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MANCHESTER
CITY COUNCIL

Resources and Governance Scrutiny Committee

Date: Tuesday, 7 September 2021
Time: 2.00 pm
Venue: Council Chamber, Level 2, Town Hall Extension

This is a **Supplementary Agenda** containing additional information about the business of the meeting that was not available when the agenda was published

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Membership of the Resources and Governance Scrutiny Committee

Councillors - Russell (Chair), Ahmed Ali, Andrews, Clay, Davies, Hacking, Hitchen, Kirkpatrick, Lanchbury, B Priest, Robinson, Rowles, A Simcock, Wheeler and Wright

Supplementary Agenda

This report is to inform Members of the approaches the Council may use to support regeneration across the city, alongside case studies of how such approaches have been used. It also provides details of the recent and expected changes to the local authority capital financing framework.

This report provides the Committee with the following:

- A comprehensive detail of areas of income generation at the Council, including, income generating contracts, the commercial investment estate and an update on the City Council's off street car parking operation following the bringing back in house on 1st January 2021.
- An update on the Legal and Democratic services income following a previous report to this Committee in July 2019.
- An overview of work that is ongoing to identify further income generating opportunities and what we can learn from other Local authorities.

This report addresses the Committee's request to consider the spend, financing and governance of its wholly owned companies. It draws out the lessons learnt from recent Best Value and Public Interest reports on failings in other local authority companies, as well as considering the spend and financing arrangements through the case studies in the report.

The purpose of this report is to update Members on the external independent assurance review of the Council's Capital Programme commissioned by Internal Audit as outlined in the report to Members in February 2021.

Further Information

For help, advice and information about this meeting please contact the Committee Officer:

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This supplementary agenda was issued on **Thursday, 2 September 2021** by the Governance and Scrutiny Support Unit, Manchester City Council, Level 3, Town Hall Extension (Lloyd Street), Manchester M60 2LA

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Manchester City Council
Report for Information

Report to:	Resources and Governance Scrutiny Committee – 7 September 2021
Subject:	Capital Support for Regeneration
Report of:	Deputy Chief Executive and City Treasurer

Summary

This report is to inform members of the approaches the Council may use to support regeneration across the city, alongside case studies of how such approaches have been used. It also provides details of the recent and expected changes to the local authority capital financing framework.

Recommendations

Members are asked to note the contents of the report.

Wards Affected: All

Environmental Impact Assessment - the impact of the issues addressed in this report on achieving the zero-carbon target for the city
Under the governance process for capital expenditure decision making, zero and low carbon measures are a key component. Each project must set achievable carbon reducing targets before being approved.

Our Manchester Strategy outcomes	**Summary of how this report aligns to the OMS**
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The capital programme contributes to various areas of the economy, including investment in public and private sector housing, education and children's social care, transport infrastructure, major regeneration activities, environmental, cultural and leisure services.
A highly skilled city: world class and home grown talent sustaining the city's economic success	The capital programme includes substantial investment in education and also provides opportunities for the construction industry to bid for schemes that could provide employment opportunities at least for the duration of contracts.

A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	The capital programme includes investment in adult and children's social care, education, housing and the environment, cultural and leisure services, all of which contribute towards the strategy.
A liveable and low carbon city: a destination of choice to live, visit, work	Investment in all areas of the capital programme contributes towards the strategy, notably investment in sustainable and affordable housing, building schools for the future, transport, environmental and major regeneration programmes.
A connected city: world class infrastructure and connectivity to drive growth	Through investment in areas such as ICT and the City's infrastructure of road networks and other travel routes.

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

- Capital Strategy and Budget 2020/21 to 2024/25 – report to Executive 17 February 2021

1. Introduction

1.1 This report is to inform members of approaches to using capital investment to support regeneration across the City, including some examples of how this has been achieved successfully, and to detail some of the expected changes to the capital financing framework.

2. Background

2.1 Over the past 20 years Manchester has seen enormous change, through a 35-year journey of driving successful growth, regeneration and public service reform to create a post-industrial city that is creating opportunity for those who live and work in there. Early interventions, such as Hulme City Challenge, the post IRA bomb recovery led by Manchester Millennium Ltd, through to Manchester 2002 Commonwealth Games Company and New East Manchester Ltd, were founded on a strong public - private partnership ethos and the need for the Council to play a central role in convening the necessary interventions needed to deliver long term growth. These early public - private partnership arrangements provided a strong platform for extending these approaches to other parts of the city and enabled the Council to broaden and deepen its commercial capabilities.

2.2 For the last 15 years the Council has sought to bring forward a broad range of approaches to help ensure forward momentum was sustained through, and beyond, the 2009/2010 economic recession in order to consolidate and expand the city's capacity to grow its commercial, residential, transportation and cultural asset base. During this time a range of new partnership arrangements and other financial instruments were established. For example, the partnership with the Far Eastern Consortium will deliver 15,000 homes to the north of Victoria Station creating a new city centre suburb; and as part of the Greater Manchester Devolution Agreement the establishment of the Greater Manchester Housing Investment Fund to encourage, accelerate and unlock new residential development, predominately on brownfield land to further regenerate previously run-down areas.

2.3 The 35 year journey of transformation is not complete. However, it is safe to say that the city has broadened its economic base, transformed its housing offer and put in place the necessary quality of life drivers that can attract those who want to invest, work, visit and live in our city. Manchester's overall success can be assessed in a number of dimensions:

- The economy has continued to grow. In 2017 Manchester's GVA (Balanced) was £22,500million - between 2016 and 2017, overall GVA (B) grew by 3.6%, compared to 3.4% for the UK.

- The latest ONS Business Register and Employment Survey shows that employment rose from 357,000 in 2015 to 392,000 in 2017;

- The visitor economy is increasingly important with the city the third most visited city (as measured by overnight stays) and is boosted by Manchester Airport's position as the key international gateway to the North of England; and

- The city has experienced a sustained period of unprecedented population growth over the past two decades, with the 2019 ONS mid-year estimate of our resident population being 552,858. By way of reference the population in the late 1990s dropped below 400,000.

2.4 Whilst COVID has had a significant impact on the economy, there are strong signs of recovery. A confident approach and the ability to leverage investment will be critical to the long term success of the city.

2.5 None of the above would have been possible without the strong relationships with central government but also the willingness of the City Council to prioritise its own more limited investment capabilities. During this period every capital and other investment decisions has been made to support the strategic priorities of the city and focused on securing a sustainable economic future, rather than to purely achieve a revenue return or yield.

2.6 Prior to the COVID-19 pandemic the growth achieved was starting to generate significant additional revenue:

- Business Rates - Manchester has been part of a business rates 100% retention pilot since 2017/18 and retains 100% of the additional business rates growth achieved since the start of the Business Rates Retention scheme in 2013, with an additional £30m of retained income which has supported continued investment and work in core service areas such as social care.

