

Committee(s): Resource Allocation Sub Committee – for Decision Bridge House Estates Board	Date(s): 19 July 2022 Urgency
Subject: Capital Funding Update	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?	£3.194m
What is the source of Funding?	£2.433m from City Fund Reserves, £0.649m from City’s Cash Reserves and £112k from BHE Unrestricted Income Fund.
Has this Funding Source been agreed with the Chamberlain’s Department?	Yes
Report of: The Chamberlain	For Decision
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Summary

This report follows on from previous papers on capital prioritisation and the 2020/21, 2021/22 and 2022/23 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, Members 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 for Members to consider release of funding in the context of the current financial climate and to seek agreement to the release of any funding (following gateway approvals) to allow schemes to progress.

The approved annual capital bids for 2020/21 currently total £84.1m of which draw-downs of £35.4m have been approved 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 £83.0m of which draw-downs of £11.9m have been agreed. A schedule of the current 2021/22 allocations is included in Appendix 2. For information it is proposed that £0.5m of this approved but not drawn down sum be repurposed through the 'One-in, One-Out' funding principle to fund the 'IT - Managed Service re-provisioning' project. See Table 1 'One-In, One-Out' Proposals.

The recently approved annual capital bids for 2022/23 total £26.2m of which draw-downs of £1.5m have been agreed. For information it is proposed that £0.3m of this approved but not drawn down sum be repurposed through the 'One-in, One-Out' funding principle to fund the 'IT - Managed Service re-provisioning' project. See Table 1 'One-In, One-Out' Proposals.

Release of £3.194m to allow progression of the nine schemes summarised in Table 2 'Project Funding Requests' is now requested. Funding for these schemes can be met from the provisions set aside from the reserves of the three main funds via the annual capital bids.

However, there is a need to manage the significant inflationary pressures impacting across capital programmes. These pressures need to be carefully managed to prevent a potential significant overspend. Officers are recommending a pause and review across all capital programmes, highlighting risks and identifying mitigations where possible and allowing only essential/contracted capital programmes to proceed. In instances where capital projects are approved assuming any element of external funding, risks must be managed to prevent additional unplanned cost pressures impacting on central funding. For this reason, all capital programmes must be part of the review. Chamberlain's and the PMO team are in the process of defining the approach and further guidance will be circulated to Chief Officers and their teams to support this pause/review.

Recommendations

Policy and Resources Committee Members are requested -

- (i) In light of inflationary pressures highlighted, the capital programme is paused and reviewed to allow only essential/contracted programmes to proceed;
- (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 pause and carry out a review on projects requesting funding to progress to the next gateway (prior to Gateway 5) of up to £1.479m – City Fund (£1.294m) and City's Cash (£0.185m)
- (iv) To agree the release of up to £1.715m for the schemes progressing to implementation (post Gateway 5) in Table 2 from the reserves of City Fund (£1.139m) and City's Cash (£0.464m) and BHE (£0.112m) as appropriate, subject to the required gateway approvals.

Bridge House Estates (BHE) Board Members are requested –

- (v) To agree a contribution of £112k towards the cost of progressing the Members IT Refresh and IT Managed Service projects, to be met from the provision set aside from the Unrestricted Income Fund.

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 £84.1m is currently allocated for new capital bids across the three main funds. To date, £35.4m has been drawn down to allow 37 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 £83.0m across the three main funds for the 2021/22 new bids is currently allocated, of which drawdowns of £11.9m has been approved in respect of 18 schemes. A schedule of the 2021/22 allocations is included in Appendix 2 for information. It is proposed that £0.5m of this approved but not drawn down sum be repurposed through the 'One-in, One-Out' funding principle to fund the 'IT - Managed Service re-provisioning' project. See Table 1: 'One-In, One-Out' Proposals.
7. Central Funding of £26.2m has recently been agreed for the 2022/23 new bids of which draw-downs of £1.5m have been approved in respect of 3 schemes. A schedule of the 2022/23 allocations is included in Appendix 3 for information. It is proposed that £0.3m of this approved but not drawn down sum be repurposed through the 'One-in, One-Out' funding principle to fund the 'IT - Managed Service re-provisioning' project. See Table 1: 'One-In, One-Out' Proposals.
8. In addition, there a small number of ongoing schemes for which funding was allocated as part of the Fundamental Review.
9. However, there is a need to manage the significant inflationary pressures being faced, with consumer price inflation reaching as high as 11%, energy prices rising between 57% up to 174%, plus a rise in construction inflation averaging at 25% across the board. These pressures need to be carefully managed to prevent a potential significant overspend. Officers are recommending a pause and review across all capital programmes, highlighting risks and identifying mitigations where possible and allowing only essential/contracted capital programmes to proceed. In instances where capital projects are approved assuming any element of external funding, risks must be managed to prevent additional unplanned cost pressures impacting on central funding. For this reason, all capital programmes must be part of the review. Chamberlain's and the PMO team are in the process of defining the approach and further guidance will be circulated to Chief Officers and their teams to support this pause/review.

