

# GREATER LONDON AUTHORITY

## REQUEST FOR MAYORAL DECISION – MD3212

### Transfer of funding from the LLDC Capital Funding Reserve for additional East Bank costs and other changes to the LLDC's capital programme

#### Executive summary:

The East Bank project is delivering a transformative, world-leading culture and education district in the Queen Elizabeth Olympic Park, providing opportunities to the residents of East London, including more than 2,500 jobs and an estimated £1.5bn boost to the local economy.

In a challenging development market, the project has recently been subject to exceptional cost increases, and there have been other pressures on London Legacy Development Corporation's (LLDC's) capital programme (arising particularly from regulatory changes, substantial construction cost inflation, increased financing costs and a downturn in the development market). As a result, there is a need to provide an additional £40m of funding to the LLDC in 2023-24. This funding, to be drawn from the LLDC Capital Funding Reserve, is required to maintain delivery of key projects, notably East Bank.

#### Decision:

That the Mayor:

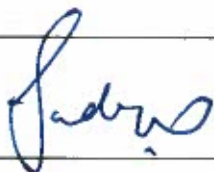
- Approves the payment of a capital grant of £40m to the London Legacy Development Corporation (LLDC), to be paid from the LLDC Capital Funding Reserve held by the GLA, to meet unavoidable financial pressures associated with the East Bank project and the wider LLDC capital programme.

#### Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

Signature:



Date:



## **PART I – NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR**

### **Decision required – supporting report**

#### **1. Introduction and background**

- 1.1. The London Legacy Development Corporation (LLDC) is facing significant challenges on its capital programme, including in relation to East Bank, the new cultural and education district at Queen Elizabeth Olympic Park in Stratford. The anticipated final cost (AFC) of the East Bank project has recently increased due to new design issues, contractor performance, settlements with key contractors (in excess of AFC allowances), and prolongation. The LLDC's wider capital programme is also being impacted by regulatory changes, substantial construction inflation, increased financing costs, and a downturn in the development market, which has adversely impacted capital receipts previously anticipated to be received by the LLDC in the short term.
- 1.2. This is an evolving situation, particularly given the exceptional current levels of uncertainty around the macroeconomic environment, and the impact on the UK's construction industry and development market. The LLDC has updated its long-term capital plan to reflect these challenges, as they currently stand, across its entire programme of development activity, taking into account the latest forecast income and expenditure positions. This model informs the LLDC's budget submission to the Mayor's Consolidated GLA Group Consultation Budget 2024-25, due to be published in December 2023.
- 1.3. As elements of the capital programme complete – for example, as the East Bank buildings are handed over to the partners – the risk of further overspend narrows. However, while this work continues, the LLDC identified that its capital plan, including the East Bank project, requires an additional and immediate £40m of additional funding in this financial year (2023-24) so that the LLDC can continue to make budgetary and contractual commitments, particularly on the East Bank project which is nearing the final stages of completion.

#### *Background to this MD and the proposed decisions*

- 1.4. The LLDC and its partners (Sadler's Wells, University of the Arts London (UAL), Victoria and Albert Museum (V&A), the BBC and University College London (UCL)) have worked together to deliver transformative, world-leading additions to the education and cultural offer in east London.
- 1.5. The key elements are a new campus for UCL to the south of the Park (UCL East) and a mixed educational and cultural district, with residential properties. This includes a new V&A Museum, V&A East, consolidation of all UAL's London College of Fashion institutions on one site, a new Sadler's Wells dance theatre, a new building for the BBC's Symphony Orchestra and broadcasting studio (currently located in Maida Vale), and residential development. In addition, the V&A's collection is being moved to the new V&A East Storehouse at Here East on the Park.
- 1.6. The UAL building was recently handed over. London College of Fashion commenced operations in the building for the 2023-24 academic year, with students now taking courses at the East Bank building. The canal-side public realm is also open to facilitate access to students and for the public to enjoy. An early-access agreement with the V&A enabled them to start their fit-out work on 1 November 2023, in advance of final handover of the building, expected by the end of the year.
- 1.7. It is estimated that the East Bank development will bring an additional 1.5m visitors to the Park and surrounding area each year. This will create more than 2,500 jobs and generate an estimated £1.5bn for the local economy by 2045.
- 1.8. The LLDC's 2023-24 budget was based on a construction AFC of £615.2m (the Stratford Waterfront total).
- 1.9. The LLDC now forecast the total AFC has increased to £667.9m. This cost increase is driven by:
  - new design issues

- contractor performance (particularly regarding cladding and glazing, which has delayed watertightness on Sadler's Wells and the BBC, and final completion on the V&A)
- settlements with key contractors in excess of AFC allowances
- prolongation of works.