- Council Tax - The success in encouraging housing growth, particularly in the City Centre, has seen an average growth in the council tax base of around 3% a year for the past 5 years. Over 60% of the new city centre housing is at a council tax band of C or above compared with 20% in the rest of the city, contributing to increasing the council tax base.

- Investment Income - the Council's investments generated dividend income of £71m in 2019/20 (predominantly but not exclusively from the Airport). Loan interest received has been used to directly offset the costs of borrowing, with any additional income used to establish a Capital Financing Reserve. This will be deployed to ensure there are no additional pressures on the revenue budget as a result of the additional borrowing required to support the capital programme.

2.7 Whilst these revenue streams have been impacted by the pandemic, they are all expected to be a continued important part of the council's resource base.

2.8 The exceptional employment and economic growth up until COVID-19 encouraged institutions, developers, investors and companies to develop a pipeline of investment proposals linked to economic growth in the key sectors. The need to re-establish economic growth and investment momentum pandemic has reinforced the three-pillar approach based on:

- *People:* Equip residents and workers with the qualifications and softer skills that will enable them to access more opportunities.

- *Place:* Ensure sustainable growth is achieved in key assets, including the city centre and around the Airport. Create the conditions that will deliver a more inclusive, zero-carbon economy by investing in transport infrastructure, digital infrastructure and the environment.

- *Prosperity:* Create higher-quality job opportunities, including better pay, improved working conditions and flexibility, particularly within the foundational economy.

2.9 Establishing sustainable growth in people and skills is a high priority, as is long-term sustainability in our place and assets. Despite the impact of COVID-19, the city remains well-placed to align with the Government's levelling up agenda, with existing investments and innovation assets primed to play a key role in levelling up the North. The Government has a major role to play in helping Manchester to re-establish the economic momentum and further investment in the opportunities available in Manchester is central to the levelling-up agenda and rebalancing the economy.

3. Capital Strategy

3.1 The Capital Strategy is developed to support the delivery of the Our Manchester Strategy (the city strategy) where the vision is for Manchester in 2025 to be in the top flight of world-class cities. "This includes the need to support a competitive, dynamic and sustainable economy that draws on its distinctive strengths in science, advanced manufacturing, culture, creative and digital business, cultivating and encouraging new ideas; that is connected, internationally and within the UK; and is internationally competitive." The priority areas from the 2021/22 Capital Strategy are listed below:

- ***Investment that is catalytic*** in supporting economic growth, housing growth, job creation, reducing carbon emissions, transforming health, economic and social outcomes, and creating further investment in the city and supporting economic recovery of the city following the COVID-19 ***pandemic.***

- *Supporting the declaration of the **Climate Emergency**. The Council has a clear target to at least halve its carbon output by 2025. Investment plans must consider the carbon impact alongside* financial impact.

- ***Deliver new affordable housing*** to meet the increased delivery target from 5,000 Affordable Homes to a minimum of 6,400 Affordable Homes between April 2015 and March 2025.

- Developing a more ***inclusive economy***. This will require investment on an invest to save basis in existing Council assets and strategic investment to unlock wider commercial and residential developments. The use of progressive procurement policies and social value will ensure the maximum benefit to residents from these new developments.

- Regeneration in ***North Manchester.*** This includes the North Manchester General Hospital redevelopment, anchoring a health and wellbeing campus as proposed in the Economic Recovery and Investment Plan. This, alongside the Northern Gateway should create the potential to support a growing city, create new housing and regenerate the area.

- Investment in the ***city centre*** as a key driver of growth and jobs for the city and one of the four strategic areas of interventions within the Economic Recovery Plan. Whilst a significant amount of investment will be from the private sector, public sector investment is needed in core areas such as public realm, in order to stimulate further private investment and growth in those areas.

- Investment in ***cultural and creative industries*** which make a major contribution to Manchester's international reputation and role as a destination for cultural tourism and are a growing element of the city economy.

- ***Market intervention*** where the existing market outputs do not support the Council's wider aims. This is likely to be focussed on areas such as health and social care such as residential and intermediate care and will require significant partnership support.

- Ensuring the Council's ***corporate estate is fit for purpose***. This includes investment to reduce the Council's carbon output and in relation to the current condition of the estate. This is particularly important for the leisure estate where the assets developed for the Commonwealth Games are now nearly 20 years old.

- ***Investment in digital infrastructure, data management, and the application of new approaches.*** These are now key elements of the Manchester economy and reflected in the new draft Manchester Digital Strategy.

- Continued Investment in ICT infrastructure as part of being a ***well-managed Council***. Increased digitisation, and the need to move from legacy ICT platforms will mean investment is required, alongside work on ICT resilience, network capability, and key operating systems.

3.2 Within the Strategy it was noted that different investment approaches may be appropriate to lead and encourage regeneration activities. The Council may seek to fund some regeneration activity directly but any proposed project would require consideration of the appropriate investment strategy which could include:

- Using Council-owned land to leverage external investment from partners rather than seeking a capital receipt;

- Funding of public realm to support wider external regeneration investment;

- Direct investment in a regeneration project alongside an external partner(s); and

- A mix of the above.

3.3 In broad terms it is balancing the risk with the benefits to be delivered that is the main consideration in determining which approach is suitable, with a strong focus on using resources where they are most needed and securing value for money. This will include ensuring a commensurate return for the risk taken, which could be in the form of ground rents, lease income, or interest, ensuring the commercial aspects of the wider investment are considered and how the return can be maximised, alongside the achievements of the aims of the regeneration project.

3.4 The following case studies provide some more detail.

4. Victoria North

4.1 In spring 2016 GVA and Pinsent Masons, acting on behalf of the City Council, commenced a competitive process in order to select an investment partner for the Victoria North (previously known as Northern Gateway) development project. This process identified initial sites in the Council's ownership that would form the basis of the initial development opportunity and the establishment of a partnership based on the City's contribution of land and the investor / delivery partner contributing investment finance and expertise. Bids were submitted by interested parties and were subsequently reviewed against a bid invitation structure, resulting in a formal recommendation report provided by GVA in the autumn identifying a shortlist of final bidders. The Council entered into a Joint Venture (JV) with the Far East Consortium (FEC) in April 2017, the comprehensive redevelopment of the Victoria North area for housing and ancillary development. As part of the delivery arrangements, the Council and FEC established a JV company, Northern Gateway Operations Limited (OpCo), to have strategic input into and oversight of the development of the Northern Gateway.

4.2 The Victoria North development overall is a £4bn development that will deliver 15,000 new homes, a new public park centred on a rewilded river area, new tram infrastructure and new schools, shops and GP surgeries. To kick start the development the Council's capital budget for the scheme is £104m of which £51m is via the HIF funding from Homes England to enable the unlocking of the infrastructure.

4.3 The JV has prepared an infrastructure strategy with a specific emphasis on unlocking development sites over an initial 5-year period to deliver the residential led redevelopment of the adjacent neighbourhoods of Lower Irk Valley, New Cross and Collyhurst, on the north eastern edge of the City Centre, which have the capacity to provide circa 15,000 new homes over the next 20 years, 3,000 of which will be affordable and will all be built to a high carbon standard.

