

Committee(s): Finance Committee – For decision	Dated: 12/12/2023
Subject: Cyclical Works Programme – Funding Strategy	Public
Which outcomes in the City Corporation’s Corporate Plan does this proposal aim to impact directly?	Shape outstanding Environments – Our spaces are secure, resilient, and well maintained
Does this proposal require extra revenue and/or capital spending?	Y
If so, how much?	£133m
What is the source of Funding?	£62.7m from City Fund and £71m from City Cash combined revenue and capital budgets
Has this Funding Source been agreed with the Chamberlain’s Department?	Y
Report of: Caroline Al-Beyerty, Chamberlain and Chief Finance Officer	For Decision
Report author: Radwan Ahmed, Interim Assistant Director – Strategic Finance, Financial Services Directorate	

Summary

This report provides a proposal to address the previously reported cyclical maintenance backlog to achieve the Corporate Property Asset Management Strategy 2020/2025 and beyond. City Surveyors have estimated that the cost of the immediate urgent works is £130.9m comprising £55.1m ‘Bow Wave’ or Backlog requirements, and £75.8m of forward plan works over the next 3 years (with spend profiled over 5 years). A detailed breakdown is included within Table 1 of the report.

This paper proposes building within the Medium-Term Financial Plans (MTFPs) and Capital Programmes that a combined funding allocation totalling £133.7m, including additional £2.76m for resourcing costs across City Cash and City fund (inclusive of the sums recharged for Guildhall Admin) for the 5-year period from 2024/25 to 2028/29, and summarised by funding stream in Table 1 of the report.

Recommendation(s)

Members are asked to:

- Note the report, including the profile and categories of CWP works across Backlog (the 'bow wave') and 3 years forward plan forecasts.
- Endorse a total 5-year budget allocation of £133m comprising £62.7m for City Fund plus £71m for City Estate to meet the immediate needs of Cyclical Works Programme for onward approval, under the budget setting process, to the Court of Common Council.
- Note the amount requested against the City's Community Infrastructure Levy (CIL) of £30m to support the New Museum Build, which will enable release of £30m funds from the City Fund major projects reserve to be reallocated to Cyclical Works Programme forward plan, to be recommended to Resource Allocation Sub Committee in January 2024 and onward approval to Policy and Resources Committee.
- Note the amount requested against On-Street Parking Reserve monies totalling £4.4m to meet the costs of CWP works relating to City Fund car parks, recommended to Resource Allocation Sub Committee in January 2024 and onward approval to Policy & Resources Committee.

Main Report

1. Background

- 1.1 The Corporation of London has a significant Operational Property portfolio across City Fund and City Estate, for which a significant portion has fallen into a state of disrepair as a result of funding constraints over several years. Officers have previously reported to member fora of the accumulated backlog of maintenance, for which a significant funding commitment is now needed to prevent further dilapidation and degradation of property, and failure to meet statutory compliance requirements – which in turn increase the risk of significant future liabilities.
- 1.2 This options paper EXCLUDES Housing and Institutional property with ring fenced budgets (i.e., Independent Schools, City of London Police, City Bridge Foundation, Billingsgate Market and Spitalfields Market). This paper also EXCLUDES Barbican Arts Centre and the GSMD. The Barbican Renewal Programme seeks to address the significant elements and issues that would form part of its backlog, and already has an approved funding allocation of £25 over the next two years 2023/24 – 2024/25. The City Surveyor is also working with the GSMD to establish a detailed forward maintenance plan so that works can be strategically planned.

2. Current Position

- 2.1 The current annual budget allocation of £12.3m is insufficient to meet the immediate needs. Delivery of the Cyclical Works Programme is managed by the Peer Review Group (PRG) chaired by the Chamberlains Department, where individual proposals are assessed against a scoring matrix to determine priority of works. The scoring matrix is enclosed at appendix 1.

2.2 City Surveyor colleagues have reviewed and estimated this shortfall to be in the region of £130m, with a further c£3m to support resourcing needs. This is analysed in Table 1 as follows:

	£m's
<u>Backlog works</u>	
Energy City Fund	1.9
Energy City Cash	3.1
Energy Guildhall	0.9
Traditional Projects City Fund	16.2
Traditional Projects City Cash	18.2
Traditional Projects Guildhall	14.8
Backlog total	55.1
<u>Forward plan works</u>	
Energy City Fund	3.5
Energy Citys Estate	4.3
Energy Guildhall	4.6
Traditional Projects City Fund	21.3
Traditional Projects City Cash	20.6
Traditional Projects Guildhall	21.4
Forward plan total	75.8
Resource Costs	2.8
Total	133.7

Table 1: Summary analysis of required works to be delivered in the next 5 years.

2.3 This significant budgetary allocation is needed to enable the delivery of the Member-approved Corporate Property Asset Management Strategy 2020-25 to maintain operational assets in a good condition. Additionally, £18.3m of the required works relate to Energy efficiency schemes that are not included in the climate action strategy budget and are crucial for successful delivery of the Member-approved Climate Action Strategy objectives, pathway to net zero 2027.

3. Options

3.1 **Option 1 – Maintain Existing Budgetary Provision – Not Recommended**

3.1.1 The MTFP had assumed an annual budgetary allocation of £12.5m for 2024/25 rising to £15m per year from 2025/26. Option 1 would entail the City Surveyor Operations Group to produce an annual funding request for 2024/25 cyclical works to be delivered over a 2-to-3-year period. The request will be based on priority according to the currently used scoring matrix included in Appendix 1, and its delivery will continue to be managed by the Cyclical Works Programme Peer Review Group (PRG) chaired by the Chamberlain's Department.