1.10. Although the project is reaching the final stages, significant risks remain, including:

- completion of design integration – significant design interface risks
- package interface management – ongoing through to completion
- commissioning and handover
- supply volatility (material and labour) – ongoing through to completion
- unfunded risks not mitigated – time and costs impact.

1.11. Delivery of the project within the updated AFC is contingent upon:

- concluding deals with package contractors to settle change and prolongation claims and acceleration/improved productivity to deliver the forecast programme
- no significant new design risks materialising
- delivery within the projected programme.

1.12. Given the continued programme slippage and cost escalation on the project, the LLDC continues to monitor and challenge these forecasts closely, and is working with Mace, the LLDC's project management partner for East Bank, to seek to contain the final outcome to a position no worse than Mace's worst-case scenario.

1.13. Due to the impact of delays and reductions in forecast capital receipts within the LLDC's capital programme, the LLDC now requires the immediate provision of additional funding from the LLDC Capital Funding Reserve. Without such funding, by the end of December 2023, the LLDC will be unable to continue making cost and/or contractual commitments on the East Bank project, which would have a significant and detrimental impact on the project (including targeted building handover dates).

## **2. Objectives and expected outcomes**

2.1. The allocations of GLA Group reserves proposed in this decision are designed to deliver an appropriate response to the unavoidable impact of acute macroeconomic challenges on the LLDC capital programme, in particular to ensure the East Bank project can be successfully delivered resulting in the benefits set out in previous Mayoral decisions approving the project. This decision has been taken whilst cognisant of the need to retain a prudent level of reserves given future risks and uncertainties.

## **3. Equality comments**

3.1. Under section 149 of the Equality Act 2010, the LLDC is subject to the public sector equality duty and must have due regard to the need to:

- eliminate unlawful discrimination, harassment and victimisation and any other conduct that is prohibited by or under the Act

- advance equality of opportunity between people who share a relevant protected characteristic and those who do not
- foster good relations between people who share a relevant protected characteristic and those who do not.

- 3.2. The protected characteristics are age, disability, gender re-assignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation and marriage/civil partnership status. The duty involves having appropriate regard to these matters as they apply in the circumstances, including having regard to the need to: remove or minimise any disadvantage suffered by those who share or is connected to a protected characteristic; take steps to meet the different needs of such people; encourage them to participate in public life or in any other activity where their participation is disproportionately low. This can involve treating people with a protected characteristic more favourably than those without one.
- 3.3. It is not anticipated that there will be any impacts on protected groups arising directly from the proposed decision to make additional funding available. However, the funding is required for the delivery of East Bank, which is a key project that aims to help raise local aspirations and improve perceptions of East London, one of the most challenged areas in the UK; it will provide access to cultural and civic opportunities and enhance the education and skills attainment levels of local people and create sustainable jobs. East Bank also aims to collaborate and drive forward experimental and interdisciplinary research, development, and creative programming, helping to provide an economic boost of national, as well as local, significance.
- 3.4. The LLDC undertook a strategic equality impact assessment on its renewed priorities, including its organisational strategy to 2025 and East Bank plans. As part of this process the LLDC consulted with equality groups and tested whether its approach is helping to promote its equality priorities. The outcomes of the strategic equality impact assessment in relation to the East Bank have been used to inform the planning process and public consultations.

#### 4. Other considerations

##### *Key risks and issues*

<b>Risk</b>	<b>Mitigation</b>
The East Bank AFC increases further before programme completion	<p>The LLDC is working closely with Mace to scrutinise all costs. Any increases to the AFC can only be authorised following formal review and agreement of the East Bank Change Board.</p> <p>The LLDC's capital and revenue budgets are approved by its Board and the Mayor; and is monitored on a quarterly basis by the Mayor's Office and Members of the Assembly's Budget and Performance Committee.</p>
Adverse macroeconomic conditions impact upon the LLDC's forecast capital receipts and costs	The LLDC is working closely with contracted developers to monitor impacts and mitigate these where possible.