4.4 Following the public consultation exercise in 2018, the February 2019 Executive approved the Northern Gateway Strategic Regeneration Framework (SRF) to guide and coordinate the development activity undertaken by the JV partnership and other third-party agencies within the area. The Executive subsequently approved a Strategic Business Plan for the JV that set out details of how delivery would be brought forward. In 2020 the Council entered into a Grant Determination Agreement (GDA) with Homes England (HE) for a grant award of £51.6m from the Housing Infrastructure Fund (HIF) programme to provide critical infrastructure that would help unlock the development potential of the Redbank neighbourhood, where capacity exists for the provision of c5,500 new homes over the next 15 – 20 years. The intention is that 20% of new homes will be affordable.

4.5 The first phase also includes the delivery of circa 274 new residential properties in Collyhurst. Of the 244 new homes in Collyhurst Village (Harpurhey ward), 100 will be new Council homes with the remaining 144 properties being developed for open market sale. A further 30 Council homes are to be developed in South Collyhurst (Miles Platting & Newton Heath ward) on a site agreed with local members. The scheme has been designed to deliver high sustainability credentials based on a ‘fabric first’ approach incorporating Passivhaus principles. To contribute towards the Council’s target of zero carbon by 2038, energy supply to the properties will be 100% electric. The scheme is being developed in partnership with the JV and the City Council. With FEC acting as development manager, and with the Council investing £31.2m the HRA.

4.6 A key component to all of this is a clear strategy with regards to land assembly. As part of the JV agreement FEC is, as the appointed Development Manager, required to assemble further sites for development. The Strategic Business Plan identified that the up-front capital outlay (from both JV Partners) required to bring about transformational change in the Victoria North area is significant, with commercial returns to the JV partner following on a medium to long-term basis.

4.7 In order to progress the land assembly activity the Council also co-invested via a fully recoverable commercial loan on the basis that it would provide the following benefits:

- Significant land assembly is essential in the Lower Irk Valley in order to fully realise the Northern Gateway opportunity and deliver the level of housing growth anticipated;

- Co-investment will provide confidence to the JV partner, especially given the long - term approach that they will need to take to generating commercial returns;

- Co-investment will allow FEC to stretch their own capital outlay further, supporting a range of other activities associated with delivering the Northern Gateway vision;

- The outlay secures developable sites which, in the fullness of time, stand to benefit the Council financially in accordance with the financial provisions of the JV Agreement;

- The alternative approach to land assembly is that the Council buys sites itself and passes them into the JV at a time when FEC are able to develop them. This will be a more expensive and riskier option, as land values could fall in the interim, plus the Council would have to bear holding costs; and

- The loan enables the Council's capital commitment to be 'go further' as it will be recovered (with interest) and can be recycled back into other Victoria North workstreams.

4.8 On this basis, a report seeking approval to establish an £11m commercial loan facility was considered and approved by the City Council's Executive, funded from the existing capital budget for Victoria North. The specific sites to be acquired are agreed between the Council and FEC and the loan is secured with the Council taking a first charge over any land acquired. The loan will be repaid at either the point where development commences on the land or at an agreed end date. This has ensured that the JV has secured ownership of the lion's share of land within the Redbank neighbourhood of the Lower Irk Valley, where it is estimated that c5,500 of the homes can be delivered.

5. Case Study - Manchester College Estate Development and Rationalisation Programme

5.1 Manchester College are a key skills provider within Manchester and GM. They have been working to rationalise and transformation of the College estate, with the centre piece being the new College facility on the site of the former Boddingtons Brewery in the City Centre that will be a state of the art campus for creative and digital skills development. The Manchester College is part of the LTE Group and is one of the largest Further Education colleges in the UK and the largest provider of aged 16-19, adult and higher education in Greater Manchester. In November 2017 the Executive endorsed a report from the Strategic Director (Development) which outlined the condition of the college's estate and proposed a new estate development and rationalisation programme.

5.2 The college was operating from buildings on 24 sites across Manchester. The stock, particularly the ageing elements of it was in a relatively poor condition, and the current estate was not capable of providing the sector-focussed centres of excellence that the college required. The Manchester College developed an Estates Strategy to overcome the issues associated with a large, disparate and relatively ageing estate, in particular:

- The additional costs of operating smaller centres, which limits specialisation;

- The limited offer at some locations and in reverse, the availability of good quality provision in less accessible locations outside of the immediate neighbourhood; and

- The impact on the credibility of provision from older and outdated training facilities, and the varying levels of quality of learning and teaching on both learners and employees.

5.3 In broad terms the strategy was to consolidate from 24 sites to 5, one of which would be a new centre of excellence located in the city centre. The remaining 4 sites are Openhaw, Harpurhey, Wythenshawe and a specialist health and educational skills centre on the Oxford Road corridor.

5.4 The new city centre campus will focus on the Creative and Digital and Business, Financial and Professional Services, which aligns with the sectors in Manchester where the majority of employment growth and new markets are anticipated. The site will also accommodate higher education and the College's A Level centre, providing academic routes into Higher Education. In additional to a new facility, there was significant investment required on a number of existing assets to make them fit for purpose in line with the new delivery strategy.

5.5 The sites that were no longer required for educational purposes and declared surplus would be brought into the wider rationalisation programme and, where applicable, brought forward for redevelopment. These included the St Johns' building in the city centre, as well as Northenden Campus, Ashley Lane, Moston and Fielden College.

5.6 The Council worked with the College and other stakeholders and funders to support the comprehensive strategy. The overall cost of delivery is above £100m and required a mix of funding to deliver, including bridging loans to enable the continued delivery of education and training whilst new facilities were being constructed and refurbishments taking place.

5.7 The Council recognised these specific pressures and provided assistance by way of two loans of £17m and £10m respectively to (i) acquire the City Centre site and (ii) undertake refurbishment works to existing facilities to enable decant from existing facilities, freeing them up for disposal.

5.8 The Council worked with GMCA, who provided a grant of c£25m from the Local Growth Fund, and the College's funders to create the total funding package. To protect the Council's interests, the council loans are secured against property assets, including the City Centre site, and a 'ringfencing' of land receipts to repay the principle as and when these receipts are realised. A full due diligence exercise, with appropriate benchmarking, was undertaken to price the loan and there are monitoring milestones within the agreement to ensure compliance and progress with the works and disposal of surplus property assets.

5.9 In addition to the loan finance the Council has land interests in several of the surplus sites, including Nichols and Welcomb Street, and has continued to work closely with the College to enable these to be brought forward for redevelopment. This has included the sale of the Ashley Lane site (Moston Campus) to One Manchester for affordable housing, the sale of surplus land at the City Centre campus site to Clarion to support the delivery of high-density city centre mixed tenure housing scheme, with majority of these homes within the affordable sector, and current work to agree disposal process for the Fielden College.

