

<b>Committee(s)</b>	<b>Dated:</b>
Joint Resource Allocation Sub Committee and Efficiency and Performance Sub Committee with Service Committee Chairmen – For Decision Policy and Resource Committee – For Decision Finance Committee – For Decision	14 January 2022 20 January 2022 25 January 2022
<b>Subject:</b> Capital Funding – Prioritisation of 2022/23 Annual Capital Bids – Stage 2 Final Proposals	<b>Public</b>
<b>Which outcomes in the City Corporation’s Corporate Plan does this proposal aim to impact directly?</b>	These capital bids span all 12 outcomes of the Corporate Plan to some degree
<b>Does this proposal require extra revenue and/or capital spending?</b>	Yes
<b>If so, how much?</b>	£26.166m
<b>What is the source of Funding?</b>	City Fund Various Reserves £17.007m City’s Cash General Reserves £9.044m BHE Unrestricted Income £0.115m (previously agreed)
<b>Has this Funding Source been agreed with the Chamberlain’s Department?</b>	
<b>Report of:</b> The Chamberlain	<b>For Decision</b>
<b>Report author:</b> Dianne Merrifield, Group Accountant (Capital)	

### Summary

In November and December at Stage 1 of this third annual capital bid round, 47 live bids amounting to £61.9m were considered. The initial assessment of how essential these schemes appeared from a corporate perspective was undertaken using a RAG rating approach - resulting in £24.3m green, £29.3m amber and £8.3m red.

During consideration by Members, two amber bids and one red bid were highlighted for further review and Chief Officers submitted revised bids, two of which have subsequently been agreed by Resource Allocation Sub Committee and one (re the St Paul's Gyrotory project) is still under discussion at the time of writing this report. Assuming, for the time being, that all three revised bids are approved, the 47 live bids now amount to **£45.6m** of which £26.2m are rated as green, £12.6m amber and £6.8m red.

To ensure that the level of bids is sustainable and affordable, the following upper funding limits for new bids were proposed for City Fund and City’s Cash at the Resource Allocation Sub Committee Away-day:

- £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 value of centrally funded schemes over previous years.

Taking on board the three revised bids the proposed £26.2m of green bids (of which £0.1m relates to Bridge House Estates), remains within these limits. It is therefore proposed that funding for the revised list of green bids be approved in principle, with provisions to be incorporated into the medium-term financial plans and draft budgets for 2022/23. As previously agreed, amber and red bids will not be funded in this annual round, but amber bids are to be placed on a reserve list to be progressed if savings are later identified from the provisions for the green bids.

For Bridge House Estates, the total share of corporate schemes rated as green (within the £26.2m) amounts to £0.1m, which can be accommodated from the balances on the unrestricted income fund. This provision was approved by the BHE Board in November 2021.

Financial disciplines currently in place are proposed to be continued, including that funding will be withdrawn for centrally funded schemes that slip by more than one year in all but exceptional cases and the ongoing operation of the 'one-in, one-out' approach to funding bids outside of the annual process. A review of progress on centrally funded schemes is currently being undertaken, facilitated via the bilateral meetings.

Approval to the continuation of the loan facilities for the Police and HRA is also sought. Of the original agreed £37m provision, £9.3m has so far been allocated for Police, with the remainder still required for future HRA and Police schemes. Approval to carry over the remainder of this provision is therefore sought.

## **Recommendations**

Members are asked to:

- Note the revised total value of 2022/23 bids of £45.6m (subject to final confirmation).
- Agree that the revised bids relating to three schemes detailed in paragraph 6 be rated as green, subject to final approval of the amount for the St Paul's Gyrotory revised bid.
- Confirm the proposed final RAG rating of £26.2m green, £12.6m amber and £6.8m red (detailed in the appendices).
- Agree that funding for the green bids of £26.1m be agreed in principle and incorporated into the medium-term financial plans of City Fund and City's Cash (noting that the balance of £0.1m has already been agreed by the BHE Board).
- Note that amber and red bids will be deferred with amber-rated bids to be placed on a reserve list to be progressed if savings are later identified from the provisions for green bids.
- Agree that the financial disciplines currently in place be continued, whereby

- central funding will be withdrawn for schemes that slip by more than one year; and
- the 'one-in, one-out' approach to funding of bids outside of the annual process be operated.
- Agree to the carry- over of the unallocated provision of £27.7m of loan facilities previously agreed for the Police and HRA.

## **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, 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. At the time of the initial review there were 47 live bids amounting to £61.9m, most of which were 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 was 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.

This initial review resulted in £24.3m rated as green, £29.3m amber and £8.3m red.