##### *Links to Mayoral strategies and priorities*

- 4.1. This proposal, through contributing to the successful delivery of East Bank, will support the Mayor's priorities:
- a cleaner, greener London – by providing a building that promotes positive environmental outcomes throughout the design, construction and operational life cycle

- making the most of arts, culture and creativity – by providing high-quality and accessible public realm spaces for local people and visitors to enjoy, as well as providing world-class cultural programmes both inside and outside the buildings
- a fairer and more equal city – through expanding access and participation, and through partnership programmes which deliver equality of opportunity, best practice in inclusive design and accessibility, and support for underrepresented groups to work, to gain skills and to access opportunities
- business, prosperity and opportunity – by developing skills and supporting businesses.

#### *Consultations and conflicts of interest.*

- 4.2. It is not considered that the Mayor needs to undertake any additional consultation in respect of this particular decision.
- 4.3. There are no conflicts of interest to declare from anyone involved in the drafting or clearance of this decision form.

### **5. Financial comments**

- 5.1. Financial issues are integral to this decision and considered accordingly throughout.
- 5.2. This decision proposes to allocate £40m to the LLDC from the LLDC Capital Funding Reserve during 2023-24.
- 5.3. As a Mayoral Development Corporation (MDC) the LLDC's reserves are held within the GLA's earmarked reserves. The LLDC Capital Funding Reserve's purpose, as stated in the GLA's draft 2022-23 accounts, is to provide a source of funding for revenue grants to the LLDC for the financing of future LLDC capital expenditure.
- 5.4. The draft 2022-23 GLA accounts confirm, as at the end of March 2023, the opening balance on the LLDC Capital Funding Reserve was £75.661m. The Mayor's Consolidated GLA Group Budget 2023-24 contained a net drawdown from this reserve of £33.301m. Therefore, if this decision is approved, the required funding can be provided from within available resources and would result in a closing balance on the LLDC Capital Funding Reserve, at 31 March 2024, of £2.36m.
- 5.5. The amount of funding required to be maintained in the LLDC Capital Funding Reserve in future years will be considered as part of the final draft consolidated GLA Group budget 2024-25.

### **6. Legal comments**

- 6.1. The Greater London Authority Act 1999 (GLA Act) and Local Government Finance Act 1992 require billing and precepting authorities to have regard to the level of contingencies and reserves needed for meeting estimated future expenditure.
- 6.2. Under section 120 of the GLA Act, the GLA may pay a grant towards meeting capital expenditure incurred or to be incurred by another functional body, or by the GLA, for the purposes of, or in connection with, the discharge of the functions of the body to which the grant is made. A grant made under that section must not be made subject to any limitation in respect of the capital expenditure which it may be applied towards meeting, and must be applied by the recipient body solely towards meeting capital expenditure incurred or to be incurred by that body for the purposes of, or in connection with, the discharge of its functions.

## **7. Planned delivery approach and next steps**

- 7.1. The financial allocations proposed in this decision form will be implemented promptly following its approval. Financial issues and risks will be considered continuously throughout the GLA Group budget process, the expected timetable for which is set out below:

<b>Activity</b>	<b>Timeline</b>
Mayor's 2024-25 consultation budget published	Week commencing 11 December 2023
Mayor's 2024-25 draft budget published	17 January 2024
Mayor's 2024-25 final draft budget published	14 February 2024
Mayor's 2024-25 final budget approved	By 27 February 2024

### **Appendices and supporting papers:**

None.

**Public access to information**

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FoIA) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will be published either within one working day after it has been approved or on the defer date.

**Part 1 - Deferral**

**Is the publication of Part 1 of this approval to be deferred? NO**

**Part 2 – Sensitive information**

Only the facts or advice that would be exempt from disclosure under the FoIA should be included in the separate Part 2 form, together with the legal rationale for non-publication.

**Is there a part 2 form – NO**

**ORIGINATING OFFICER DECLARATION:**

Drafting officer to  
confirm the  
following (✓)

**Drafting officer:**

Neil Wilcox has drafted this report in accordance with GLA procedures and confirms the following:

✓

**Sponsoring Director:**

Enver Enver has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

✓

**Mayoral Adviser:**

David Bellamy has been consulted about the proposal and agrees the recommendations.

✓

**Advice:**

The Finance and Legal teams have commented on this proposal.

✓

**Corporate Investment Board**

This decision was agreed by the Corporate Investment Board on 18 December 2023.

✓

**INTERIM CHIEF FINANCE OFFICER:**

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

**Signature:**



**Date:**

18/12/2023

**CHIEF OF STAFF:**

I am satisfied that this is an appropriate request to be submitted to the Mayor.

**Signature:**



**Date:**

18/12/2023