5.10 The construction of the city centre campus is well underway and is already providing a focal point to the corner of Great Ducie Street. The college's surplus land disposal programme is on track and receipts are in line with expectations, with c.£8.3m of the loans repaid to the Council to date.

6. Regulation

6.1 Based on concerns that some local authorities have been investing purely for return, the Government issued a consultation on the Public Works Loan Board (PWLB) last year and has now issued revised guidance. All local authorities now have to provide additional information on the projects included within their approved capital programme, split into the following categories:

- Service spending
- Housing
- Regeneration
- Preventative Action
- Investment assets bought primarily for yield
- Treasury Management

6.2 For regeneration investment, the PWLB guidance states that such projects will usually have one or more of the following characteristics:

- The project is addressing an economic or social market failure by providing services, facilities, or other amenities that are of value to local people and would not otherwise be provided by the private sector;

- The local authority is making a significant investment in the asset beyond the purchase price: developing the assets to improve them and/or change their use, or otherwise making a significant financial investment;

- The project involves or generates significant additional activity that would not otherwise happen without the local authority's intervention, creating jobs and / or social economic value; or

- While some parts of the project may generate rental income, these rents are recycled within the project or applied to related regeneration projects, rather than being applied to wider services.

6.3 Whilst investment assets bought primarily for yield will have one or more of the following characteristics:

- Buying land or existing buildings to let out at market rate;

- Buying land or buildings which were previously operated on a commercial basis which is then continued by the local authority without any additional investment or modification; or

- Buying land or existing buildings other than housing which generate income and are intended to be held indefinitely rather than until achievement of some meaningful trigger such as the completion of land assembly.

6.4 The Council's Section 151 officer, the Deputy Chief Executive and City Treasurer, is required to declare that the capital programme does not contain any investments primarily for yield.

6.5 Following the issuance of the revised PWLB Guidance, CIPFA has sought to reinforce that Council's should not invest primarily for yield by making changes to the Prudential Code and Treasury Management Code which local authorities have to follow. The revised Codes are due to be published by the end of the calendar year to be implemented for 2022/23 and will be clear that an authority must consider the rationale for entering into long term investments for either treasury or service reasons.

6.6 MHCLG have also announced a review of the local authority capital finance framework, of which the CIPFA Codes form part, which will look at data gathering, decision making, and the legislation and guidance that creates the Prudential Framework.

6.7 It is believed that the Council's activities fall within the pending changes to the regulation framework. Officers will continue to engage fully in the consultations to ensure activities are compliant and that the flexibility remains to deliver the Council's ambitious capital and regeneration agenda.

7. Conclusion

7.1 The Council has a long history of using its own capital investment resources to act as a catalyst to leverage both public and private sector investment to bring forward coherent and strategic regeneration within the city and will continue to do so.

7.2 The case studies above show that even in the broader context of the current economic environment, there are several approaches available to the Council to support regeneration activity within the capital financing framework within which the Council operates. These include joint ventures, supported by loans or land assets to leverage private sector investment and share risk, financial support to our public sector partners, bidding for national and regional public sector infrastructure funding and lobbying central government for wider infrastructure funding through its partners at the GMCA and Homes England.

7.3 Regeneration activity forms a very important, part of the Council's capital spend. However, in proportion to the overall capital programme the proportion of the Council resources in this activity is very small. Of the 2021/22 planned capital spend of £422m, 44% is on operational priorities across highways, children's services and schools, housing and neighbourhoods. Around £50m of planned spend could be deemed as regeneration activity, including the investment in Victoria North and £12.5m of HIF funding, with a further portion funded via invest to save arrangements.

8. Recommendations

8.1 Members are asked to note the contents of this report.

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Manchester City Council
Report for Information

Report to:	Resources and Governance Scrutiny Committee - 7 September 2021
Subject:	Income Generation
Report of:	Deputy Chief Executive and City Treasurer

Summary

This report provides the Committee with the following:

- Provides a comprehensive detail of areas of income generation at the Council, including, income generating contracts, the commercial investment estate and an update on the City Council's off street car parking operation following the bringing back in house on 1st January 2021.
- An update on the Legal and Democratic services income following a previous report to this Committee in July 2019.
- An overview of work that is ongoing to identify further income generating opportunities and what we can learn from other Local authorities.

Recommendations

Members are requested to note and comment on the report.

Wards Affected: All

Environmental Impact Assessment - the impact of the issues addressed in this report on achieving the zero-carbon target for the city

Our Manchester Strategy outcomes	**Summary of how this report aligns to the OMS**
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The generation of income towards the cost of running services allows more resources to be allocated to front line services and the strategic priorities of the Council.
A highly skilled city: world class and home grown talent sustaining the city's economic success	

A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	
A liveable and low carbon city: a destination of choice to live, visit, work	
A connected city: world class infrastructure and connectivity to drive growth	

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy, please contact one of the contact officers above.

None

1.0 Introduction

1.1 Income generation forms a significant part of the overall funding of the Council's budget and is used to support the delivery of front line services. This report provides members with a comprehensive update on existing income generating activities across the Council and includes details of the likely implications of Covid-19 on those income streams. It focuses on commercial operations and excludes income generating activities within both Children's and Adult Social Services where charges are assessed based on eligibility and tight statutory criteria.

1.2 It also sets out details on the overall Commercial activity and highlights innovative opportunities that have been taken, as the Council has responded to reduction in its overall funding levels since 2010 and looks at what other authorities have already introduced that could be considered in the future.

1.3 In addition, the report set out specific details around the Legal services income generating has requested by Members.

2.0 Background

2.1 Local Authorities have the powers to raise fees and charges for the provision of certain services. They can be defined as statutory charges and discretionary charges for services.

2.2 Using discretionary fees and charges is one of the key income-generating options available to local authorities. Section 93 of the 2003 Local Government Act allows authorities to charge for services that they have a power (but not a duty) to provide. The income they can earn from these charges is restricted to the cost of providing them. So, while fees and charges can't be used to make a profit, they could provide the opportunity to invest in infrastructure, because all aspects of service provision can be included in cost. Authorities can also use differential charging based on people's ability to pay.

2.3 If an authority wishes to undertake commercial trading activities and make profits this must be undertaken by a trading company. The Local Authorities (Goods and Services) Act 1970 does enable Councils to trade with other Councils and other public bodies.

2.4 In recent years as both the service demands have increased and the fiscal position of Local Authorities has become much tighter, there has been an increasing number of Local Authorities considering and implementing opportunities to generate additional income in order to support the budget challenges.

2.5 In addition to the restrictions above Local Authorities do not always have the ability to control the level of fees that can be charged, and in some cases the ability to use any income generated is restricted to specific purposes and this is often prescribed by legislation. Examples of this include Planning fees, where the fee level is set by Government, and the use of any additional planning fee income is restricted to supporting the planning function.

