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<b>Committees:</b> Resource Allocation Sub-Committee - for decision Projects and Procurement Sub - for information	<b>Dates:</b> 11 July 2024 15 July 2024
<b>Subject:</b> Climate Action Strategy (CAS) – Capital Delivery Programme for Operational Buildings <b>Unique Project Identifier:</b> 12372	<b>Gateway 2                  Regular                  Issue Report</b>
<b>Report of:</b> City Surveyor <b>Report Author:</b> Graeme Low, Head of Energy & Sustainability (Assistant Director)	<b>For Decision</b>
<h1>PUBLIC</h1>	

<b>1. Status update</b>	<p><b>Project Description:</b> This programme covers a portfolio of capital interventions to be delivered to decarbonise the most carbon intensive City of London operational buildings, in line with the Climate Action Strategy 2027 net zero targets.</p> <p><b>RAG Status:</b> Amber (Amber at last report to Committee)</p> <p><b>Risk Status:</b> Medium (Medium at last report to committee)</p> <p><b>Total Estimated Cost of Project (excluding risk):</b> £5,211,404</p> <p><b>Change in Total Estimated Cost of Project (excluding risk):</b> £127,211 (decrease). Change is due to proposed change in scope to exclude certain projects and include additional projects.</p> <p><b>Spend to Date:</b> £1,227,596. Spend to date is for development and delivery of sub-projects as set out in ‘Progress to date’ – see 4.1.2 below, against the combined approved budgets for the project and all sub-projects to date.</p> <p><b>Costed Risk Provision Utilised: £32,256</b> (of which £32,256 has been drawn down since the last report to Committee). Utilised for Tower Hill Coach &amp; Car Park sub-project due to inflation, whose CRP was approved at GW5 for this particular sub-project.</p> <p><b>Funding Source:</b></p> <table border="1"> <thead> <tr> <th>Item</th> <th>Reason</th> <th>Funds/ Source of Funding</th> <th>Cost (£)</th> </tr> </thead> <tbody> <tr> <td rowspan="6">All Projects</td> <td rowspan="6">To support Climate Action Strategy net zero target and access additional funding to support this.</td> <td>CAS Year 3, 4 and 5 Plans</td> <td>£3,902,316</td> </tr> <tr> <td>CAS English Heritage Pathway Project</td> <td>£80,000</td> </tr> <tr> <td>Cyclical Work Programme (approved budget)</td> <td>£611,238</td> </tr> <tr> <td>Local (to be agreed)*</td> <td>£151,490</td> </tr> <tr> <td>Central (approved)</td> <td>£180,940</td> </tr> <tr> <td>Carbon Fund (section 106 grant)</td> <td>£1,695,928</td> </tr> </tbody> </table>	Item	Reason	Funds/ Source of Funding	Cost (£)	All Projects	To support Climate Action Strategy net zero target and access additional funding to support this.	CAS Year 3, 4 and 5 Plans	£3,902,316	CAS English Heritage Pathway Project	£80,000	Cyclical Work Programme (approved budget)	£611,238	Local (to be agreed)*	£151,490	Central (approved)	£180,940	Carbon Fund (section 106 grant)	£1,695,928
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	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;"><b>Total (incl. costed risk)</b></td> <td style="width: 30%; text-align: right;">£6,621,912</td> </tr> </table> <p>*This relates to the City of London Freemen’s School and may be subject to change pending ongoing discussions with the school.</p> <p><b>Slippage:</b> Project in progress. On approval of the increase in scope, the anticipated completion date of all projects is now March 2026 from March 2025.</p>	<b>Total (incl. costed risk)</b>	£6,621,912																	
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<p><b>2. Requested decisions</b></p>	<p><b>Next Gateway: Gateway 3-5 or Gateway 3-4</b></p> <p><b>Requested Decisions:</b></p> <ol style="list-style-type: none"> <li>1. Approval of Option 2, to change the scope of the Project to achieve significantly improved carbon and costs savings: <ul style="list-style-type: none"> <li>• Limit the scope of the Project to only include energy efficiency works which provide ongoing energy cost and carbon savings.</li> <li>• Exclude proposed works which do not provide cost savings, and <i>only</i> provide carbon savings. These works relate to heat decarbonisation, primarily through heat pumps where the transition from gas to electricity for heat generation results in higher ongoing energy costs but achieve good carbon savings. These works are still required to support our net zero target but will be progressed through a separate Project and forthcoming Gateway 2 paper to committee which will further explain the business case, rationale and funding strategy.</li> </ul> <p>The following table details the outcome of the proposed change:</p> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%;">Original</th> <th style="width: 20%;">Revised</th> </tr> </thead> <tbody> <tr> <td>Est. cost of project (incl. risk)</td> <td>£6,619,883</td> <td>£6,621,912</td> </tr> <tr> <td>Carbon savings (tCO<sub>2e</sub>/yr) at 2027</td> <td>520</td> <td>722</td> </tr> <tr> <td>Average payback (years)</td> <td>12.0</td> <td>7.3</td> </tr> <tr> <td>Cost of carbon savings (£/tCO<sub>2e</sub>)</td> <td>£12,731</td> <td>£9,173</td> </tr> <tr> <td>Energy cost savings per annum</td> <td>£550,000</td> <td>£901,183</td> </tr> </tbody> </table> </li> <li>2. That a Costed Risk Provision of £379,535 is approved (to be drawn down via delegation to the City Surveyor) to reach the next gateway stages for all sub-projects to be used for design fees if the procurement route changes from a single stage design and build to a two-stage design then build. This will be wholly funded through the Climate Action Strategy Year 4 Plan approved budget.</li> <li>3. To approve the proposed works, which will constitute sub-projects, will be reprofiled to account for the above change. This includes additional sites not included in the original Gateway 2. A list of updated sub-projects and sites can be found in Appendix 4.</li> <li>4. To approve, the funding strategy, as set out in item 3 below.</li> </ol>		Original	Revised	Est. cost of project (incl. risk)	£6,619,883	£6,621,912	Carbon savings (tCO <sub>2e</sub> /yr) at 2027	520	722	Average payback (years)	12.0	7.3	Cost of carbon savings (£/tCO <sub>2e</sub> )	£12,731	£9,173	Energy cost savings per annum	£550,000	£901,183	
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<p><b>3. Budget</b></p>	<p>The overall estimated cost of the Project was set out in the Gateway 2 at £6,619,883 (incl. costed risk).  The revised estimated Project cost is £6,621,912 (incl. costed risk).  This represents a negligible increase of £2,029.  Note: the estimated costed risk (post-mitigation and open) is: £1,242,273</p>																			