6. During consideration by Members, two amber bids and one red bid were highlighted for further review:

- Walbrook Wharf Feasibility–2027 and beyond. Initially rated as amber, the need for immediate research into waste management, river freight and net zero targets to inform the strategic direction was highlighted and a revised bid for 2022/23 of £150k (reduced from £350k) was subsequently agreed by RASC in December.
- St Paul's Gyratory. A bid for this £17m scheme was rated as amber due to uncertainties in the scope of works to be funded by external developers. To allow progression of the scheme, officers were requested to resubmit a revised bid for a minimal allocation to fund investigations to inform the future central funding requirement. A reduced 2022/23 bid of £556k has been submitted which is still under discussion at the time of writing this report and is therefore subject to final approval under delegated authority.
- St Paul's Cathedral External Lighting. This scheme was initiated some years ago on the basis of full external funding. However, with only £0.5m identified of the £2m in external funding required to replace the lighting, and the works becoming increasingly urgent, a central funding bid for the £1.5m shortfall was submitted. This was initially rated as red due to lack of clarity about the City's responsibility for this building and the potential for other sources of funding. In view of the local and national significance and benefits to tourism of the Cathedral that is still struggling from the ongoing loss of donations post pandemic, Members were sympathetic to a reduced capital bid, taking account of possible S106 and other external contributions and providing clarity about future City obligations. A subsequent report identifying additional S106 and other external funding, together with confirmation that the Cathedral would take on future responsibility for the new lighting system, has resulted in a revised bid of £1.16m which was agreed under delegated authority.

These three revised bids are now proposed to be rated as green.

7. Assuming, for the time being, that the St Paul's Gyratory revised bid is approved, the 47 live bids now amount to £45.6m of which £26.2m are rated as green, £12.6m amber and £6.8m red.

			Green	Amber	Red	Total
			£m	£m	£m	£m
	Critical End of Life Replacement		5.280	10.030	3.065	18.375
	Health and Safety/Statutory Compliance		7.784	-	2.774	10.558
	High Priority/Reputational		13.102	2.450	-	15.552
	Other		-	0.100	1.000	1.100
			26.166	12.580	6.839	45.585

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

## Affordability

8. 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.
9. Accordingly, through discussions at Resource Allocation Sub Committee Awayday, the following upper limits of funding for new bids was proposed:
  - £20m for City Fund (incorporating bids to be funded from the On-Street Parking Reserve (OSPR), Community Infrastructure Levy (CIL) and central capital/revenue reserves)
  - £10m for City's Cash from general reserves.
10. In order to confirm affordability, bids have been identified against the relevant funding source as summarised below:

		Green	Amber	Red	Total
	City Fund:	£000	£000	£000	£000
	-OSPR	4,006	2,000	1,000	7,006
	-CIL	7,533	-	-	7,533
	-Capital	3,371	8,670	2,327	14,368
	-Revenue	2,097	131	-	2,228
	<b>City Fund</b>	17,007	10,801	3,327	31,135
	<b>City's Cash</b>	9,044	1,689	3,487	14,220
	<b>BHE</b>	115	90	25	230
	<b>Total</b>	26,166	12,580	6,839	45,585

11. The following analysis shows the level of green bids against the upper funding limits:

		Upper Limits	Green Bids	Headroom
		£m	£m	£m
	<b>City Fund</b>	20.000	17.007	2.993
	<b>City's Cash</b>	10.000	9.044	0.956
	BHE	N/A	0.115	N/A
		30.000	26.166	3.949

Therefore, with the final proposed green bids remaining within the upper funding limits it is proposed that they be approved in principle.

12. As previously agreed, 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 if savings are later identified from the provisions for the green bids.
13. 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 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 and have previously been approved by Bridge House Estates Board.
14. 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.

### Next Steps

15. Financial provisions for the green bids will be incorporated into the medium-term financial plans to be used as a basis for the 2022/23 budgets for approval by Finance Committee and the Court of Common Council.
16. In accordance with the new bids process, draw-down against these provisions will be subject to the further approval of the Resource Allocation Sub Committee following progression of the schemes through the gateway process.

### Reinforcing Financial Discipline

17. As previously reported, it is evident from annual capital outcome reports that the capital programme regularly experiences significant slippage. Although service committees have the ambition to embark on capital schemes there have been project management capacity and capability issues which have caused delays and over time priorities sometimes change. Various initiatives to improve project and programme management have commenced and whilst the Project Management Academy is now in place the recruitment freeze has continued to constrain capacity during 2021. To sit alongside initiatives to improve skills, the following financial disciplines are also in place:
  - Where projects slip by more than one-year, central funding for schemes will be withdrawn unless an exceptional case is agreed by the Resource Allocation Sub Committee. A review of progress on centrally funded schemes is currently being undertaken, facilitated via the bilateral

meetings. This will ensure that funding is available to re-direct to the highest priority areas and may alleviate the additional financial pressures arising from the escalation in construction inflation.

- The 'one-in, one-out' approach will be adopted when considering additional central funding requests arising outside of the annual bid process.

18. In December 2019 Members agreed in principle to provide loan funding to the Police and HRA up to the limit of how much each can afford to pay in accordance with the City Fund Minimum Revenue Provision Policy, providing that the schemes financed through the loans meet the prioritisation criteria. Approval to a loan funding provision of up to £37m across the medium term was agreed as part of the 2020/21 bids. Some £9.3m of this provision has already been identified for Police priority schemes and the remainder still required for future HRA and Police schemes. Approval to carry over the balance of this provision is therefore sought.

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**Appendices:** Final Proposals: Green/Amber/Red Bids