2.6 In looking at opportunities for generating additional income it is important that any proposals are aligned to the strategic priorities of the authority and that the business case sets out a clear case of risk and reward to aid and inform the decision on whether to proceed with the project. In doing so the Council has not taken any unnecessary risks through speculative investment and has always taken the position that any income generated from sales, fees and charges is reinvested in Manchester, from keeping the city clean to providing for the most vulnerable in society.

2.7 Clearly Covid-19 has had an impact on the level of fees generated and whilst some Government support has been provided this has not currently been extended beyond June 2021, further details on Covid-19 impact is set out in further detail below.

3.0 Service Details

3.1 <u>Overall Council Income Generation Budget</u>

Service Area	**2020/21 Budget £000's**	**2020/21 Actual £000's**	**2021/22 Budget £000's**
Neighbourhood Services	45,563	22,670	48,845
Growth and Development	30,813	29,403	31,533
Corporate Core	32,999	24,537	31,812
Total	**109,375**	**76,610**	**112,190**

<u>Neighbourhood Services Directorate</u>

3.2 The Neighbourhood Directorate has a gross budget of £171m and a net budget of £93m. This is supported by £48m of external income generated through sales, fees and charges, details of which are set out below.

3.3 As part of the Neighbourhood Directorate budget strategy, there has been a focus has been on developing the Commercial offer and generating increased external income in order to support front line services wherever possible. This is evidenced by the fact that, of the total £7.376m proposed savings for 2021/22, over £7m were to be achieved through increased income generation.

Service Area	2020/21 Budget £000's	2020/21 Actual £000's	2021/22 Budget £000's
Advertising	1,963	799	3,538
Grounds Maintenance	127	139	127
Waste	100	140	100
Parks & Open Spaces	1,438	428	1,619
Leisure & Sport Development	8,346	1,352	8,346
Libraries, galleries & Culture	704	330	704
Neighbourhood Teams	192	119	192
Compliance	2,154	1,164	1,804
Pest Control	522	468	603
Manchester Markets	10,631	4,605	10,186
Catering	9,567	3,800	2,159
Fleet Services	1,694	1,446	1,240
Bereavement Services	3,332	4,236	3.458
Off Street Parking	3,646	570	11,962
Highways	2,425	2,949	2,680
Manchester Contracts	160	125	127
Neighbourhood Directorate Grand Total	**45,563**	**22,670**	**48,845**

3.4 **Advertising** – The council has two main advertising contracts, and they are the short format and large format contracts. The income generated is based on the number of Council owned sites that are available to the companies for the installation of their advertisements. As part of the 2021/22 budget process total additional advertising revenue of £1.8m was proposed and this was phased over 2021/22 and 2022/23, with £1.575m being realised in 2021/22 and this is reflected in the increased 2021/22 income budget. The savings are to be delivered through a new small format contract that commenced in 2021/22 and should generate an additional £1.3m per annum. Two new large format advertisements are being proposed for both Dawson St (£50k) and Piccadilly Gardens (£450k), these are both subject to planning consents and applications are yet to be submitted.

3.5 The revenue is used to support the delivery of public realm and street scene services.

3.6 Advertisement income has been affected by Covid-19 due to advertising companies not generating revenues because of lower footfalls. The existing contracts are based on a fixed number of sites, and in most contracts, there is usually a profit share arrangement in place.

3.7 **Grounds Maintenance -** The main external client was Northwards Housing, and this is in respect of maintaining open shared spaces and arboreal work for trees across their area. Since Northwards housing transitioned back into the City Council in July 2021, this work will now be in line with all the other City

Council grounds maintenance works and funded from Housing Revenue Account budgets.

3.8 **Waste** - bulky collections across the city are free for an initial collection of up to three items then charged at £27 for up to three items and an administration charge of £20 is applied when residents request a replacement grey bin.

3.9 **Parks and Open Spaces** - have been looking to develop their commercial strategy over recent years in order to try and reduce the level of mainstream resources required to support the City's parks and open spaces. The level of fees and charges for Parks is £1.6m, which is an increase of £181k from 2020/21, and reflects new opportunities for income generation and has contributed to the services savings targets. The income is generated through a combination of fees and charges for use of the facilities or rental of space for commissions etc. Within the City Council's current capital programme there is c£12m approved for further investment in parks, and any investment decisions will consider the ability for the investment to generate additional income.

3.10 **Leisure & Sports Development** - Around £6m of the Leisure & Sport development income is in respect of stadium rental income and use of the wider Etihad campus. This income is used to fund the costs of maintaining the Etihad campus at c£0.9m p.a. with the balance of £5.118m being transferred to an earmarked reserve that is ringfenced and used to fund ongoing investment in Leisure activities. The reserve is managed in conjunction with Sport England in terms of determining and agreeing priorities for use of the reserve.

3.11 **Events** - have an income budget of £495k and this is generated through a combination of sponsorship and rental for events space. The income generated is used to support the costs of events, as part of the cultural offer, across the city, this includes festive events and other City Centre events. This income contributes to the gross annual budget of £1.8m.

3.12 The remaining income is in respect of hire/use of facilities that are not within the Leisure management arrangements, this includes c£1.1m for use of the aquatics centre and car parking income, and c£0.724m for rental within sports development.

3.13 **Libraries, Galleries & Culture** - generate income mainly through the sale of merchandise, although there is income generated through the hire of rooms in libraries and book fines. Galleries generate income of £227k through sale of merchandise and Libraries have income targets of £461k. In addition to this income there is also a trading arm within the gallery that operates the café and events space. This operates as an independent trading company, and they pay a fixed concession of £100k p.a. to the City Council. In line with all hospitality the trading arm has been severely affected by Covid-19 and they have had to furlough staff in order to reduce staffing costs. The trading arm was successful with an application for Cultural Recovery funding, and this has helped stabilise the company and support with its recovery.

3.14 **Compliance Services -** have several different income streams which are broadly based around housing and private sector landlords including fees associated with selective and HMO licensing schemes, fines and land charges for non-compliant properties and default works undertaken.

3.15 Other income charging areas within Compliance Services relate to activities such as airport food safety inspections, calibration services and fixed penalty notices for littering and fly tipping.

3.16 **Pest Control** - provides services both to internal City Council services such as car parks, housing, and schools, but the majority of services are provided externally to housing associations and private households. The total external income is £0.603m and this helps support the overall costs of the service, the net budget for pest control is £119k and this is in respect of statutory services that cannot be charged for including alley ways or open land that there is no registered owner.

3.17 **Manchester markets** cover three distinct trading areas: -

- Retail Markets
- Wholesale markets
- Specialist markets, including Christmas

3.18 There are currently three **retail markets**, at Longsight, Gorton and Wythenshawe. Total income of £1.409m is in respect of market stall rents, service charges and storage costs paid for by the traders. Currently retail markets have a net budget of c£107k, and this is largely due to the costs of subsidising Wythenshawe market, which is scheduled to close at the end of September as a result of reduced trader numbers over recent years, with options being considered for relocating the few remaining traders as part of the reduction to the current subsidy.

