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| Committee(s): Resource Allocation Sub Committee – for Decision | Date(s): 3 February 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 |
| Does this proposal require extra revenue and/or capital spending? | Yes |
| If so, how much? | £510k |
| What is the source of Funding? | £160k from City Fund Reserves and £350k from City’s Cash reserves. |
| 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 identified budget shortfall and to the release of funding (following gateway approvals) to allow schemes to progress.

The approved annual capital bids for 2020/21 currently total £84.4m of which £31.6m has been approved for draw-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 £83m of which draw-downs of £9.1m have been agreed. A schedule of the current 2021/22 allocations is included in Appendix 2 for information.

A significant increase in the cost of the Walbrook Wharf Mechanical and Electrical (M&E) Replacement scheme has been identified at Gateway 5, arising from additional fire safety requirements and higher than anticipated tender returns. This has resulted in a funding shortfall of £1.5m, of which £0.9m can be met from savings on two other schemes (applying the 'one-in, one-out' approach) as summarised in Table 1 (para. 11). The balance of funding is to be met mainly through the reallocation of government grant received for the Public Sector Decarbonisation Scheme, with the rest from savings in the Cyclical Works Programmes.

In addition, release of £510k to allow progression of the three schemes summarised in Table 2 (para. 12) 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 via the 2021/22 capital bids: £50k from CIL and £110k from capital reserves (all City Fund), plus £350k 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 Members for review, reflecting discussions that have been 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 £909k from the savings on two other City Fund schemes to provide top-up funding towards the cost increase on the Walbrook Wharf M&E Replacement scheme, with approval to release the central funding being subject to approval of the Gateway 5 proposals (by other committees).
- (ii) 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
- (iii) To agree the release of up to £510k for the schemes in Table 2 from the reserves of City Fund and City's Cash as appropriate, subject to the required gateway approvals.
- (iv) To note that in order to maintain sound financial discipline a review of unallocated central project funding provisions will be brought to Members, reflecting discussions taking place at the bi-lateral meetings.

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.
 - 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 £84.4m is currently allocated for new capital bids across the three main funds. To date, £31.6m 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 £83m across the three main funds for the 2021/22 new bids is currently allocated, of which drawdowns of £9.1m has been approved in respect of 13 schemes. A schedule of the 2021/22 allocations is included in Appendix 2 for information.

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.

7. In addition, there a small number of ongoing schemes for which funding was allocated as part of the Fundamental Review.

Proposals

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

8. 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.
9. The cost of the Walbrook Wharf M&E replacement project has increased significantly, from £2.083m at the last gateway to £3.555m at Gateway 5 (including risk) – primarily due to additional fire safety requirements and higher than anticipated tender returns. As a consequence, additional central funding of £1.472m is now required, which has been identified from a variety of sources:

| | |
|-------------------------------------------|--------------|
| | £000 |
| Savings in other centrally funded schemes | 909 |
| PSDS government grant | *430 |
| CWP savings | 133 |
| Total | 1,472 |

*subject to formal approval from Salix to reallocate the grant

10. Applying the 'one-in, one-out' principle, savings of £909k against the provisions set aside for two schemes have been identified as follows:
- Central funding from City Fund reserves of £1.530m was agreed for the Walbrook Wharf Electrical Supply and Infrastructure Upgrade as part of the Fundamental Review. Tenders for completing the scheme were lower than anticipated, giving rise to a saving of £535k.
 - Central funding of £1m from City Fund reserves was agreed for the Central Criminal Court East Wing Mezzanine Cooling and Heating project as part of the 2020/21 capital bids. Tenders for completing the works were lower than anticipated, giving rise to savings of £374k.
11. In summary, reallocation of £909k of savings on two other projects towards the shortfall on the Walbrook Wharf M&E replacement project is proposed as follows, subject to the approval of the Gateway 5 proposals by the appropriate committees:

| | | Capital Bid Round | City Fund | City's Cash | Total |
|---------------------------------------------------|--------------------------------------------------------|--------------------|-----------|-------------|-------|
| Table 1: 'One-In, One-Out' Proposals | | | | | |
| Additional Funding Required | | | £000 | £000 | £000 |
| | Walbrook Wharf M & E | Fundamental Review | 909 | | 909 |
| Funding to be reallocated from: | | | | | |
| | Central Criminal Court East Wing Mezzanine Heating etc | 2020/21 | - 374 | | - 374 |
| | Walbrook Wharf Electric Vehicle Charging and Supply | Fundamental Review | - 535 | | - 535 |
| Net additional Funding from capital bid resources | | | - | - | - |

Current Requests for the Release of Funding

12. There are three schemes with 'in principle' funding approved as part of the capital bids that have progressed through the gateways for which release of £510k is now requested as summarised in Table 2:

| Table 2: Project Funding Requests | | Next Gate-way | Capital Bid Round | City Fund | City's Cash | Total |
|------------------------------------------------|----------------------------------------------------|---------------|-------------------|------------|-------------|------------|
| | | | | £000 | £000 | £000 |
| Funding to progress to the next gateway | | | | | | |
| | Guildhall Complex Refurbishment options | G3/4 | 2021/22 | - | 350 | 350 |
| | Foreshore River Defence Repairs at Riverbank House | G4 | 2021/22 | 110 | - | 110 |
| Full Funding for Scheme Implementation | | | | | | |
| * | Beech Street Transformation Public Realm | G6 | 2021/22 | 50 | - | 50 |
| Total Requested Release of Funding | | | | 160 | 350 | 510 |
| * | Community Infrastructure Levy (CIL) | | | | | |

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

13. 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.
14. 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

15. 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 agreed as part of the capital bids process. Accordingly, a report will be prepared to identify any schemes that are not being actively progressed, reflecting 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

16. 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.
17. Adopting the 'one-in, one-out' approach, the reallocation of £909k to provide additional funding to meet the shortfall on the Walbrook Wharf M&E Replacement project is requested to be met from savings on two other City Fund schemes.
18. Requests for the release of £510k to allow six schemes to progress are set out in Table 2 (refer to paragraph 12 and appendix 3).

19. 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 2021/22 annual capital bids: £50k from CIL and £110k from City Fund general reserves, plus £350k from City's Cash Reserves.
20. 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 reflecting 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)

Dianne Merrifield

Group Accountant, Capital

Email: [dianne.merrifield @ cityoflondon.gov.uk](mailto:dianne.merrifield@cityoflondon.gov.uk)