the BEMS project, with the remaining net saving of £246k being returned to the centre (£209k to City's Cash and £37k to BHE, see Table 1).

In addition, release of £518k to allow progression of the six schemes summarised in Table 2 (para 11) is now proposed. Funding for these schemes can be met from the provisions set aside from the reserves of City Fund and City's Cash: £75k from the On Street Parking Reserve, £127k from CIL and £120k from capital reserves (all City Fund), plus £51k from City's Cash general reserves.

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 following discussions taking place at the bi-lateral meetings.

Recommendations

Resource Allocation Sub Committee Members are requested -

- (i) To agree to apply the 'one-in, one-out' approach to reallocate £229k from the central reserves of City Fund and City's Cash from the savings on the Energy Reduction Programme to provide top-up funding for the BEMS Phase 1 scheme.
- (ii) To note the net savings of £246k on the Energy Reduction Programme Phase 1 as summarised in Table 1, of which £209k relates to City's Cash.
- (iii) 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; and accordingly
- (iv) To agree the release of up to £518k for the schemes in Table 2 from the reserves of City Fund and City's Cash as appropriate, subject to the required gateway approvals.

- (v) To note that in order to maintain sound financial discipline a review of unallocated central project funding provisions will be brought to Members following discussions taking place at the bi-lateral meetings .

Bridge House Estates (BHE) Board Members are requested –

- (vi) To note the £37k contribution from BHE no longer required for the Energy Reduction Programme Phase 1 scheme.

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 BHE¹. 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.
4. Members are reminded of the two-step funding mechanism via the annual capital bid 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.

¹ Contributions from Bridge House Estates are limited to its share of corporate schemes such as works to the Guildhall Complex or corporate IT systems and are subject to the specific approval of the Bridge House Estates Board.

- Secondly, following scrutiny via the gateway process, to provide assurance of robust option appraisal, project management and value for money, RASC is asked to confirm that these schemes remain a priority for which funding should be released at this time.

Current Position

5. From the 2020/21 bid round, central funding of £84.9m is currently allocated for new capital bids across the three main funds. To date, £31.5m has been drawn down to allow 36 of these schemes to be progressed. A schedule of the current 2020/21 allocations is included in Appendix 1 for information.
6. Central funding of a further £82.8m across the three main funds for the 2021/22 new bids is currently allocated, of which drawdowns of £8.9m has been approved in respect of 11 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.
8. The Building Energy Management System (BEMS) Phase 1 scheme was granted 'in principle' central funding approval of £904k as part of the 2021/22 capital bids. Detailed technical surveys have revealed the need for previously unforeseen enabling works involving upgrade of the IT network infrastructure to be undertaken, resulting in a cost increase of £406k for which a central funding top-up of £229k is now required (the remaining shortfall being met from existing CWP budgets). To remain within existing provisions, the 'one-in, one-out' approach has been adopted to identify funding from savings on another bid.
9. The Energy Reduction Programme (Phase 1) scheme was granted 'in principle' central funding of £978k as part of the 2020/21 capital bids. Following the successful bid for grant from central government, some of the original proposals are now part of the PSDS project and also additional S106 funding carbon offset funding has been identified, which has reduced the call on central funding by £708k. Of this sum, £233k has previously been reallocated to support the Guildhall Cooling Plant project and a further £229k is now proposed for reallocation to support the increase in the BEMS project - leaving a balance of £246k of central funding no longer required (£209k City's Cash and £37k BHE). Table 1 below summarises the position:

Table 1: Energy Reduction Programme (Phase 1)	City Fund	City's Cash	BHE	Total
	£000	£000	£000	£000
Original Funding Allocation	440	489	49	978
Reduced Central Funding now required	181	89	-	270
Surplus central funding	259	400	49	708
Previously reallocated to Guildhall Cooling Project	- 144	- 77	- 12	- 233
Reallocation to BEMS project (now requested)	- 115	- 114	-	- 229
Central Funding no longer required	-	209	37	246

10. It should be noted that the central funding for the Energy Reduction Programme was agreed in principle on the basis of a 5-year payback - which the schemes remaining in scope are still targeting. However, whilst the BEMS scheme will not result in a 5-year payback, it is vital for ensuring the energy efficient operation of the sites and plays an important part in reducing our carbon footprint.

Current Requests for the Release of Funding

11. There are six schemes with 'in principle' funding approved as part of the capital bids that are progressing through the gateways for which release of £518k is now requested as summarised in Table 2:

Table 2: Project Funding Requests	Next Gate-way	Capital Bid Round	City Fund	City's Cash	Bridge House Estates	Total
			£000	£000	£000	£000
Funding to progress to the next gateway						
Wanstead Park Ponds	G4	Fundamental Review	-	51	-	51
* West Smithfield Area Public Realm	G4	Fundamental Review	75	-	-	75
** Secure City Programme: CCTV and Telecommunications	G5	2021/22	100	-	-	100
Full Funding for Scheme Implementation						
Tower Hill Play Area	G5	2021/22	120	-	-	120
** Highway Security HVM Area N	G6	2021/22	27	-	-	27
High Dependency Hostel for Rough Sleepers - Top-up	G5	2021/22	145	-	-	145
Total Requested Release of Funding			467	51	-	518
* On Street Parking Reserve (OSPR)						
** Community Infrastructure Levy (CIL)						

Further details of the individual schemes are provided in Appendix 3 attached.

12. 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.
13. The funding for these schemes can be met from the existing provisions set aside from the relevant reserves of City Fund and City's Cash as set out in Table 2.

Financial Discipline

14. 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 underway to identify any schemes that are not being actively progressed, to be reported following discussions taking place at the bi-lateral meetings. This will ensure that any unrequired funding is available to redirect to the highest priority areas.

Conclusion

15. 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 for projects progressing through the gateways, to allow them to progress.
16. Adopting the 'one-in, one-out' approach, the reallocation of £229k to provide top-up funding for the BEMS (Phase 1) scheme is requested to be met from savings on the Phase1 Energy Reduction Programme (refer to paragraphs 7 - 10). A net reduction of £246k in central funding for the Energy Reduction Programme is also to be noted (£209k City's Cash and £37k BHE).
17. Requests for the release of £518k to allow six schemes to progress are set out in Table 2 (refer to paragraph 11 and appendix 3).
18. The funding for these schemes can be met from the existing provisions set aside from the relevant reserves of City Fund and City's Cash as set out in Table 2, which were agreed via the fundamental review, 2020/21 and 2021/22 annual capital bids: £245k from City Fund capital reserves, £75k from the On Street Parking Reserve and £127k from CIL, plus £51k from City's Cash Reserves.
19. 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 following discussions taking place at the bi-lateral meetings.

Appendices

Appendix 1– 2020/21 Approved Bids

Appendix 2 - 2021/22 Approved Bids

Appendix 3 – Requests for Release of Funding – Scheme Details

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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