3.19 New Smithfield market is the largest **wholesale market** in the Northwest of England and budgeted income is in excess of £3.4m per annum mainly from traders for rental and service charge for stalls and units in the market and use of the asset. To remain open the site requires significant capital investment for which a business case will be brought forward by the end of the year.

3.20 **Specialist and City Centre Markets -** include both the Arndale and Church St markets along with the other temporary markets including Piccadilly markets, Christmas markets and the other pop-up markets. The total budgeted income for specialist markets is c£5.2m and this generates a net surplus of over £1.2m that is used to support the overall Neighbourhoods budget. The majority of this income is from the annual Xmas markets with an income budget of almost £3.2m. Clearly this was affected by the cancellation in 2020, and the loss of Albert Square is also having an impact, although officers are looking at possible alternative locations across the City Centre for future xmas markets.

3.21 **Catering** has been responsible for providing school meals to both primary and secondary schools for a number of years. The development of the school catering market and fragmentation of the school system with the introduction of Academy Trust chains has meant there has been a steady decline in the number of schools buying catering services from the Council. In December 2020 Council agreed, because of the steadily declining number of schools and the increased costs and loss of economies of scale, that the Council would withdraw from the provision of school meals. Schools have been made aware of the proposals throughout, and formal communication to schools was provided on the 3rd of March 2021 confirming that school catering provision would cease on 31st August 2021, and schools were supported to find alternative providers.

3.22 The gross income budget was £10.6m in 2020/21, although this was significantly affected by Covid and the school closures. The income budget for 2021/22 has reduced significantly to £2.159m, this is partially to the continued reduction in schools with 90 schools in 20/21 reducing to 67 in 2021/22, but mainly because of the planned service withdrawal from August 2021. The residual income of £2.1m will not be achieved in 2022/23 following full withdrawal from the service.

3.23 **The Fleet Services** function has changed over recent years and with the move towards hiring of vehicles the maintenance and servicing requirements have diminished. The main functions of fleet services now are provision of fuel and the hire of plant and vehicles, with the main external clients being Biffa who purchase fuel, and Manchester registered providers who access both fuel and vehicle hire through fleet services.

3.24 **Bereavement Services** charge for burials and cremations across the five cemeteries. Higher rates are charged for non-Manchester residents, and rates are reviewed annually. Due to the impacts of Covid-19 and the increased numbers of deaths in 2020/21 the number of burials and cremations was significantly higher than usual. As part of the 2021/22 budget process a 1.9% increase in fees and charges was approved, this brought Manchester fees in line with other Local Authorities which was confirmed in a review of the industry by the Competition and Markets Authority last year. The income made from the service is ultimately reinvested through projects such as the cremator replacement project which is due to take place over the next few years as cleaner technology is introduced, capital works at the cemeteries and crematorium and the purchase of additional land as required.

3.25 **Parking Services -** The City Council's Off-Street Parking has been provided through a joint venture with NCP since 1999, and it was agreed that this arrangement would cease as of 31st December 2020. The City Council took on responsibility for managing its own off street car parking arrangements from January 1st, 2021, and the costs of managing the car parks will be funded through the car parking income. Costs include repairs and maintenance, security, and costs of enforcement. Based on work undertaken to review income and expenditure from the joint venture gross income from parking and enforcement income was anticipated to be c£11.9m per annum, and this would result in a net surplus of c£4.1m after funding all necessary costs, this was the savings proposed as part of the 2021/22 budget and did assume volumes would return to pre covid levels.

3.26 Whilst parking volumes were significantly reduced following transfer, and this can be evidenced by the £0.57m received in quarter 4 against a budget of £3.6m. Since restrictions began to be lifted in May 2021 car parking numbers have started to increase and as of July the weekly numbers for 'Pay on the day' customer is 79% of pre covid numbers. The one area that has not seen a return is the numbers of annual season tickets, this is due to the number of people continuing to work part or all the week from home. The options around flexible season tickets are currently being reviewed, in light of the wider city centre transport strategy, climate change and economic regeneration. The majority of the off street car parks are within the City Centre and are earmarked for developments sites. Therefore, the income from this portfolio will decrease significantly over the next 5 years unless the council chooses to invest in new car parks elsewhere in the city.

3.27 The Council spends significantly more on highways and the street scene than it raises from providing car parks.

3.28 **Highways** generate income of £2.680m relating to statutory approvals of developments, licensing, permitting, defects and Traffic Regulation Orders on the highway. This funds part of the costs of this part of the highways team.

3.29 **Manchester Contracts** support highways services through maintaining and repairing the roads and footways across the City, they do this through a combination of using their own workforce but also through commissioning sub-contractors to undertake certain types of works, or because of the volume of works. Whilst the vast majority of works undertaken are internal City council works a small proportion of external income £127k is generated from specific works for residents in respect of drop kerbs, the income from which is reinvested into the service.

<u>Growth & Development</u>

3.30 The Growth & Development Directorate has a Gross budget of £57m and a net budget of £7.3m. The Directorate budgets for £8.6m of grants and contributions, with the largest amount (£8.5m) being in respect of funding for Manchester Adult Education Service, it draws down £9.3m funding from the use of reserves and generates income from sales fees and charges of £31.5m, illustrated in the table below.

Service Area	2020/21 Budget £000's	2020/21 Actual £000's	2021/22 Budget £000's
Planning & Building Control	4,042	4,219	4,042
Licensing	3,456	2,444	3,707
Housing & Residential Growth	635	524	654
MCDA	922	922	922
Investment estate	20,115	20,039	20,733
Corporate Property	1,163	831	994
Facilities Management	480	424	481
Growth & Development Grand Total	**30,813**	**29,403**	**31,533**

3.31 Planning & Building Control generate income through charging for services which include processing of planning applications and building control inspections as part of any ongoing development. Planning applications fees are set nationally by Government, and they are intended to cover the costs of work required by the authority to process the planning application. Planning and building control have gross costs of £4.015m, and this is offset by £4.042m - the small surplus contributes towards central overheads required by the service.

3.32 Any in year surplus on planning fee income is credited to a ringfenced reserve that can be used to support the planning function, examples of usage include additional costs of producing the local plan and protection against inherent volatility if the numbers of planning applications reduce.

3.33 Licensing includes a wide range of different licensing functions but can broadly be broken down into taxi licensing and premises licensing. Taxi licensing operates on a cost recovery model that operates over multiple years, which includes some recovery of central overhead costs.

3.34 **Housing and Residential Growth** - budget for income from sales fees and charges of £0.654m, this is from a combination of lease income from the Ben St development (£190k), feed in tariff income from solar panel installations (£200k) and £244k from other miscellaneous sources.

3.35 **MCDA (Manchester Creative Digital Assets)** - is a wholly owned company set up to manage and develop The Sharp Project and Space Studios. The £922k income is the surplus returned to the Council to offset the annual repayment for capital works previously undertaken.