Proposals

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

10. 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.

11. The cost of the IT - Managed Service re-provisioning project (moving away from Agilisys as our Managed Services provider towards an in-house model) has been calculated as £1.968m at Gateway 5 (including risk). Therefore, additional central funding of £0.800m is now required on top of release of the £0.500m approved in principle as part of the 2022/23 New Bids. The balance of funding is to be met from Finance Committee and Bridge House Board Contingency Funds. This project is recommended for reallocation of funding on a 'spend-to-save' basis as The project will complete in 14 months and the calculated benefit will be £904k per annum going forwards so the period of payback is 2.2 years from the project completion.

Table 1: 'One-in, One-out'	Capital Bid Round	City Fund	City's Cash	Bridge House Estates	Total
		£000	£m	£m	£m
IT - Managed Service re-provisioning (one-off costs due to end of current contract)	2022/23	0.512	0.232	0.056	0.800
		-	-	-	-
IT SD WAN /MPLS replacement	2021/22	0.256	0.116	0.028	0.400
		-	-	-	-
Public Services Network replacement	2021/22	0.064	0.029	0.007	0.100
		-	-	-	-
IT Security	2022/23	0.064	0.029	0.007	0.100
		-	-	-	-
HR System Portal required in advance of the new ERP system delivery	2022/23	0.096	0.044	0.010	0.150
		-	-	-	-
Corporate Managed Print Service	2022/23	0.032	0.014	0.004	0.050
		-	-	-	-
Net additional Funding from capital bid resources		-	-	-	-

Current Requests for the Release of Funding

12. There are nine schemes with 'in principle' funding approved as part of the capital bids that have progressed through the gateways, for which release of up to £3.194m is requested:

Table 2: Project Funding Requests	Next Gateway	Capital Bid Round	City Fund	City's Cash	Bridge House Estates	Total
			£m	£m	£m	£m
Funding to progress to the next gateway						
Barbican Podium Waterproofing, Drainage and Landscaping Works (Ben Jonson, Breton & Cromwell Highwalk) Phase 2 – 1st Priority	G5	2020/21	0.900			0.900
BEMS Upgrade Project-CPG Estate – Phase 1	G3/4	2021/22	0.024	0.016		0.040
Hampstead Heath Swimming Facilities - Safety, Access and Security Improvements	G5	2021/22		0.058		0.058
Central Criminal Court Cell Area Ducting and Extract System Balancing	G3	2021/22	0.220			0.220
OS Hampstead Heath - Parliament Hill Athletics Track Resurfacing	G3	2022/23		0.111		0.111
Walbrook Wharf Feasibility - 2027 and beyond	G2	2022/23	0.150			0.150
						1.479
Full Funding for Scheme Implementation						
Energy Reduction Programme: Tower Hill Coach & Car Park Lighting and Ventilation Upgrades	G6	2020/21	0.115			0.115
Members IT refresh (to align with new personal device roll-out for staff)	G6	2022/23	0.192	0.087	0.021	0.300
IT - Managed Service re-provisioning (one-off costs due to end of current contract)	G6	2022/23	0.832	0.377	0.091	1.300
						1.715
Total Requested Release of Funding			2.433	0.649	0.112	3.194

13. Further details of the individual schemes are provided in Appendix 4 attached.
14. 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.
15. Funding for these schemes can be met from the provisions set aside from the reserves of the three main funds via the three years of capital bids through a mixture of £2.433m On Street Parking Reserve, CIL and City Fund reserves, plus £0.649m from City's Cash general reserves and £112k from the Bridge House Estates Unrestricted Income Fund. However the full impact of the current inflationary risk cannot yet be fully understood.
16. Therefore, it is recommended that funding is only granted to projects at Gateway 5 which are ready to deliver and which will increase efficiencies and reduce costs going forwards.

Conclusion

17. Members are requested to;

18. 1) review the above and consider in the context of the current financial climate their continued support for the schemes requesting internal resources to proceed, and;
19. 2) approve the associated release of funding.

Appendices

Appendix 1– 2020/21 Approved Bids

Appendix 2 - 2021/22 Approved Bids

Appendix 3 – 2022/23 Approved Bids

Appendix 4 – 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)
- Capital Funding – Prioritisation of 2022/23 Annual Capital Bids – Stage 2 Final Proposals

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