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Details of the updated list of sub-projects and their estimated costs can be found in Appendix 4.

A budget of £250,000 was approved at Gateway 2 for the development of the sub-projects within the original Project scope to reach the next gateway stage. The spend to date for this budget is: £84,770. As set out previously, this Gateway 2 Issue report requests a costed risk provision of £379,535 in the budget to allow for the risk that additional energy efficiency works may not be delivered through the same Design and Build procurement route and therefore these projects may need additional design budget to progress them to the next Gateway. This will be wholly funded through the Climate Action Strategy Year 4 Plan approved budget.

**Costed Risk Provision requested for this Gateway: £379,535**

**Funding strategy**

The original Gateway 2 paper set out a funding strategy where the Project was to be 100% funded through the Climate Action Strategy (CAS). This Issue paper presents below a revised funding strategy which takes advantage of a mixture of CAS funding, other local/central funding and external grant funding.

Item	Reason	Funds/ Source of Funding	Cost (£)
All Projects	To support Climate Action Strategy net zero target and access additional funding to support this.	CAS Year 3, 4 and 5 Plans	£3,902,316
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		Carbon Fund (section 106 grant)	£1,695,928
		<b>Total (incl. costed risk)</b>	<b>£6,621,912</b>

**Note**, in the case of the allocated CAS Year 3-5 Plan funding, financial savings that are made will accrue back to the City Corporation as a contribution to the Build Back Better Fund, up to the level of approved CAS funding, held in City Fund or City’s Cash as appropriate. Therefore, departmental local risk budgets will be adjusted accordingly.

\*This relates to the City of London Freemen’s School and may be subject to change pending ongoing discussions with the school.

**4. Issue description**

**4.1 Update on progress**

- In December 2022 we set out the plans to deliver the Capital Delivery Programme for Operational Buildings, as detailed in the original Gateway 2 report.
- The programme set out the list of proposed works which provide carbon and cost savings to be delivered to decarbonise the most carbon intensive City Corporation operational buildings to support our Climate Action Strategy 2027 net zero target.
- We currently have 12 sub-projects (each being a combination of works/measures), across 11 sites, in progress. And we are near completion

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	<p>on projects at the following sites - BAC (pumps), Guildhall (lighting), Tower Hill Coach &amp; Car Park (lighting and ventilation).</p> <ul style="list-style-type: none"> <li>• Spend to date is £1,227,596. Details of spend to date by project are provided in Appendix 5.</li> <li>• Further consultation and surveys have identified some proposed works are no longer suitable due to them being progressed through other projects or due to their forecast benefits not being deemed good value. Details of these reasons are provided in Appendix 3.</li> </ul> <p><b>4.2 Issue - change in scope</b></p> <ul style="list-style-type: none"> <li>• In the original Gateway 2, the projects set out consisted of two types of decarbonisations measures: <ul style="list-style-type: none"> <li>○ Energy efficiency works, which provide cost and carbon savings.</li> <li>○ Heat decarbonisation works, which <i>only</i> provide carbon savings.</li> </ul> </li> <li>• We recommend excluding works from this Programme which do not provide cost savings, and <i>only</i> provide carbon savings. These works relate to heat decarbonisation, primarily through heat pumps where the transition from gas to electricity for heat generation results in higher ongoing energy costs but achieve good carbon savings.</li> <li>• These works are still required to support our net zero target and we recommend they are progressed through a separate Project and forthcoming Gateway 2 paper to committee which will further set out their specific need (i.e. business case and rationale) and funding strategy.</li> <li>• We recommend reprofiling the programme scope to include additional sites and works not included in the original Gateway 2, as set out in Appendix 4.</li> </ul>
<p><b>5. Options</b></p>	<ol style="list-style-type: none"> <li><b>1. No change in scope – not recommended.</b> The business case for the two different types of works (those with and those without cost savings) is significantly different and would be best progressed through separate projects and approval routes.</li> <li><b>2. Change scope – recommended.</b> Reprofile the programme using the updated list of sub-projects which includes additional projects and excludes heat decarbonisation projects where there is no cost saving. Heat decarbonisation projects with no cost savings are to be considered through a separate Project to be presented through a separate Gateway 2 paper.</li> </ol>

**Appendices**

<b>Appendix 1</b>	Project Coversheet
<b>Appendix 2</b>	Risk Register
<b>Appendix 3</b>	Projects listed in original Gateway 2
<b>Appendix 4</b>	Updated delivery projects list & budget
<b>Appendix 5</b>	Programme spend to date

**Contact**

<b>Report Author</b>	Graeme Low
<b>Email Address</b>	graeme.low@cityoflondon.gov.uk

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<b>Telephone number</b>	07857 665 662
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