3.36 **The Investment Estate** holds a number of assets that have been acquired or inherited over the years and generates income through rent and service charge income from City Council tenants. The gross budget for the investment estate is c£8.4m and the gross income from rents, service charge and use of reserve is c£21.06m to generate a surplus of £12.6m that is used to support the Council's overall revenue budget.

3.37 It should be recognised that investment estate income is volatile and subject to external influences both inside and outside of the Council's control. These risks have increased even further due to the impact on particular sectors due to Covid-19. Several requests for rental support have been made by tenants and this has included both deferment of rent and in some instances reduced rents. To date the only support that has been provided has been deferment of rents to support cash flow and no rents have yet been written off.

3.38 **Corporate Property** – are responsible for managing the Councils overall operational estate and this consist of approximately 350 buildings across the city, these range from large offices to national sporting venues to community facilities like libraries and leisure centres. The gross budget for corporate property is £8.1m, and this is netted off by c£0.994m of income the majority of which is in respect of rent and service charges from tenants who occupy council buildings and assets.

3.39 The Facilities Management function was centralised in 2014, the service includes the provision of repairs and maintenance, security services building cleaning and planned preventive maintenance. Records of each building are retained on a system called CPad and this holds historical records of all works ordered for each location. The service has a gross budget of £10.7m, and costs of c£481k are recharged to external clients which includes registered social landlords and Universities. The charges are based on works undertaken on behalf of external clients.

Corporate Core

3.40 The Corporate Core has a gross budget of over £311m, although this does include the management of transfer payments such as housing benefit of £188m that are mainly funded through Government grant. The net budget for the Corporate Core is £71.6m, and the main funding sources are Government grants and other contributions £206.3m and gross income from sales fees and charges is c£31.812m. The table below sets provides a breakdown of the £31.812m income and there is narrative below that gives greater details.

Service Area	2020/21 Budget £000's	2020/21 Actual £000's	2021/22 Budget £000's
Chief Executives Corporate Items	170	50	40
ICT	25	16	0
HR/OD	54	49	54
Legal Services	5,928	5,493	5,983
Communications	1,339	752	1,261
Registrars	1,343	953	1,301
Policy, Performance and Reform	608	1,008	116
Revenue & Benefits	3,242	1,674	3,242
Financial Management	295	326	309
Procurement	63	54	59
Audit & Risk	90	90	90
Commercial Governance	73	89	101
Shared Service Centre	344	388	344
Capital Programmes	259	136	260
Decriminalised Parking	12,704	9,238	12,042
Bus Lane Enforcement	6,462	4,221	6,610
Corporate Core Grand Total	**32,999**	**24,537**	**31,812**

3.41 **Chief Executives Corporate Items** - are contributions to the council's Social Value Fund which are transferred to a reserve for future investment.

3.42 **ICT** provide support to Northwards Housing via a service level agreement, the service provided is for access charges and the budget has reduced in 2021/22 to reflect the transition back into the council of Northwards Housing.

3.43 **HR/OD** provide support disclosure and barring service checks for schools and other partners. The income received is offset by the application costs for the checks.

3.44 **Legal** Services – provide internal legal advice and support to City Council directorates. However, in addition Legal Services also provide support to two other local authorities, namely Salford City Council and Rochdale Council along with other partner organisations which generates significant income to cover the costs of providing these services.

3.45 Manchester have provided legal support to Salford City Council since April 2012. The decision to establish a joint legal service was agreed by Executive in June 2011, and it was proposed that establishing a joint service would provide increased capacity and resilience to both authorities and enable peaks and troughs to be better managed. By doing this it enabled savings to be achieved by reducing the use of external legal support, whilst also enabling management overheads to be shared across both authorities.

3.46 The service has been operating successfully since April 2012, the original contract was prepared on the basis of cost recovery in respect of the staffing costs that were TUPE transferred to Manchester, along with a charge for management and other overheads including accommodation. This provided Manchester with benefits in terms of reducing the overall overhead costs. The original contract included c£144k charge to Salford towards the costs of management.

3.47 Whilst the contract has worked well for both authorities there has been an increased demand for services, and this has resulted in a revised contract that is now based on a cost for an agreed level of service provision, but there is a safeguard to protect both authorities in the event of the anticipated demand being +/- 10% of forecast. The contract has been in place since 2019/20 and provides for 30,000 hours of legal support at a cost of £2.713m. In addition, there is a further £250k budget for special projects and additional hours above the 30,000 contracted hours. The actual charge in 2020/21 was £2.802m and this was in respect of the 30,000 hours as per the contract agreement and £89k from the special projects. The actual hours delivered in 2020/21 was 34,000 and this equates to a further £250k which will be recovered in 2021/22 as per the contract agreement. The contract also includes a clause that allows an inflationary increase to allow for any in year pay awards.

3.48 Following from the successful collaboration with Salford an additional agreement was made with Rochdale Council for the provision of legal support to Children’s Services, which came into effect from 2016/17. The costs of this contract was based on the actual costs of the staff who transferred, plus overheads and a provision for an annual uplift to cover any inflationary increases. The 2020/21 budget for Rochdale was £0.798m and the actual charges were £0.799m.

3.49 In addition to the above collaboration agreements Legal services also provide legal support to several other external organisations including Greater Manchester Combined Authority, Manchester and Salford schools and registered providers, including Northwards housing, prior to transition back to the Council. The total income budget for this area is £2.161m, with c£1.082m being charges for services, and the remainder being recovery of costs for conveyancing charges and other third-party costs.

3.50 **Communications** has a total income budget of £1.261m and this is achieved through charges to external organisations for a range of services, they include translations, M:four design and print services and placing of advertisement/notices on behalf of other organisations who do not have the necessary skills or expertise in house to undertake such services.

3.51 **Registrars** is the joint responsibility of the Registrar General and local authorities. The Registrar General is the Head of the General Register office and makes regulations and issues instructions to be followed by registration offices in carrying out their statutory duties. In addition to this there are a few non statutory services that are carried out they include naming ceremonies.

The fees for the issue of certificates are statutory fees that are set nationally, and other services are charged based on cost recovery basis.

3.52 **Policy, Performance and Reform** were expecting to receive £0.53m income from MHCC in 2020/21 to support Voluntary Community Sector organisations. The actual amount received increased to £0.95m. This was a one-off contribution therefore the budget for 2021/22 includes charges for street naming and recharging of staff to Manchester Climate Change.

3.53 **Revenue and Benefits** recover any Bailiff costs they incur for cases referred to them for outstanding council tax. In 2020/21 due to increased levels of support provided to residents as a result of COVID -19 there was a reduced number of referrals. Therefore the £1.5m shortfall in income is offset by £1.5m reduction in bailiff costs.

3.54 **Financial Management** charge for providing Deputyship Services to clients which is based on a fee set by the court of protection.

3.55 **Procurement and Audit and Risk** both provide service support to Bolton Council and GMCA who are charged based on time recording.