3.1.2 This approach will not fully address the maintenance backlog which will continue to grow as the annual forward maintenance plans exceed the annual funding envelope. Nor does it address the climate action pathway requirement.

3.2 **Option 2 – Ring fence and supplement 3-year budget allocation for Backlog works only – Not Recommended.**

3.2.1 The current annual budgetary provision for the next three years totals £42.5m and would require an additional increase of £12.6m (attributable to City Estate) to focus solely on the Backlog works required of £55.1m.

3.2.2 This approach will result in another maintenance backlog as the forward maintenance plan is paused. It also does not fully address the climate action requirements.

3.3 **Option 3 – Increase the budget allocation to a cumulative £133.7m for the next 5 years – Recommended.**

3.3.1 This option requires a significant increase to current budgetary provision. Officers have therefore explored additional funding options to supplement the required revenue budget increase. This includes the use of revenue and capital resources across both City Cash and City Fund, and On Street Parking Reserve (monies) for eligible spend within City Fund, relating to car parks. The proposed budget profile by funding stream is summarised in Table 2 below.

	2024/25	2025/26	2026/27	2026/27	2027/28	Total
	£m	£m	£m	£m	£m	£m
<u>City Fund</u>						
City Fund Capital	4.0	4.0	4.0	4.0	4.0	19.8
City Fund Revenue	7.5	7.7	7.8	7.8	7.7	38.5
City Fund OSPR	2.6	1.1	0.8	-	-	4.4
City Fund Total	14.1	12.7	12.5	11.8	11.6	62.7
<u>City Cash</u>						
City Cash Capital	3.3	3.3	3.3	3.3	3.3	16.7
City Cash Revenue	10.7	10.8	10.9	11.0	10.8	54.3
City Cash Total	14.1	14.2	14.3	14.3	14.2	71.0
Combined Total	28.1	26.9	26.8	26.1	25.8	133.7

Table 2: Proposed 5-year CWP funding budgets by Fund and funding category.

3.3.2 It is proposed that the capital funding for City Fund CWP works could be met from:

City Fund	£m
Total Cost of CWP - 2024/25 to 2027/28	62.7
Funded by:	
Release of Risk Reserves approved by CoCo in March 2023	(30.0)
Further approval of CIL funding towards the New Museum Build will enable funds from the City Fund major projects reserve to be reallocated to Cyclical Works Programme forward plan*.	(30.0)
On Street Parking Reserve*	(4.4)
Surplus funding to be ringfenced for 2028/29	(1.7)

*Requests to Resource Allocation Sub Committee (RASC) and Policy and Resources Committee are being proposed at their meetings in January 2024 and February 2024 respectively.

Whereas funding CWP under City's Cash can only be funded from disposal of assets, this could include, operational property, investment property and or financial investment. At the time of writing this report, recommendation of the disposal strategy is being modelled and will be recommended to the Joint Resource Allocation Sub Committee with Service Committee Members in January 2024 if approved.

3.3.2 This proposal provides a funding certainty to enable the planning and resourcing needed to deliver the works and get back on track. From FY2028/29, it is recommended the budgetary allocation reduce to a regular level of £15m annually to maintain the on-going forward plan, splitting out the capital and revenue allocations. Where future new capital bids envelopes are set for City Fund and City's Cash the capital element of the CWP should be given priority over other capital programmes. This is to ensure priority is given to maintain the Corporation's assets especially where health and safety is a concern.

4. Recommendation

4.1 It is our recommended that Option 3 provides the most effective delivery mechanism to address backlog maintenance, plus ensure forward maintenance across the corporate portfolio.

4.2 The benefits of this approach over others include:

- Funding certainty that enables the development of a robust plan to address the maintenance backlog and ensure the safety and operational efficiency and effectiveness of operational property.
- Supports a reduction in day-to-day operational costs by minimising breakdown/reactive tasks.
- Ring fenced approach ensures that this funding is not diverted to short term or unforeseen requirements.
- Through effective programming over a 5-year period, a reduction of disruption in operational properties.
- Future proofing the funding strategy for the Corporation's assets will avoid having to commit to future major projects programmes.
- Addresses the 'red' corporate risk (CR37 – maintenance and renewal of operational property) that has been caused by insufficient funding that has been escalated to Audit Risk Management Committee.

4.3 By not addressing the backlog of cyclical maintenance works, that has accumulated over several years, the required Backlog (bow wave) will grow exponentially. We will shortly reach a point whereby it will start to affect statutory compliance items and or cause greater degradation of property.

5. Financial implications

5.1 The financial implications are discussed within the body of the report.

6. Resource implications

6.1 The proposal includes a funding request of £2.8m to supplement existing resourcing capacity to support the delivery of the proposed works programme.

7. Legal implications

7.1 The recommended proposal ensures that the Corporation of London can continue to meet its statutory compliance requirements in relation to the safe operation of its premises.

8. Risk implications

8.1 There is an elevated risk that by not addressing the required works to our properties, then we will reach a point whereby it will start to affect statutory compliance, health and safety, risk to colleagues and the public and or cause greater degradation of property.

9. Equalities implications

9.1 This proposal does not advantage or disadvantage any characteristic or protected groups.

10. Climate implications

10.1 The recommended proposal includes £18.3m of funding for works needed to deliver the Member-approved Climate Action Strategy 2020 – 2027, which aims to achieve net zero by 2027 in the City Corporation's operations.

11. Security implications

11.0 None

12. Conclusion

12.0 This report sets out the funding required over the next 5 years in relation to the Cyclical Works Programme, comprising the accumulated Backlog of repairs and maintenances needs (the 'Bow-wave') for the next 3 years. Annual CWP funding will need to continue thereafter as a BAU activity.

- Appendix 1 – CWP Project Scoring Criteria Matrix

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