3.56 **Shared Service Centre** provide payroll services to Academies and other external organisations. The charges are based on the number of payslips produced each month and has been costed to be competitive and recover costs of providing the service.

3.57 **Capital Programmes** provide a framework across the Northwest Construction Hub to appoint partners to deliver a scheme or project. As the partners use our framework, we charge a levy to the construction partner which is a percentage of the gross cost of the scheme.

3.58 **Decriminalised Parking** has a gross income target of £12.042m and any the use of this money is restricted by legislation. In order that this can effectively be managed any surplus income after the costs of managing the service are credited to a ringfenced reserve. In 2021/22 we are budgeting for £5.479m being credited to the reserve.

3.59 Over £5.7m of the total income is generated through car parking charges for use of the on-street parking bays, and over £6.2m is generated from charges administered for non-compliance with parking guidelines or other contraventions such as clamping of untaxed vehicles.

3.60 The Council are restricted to what they can use any parking surplus for, and include:-

- Costs incurred by the authority for the operation of public passenger transport services
- A highways or road improvement project
- Environmental improvements

NB London authorities can use for maintenance of roads.

3.61 **Bus Lane enforcement** operates in a similar way to the decriminalisation of parking in that the penalty charge notice income can be used to fund the costs of administering the service, but any surplus is credited to a reserve and the use of that reserve is restricted to specific uses. In the current financial year total budgeted income is c£6.6m, and it is forecast that £4.695m will be transferred to the ringfenced reserve.

3.62 Both bus lane and parking income were significantly affected by the reduced footfall in the city centre during 2020/21, and total income was c£5.6m lower than originally forecast, and this has reduced the level of funding that weas transferred into the reserve in 2020/21.

4.0 The overall impact of Covid 19

4.1 The government recognised the importance of commercial income for Councils and responded to the Covid pandemic impact by introducing a scheme for compensation for loss of income from sales, fees and charges. The compensation scheme paid out 75% on losses of more than 5% of the budgeted amount. The Council has claimed £12.422m for 2020/21. In 2021/22 the scheme was extended until the end of June 2021, with the Council claiming £4.481m.

4.2 For the 2021/22 budget setting, the Council recognised the impact that Covid has had on its income budgets and allocated a one off £9.65m as services recover from the pandemic. The majority of the income budgets are on track against the revised budgets, with the exception of car parking income, market income and advertising revenues as highlighted above and in the regular monitoring reports to Executive.

5.0 Further Opportunities for Income Generation

5.1 Opportunities for further income generation are being explored in relation to the public realm assets, such as street lighting columns, in conjunction with the expansion of 5G services. This would generate a rental income from the telecommunications provider as well as improving the 5G network coverage within the city.

5.2 The Council also expects to generate income in the longer term from the investment in the Civic Quarter Heat Network. After the initial connections have been completed the CQHN will seek additional customers which will generate further income that could result in an income stream from the dividends generated by the company. The generating capacity of the CQHN has the ability to be expanded through the addition of a second engine which would substantially increase the number of customers that can be connected to the network.

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Manchester City Council
Report for Information

Report to:	Resources and Governance Scrutiny Committee – 7 September 2021
Subject:	Council Wholly Owned Companies
Report of:	City Treasurer and Deputy Chief Executive

Summary

This report addresses the Committee's request to consider the spend, financing and governance of its wholly owned companies. It draws out the lessons learnt from recent Best Value and Public Interest reports on failings in other local authority companies, as well as considering the spend and financing arrangements through the case studies in the report.

Recommendations

The Resources and Governance Scrutiny Committee are requested to note the content of this report and comment and question as appropriate.

Wards Affected: All

Environmental Impact Assessment - the impact of the decisions proposed in this report on achieving the zero-carbon target for the city
This report is for information in relation to the lessons learnt from recent public interest reports and governance and oversight of Council wholly owned companies and does not directly propose decisions affecting the achievement of the zero-carbon target.

Our Manchester Strategy outcomes	Contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	Through the companies that the Council owns, these have created jobs and continue to create employment opportunities across a wide range of sectors.
A highly skilled city: world class and home-grown talent sustaining the city's economic success	
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	

A liveable and low carbon city: a destination of choice to live, visit, work	
A connected city: world class infrastructure and connectivity to drive growth	

Full details are in the body of the report, along with any implications for

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue
There are no revenue consequences arising specifically from this report.

Financial Consequences – Capital
There are no capital consequences arising specifically from this report.

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

Not Applicable

1. Introduction

1.1 The purpose of this report is to provide Resources and Governance Scrutiny Committee with "a report on spend and financing of external wholly owned organisations including Manchester Central. To include lessons learnt from Public Interest Reports." The report also reflects upon the way in which Manchester is governing its companies in light of the recent reports and how the Council is further strengthening its approach to the implementation of robust and sound commercial governance.

2. Background

2.1 Since the 2011 Localism Act gave local authorities new powers to trade, there has been a steady increase in the creation of new companies owned by Councils. Local authority trading companies (LATCs) now deliver a wide range of services across the country. These range from wholly owned companies, joint ventures with either the public or private sector, to social enterprises.

2.2 LATCs offer some clear advantages over other service delivery models. They mean councils can keep direct control over their providers, offering an opportunity for any profits to come back into the authority. Equally the chance to change local authority terms and conditions, particularly with regard to pensions, can bring significant reductions in the cost base of the service.

2.3 Creating a separate company also lets the service becoming more agile, focused and responsive to changes in demand or funding. In addition, the powers to trade provide the companies with the opportunity to win contracts elsewhere and allows the company to bid contracts and access funding that it otherwise would not be able to as a department of the Council.

3. Commercial Governance

3.1 For a number of years, Manchester City Council has been pro-actively involved in a range of company activity, with a range of entities which it owns or has some degree of shareholding in. The Council currently has eight active wholly owned companies which undertake different type of activities that provide economic and social benefits to the City and support the Council's policy aims. These company are all varying in scale and size, as well as level of activity and turnover.

3.2 To ensure that there was more of a detailed oversight of company activity and performance, in 2018 the Council established a new Commercial Governance service area. The initial emphasis of the service was to perform a consistent company secretarial function under the guise of Manchester Professional Services Limited (MPSL), a wholly owned council company established for this purpose, which supports over 40 different Boards at present. The purpose of the establishment of MPSL was to provide an independent Company Secretary service which would have its own autonomy despite being wholly owned.

3.3 The unit also provides a corporate co-ordination and oversight function for companies, joint ventures and charities which the Council is involved in either wholly owns or has a stake in to ensure that information on all entities is held in one centralised place, bringing together information from both legal and finance, as well as looking to standardise process and embedding good practice through the approach we take to company operation. Activity undertaken by the Commercial Governance service is monitored by the Commercial Board, which is an officer meeting and chaired by the Deputy Chief Executive & City Treasurer.

3.4 A particular area of focus for Commercial Governance in recent months is review of a range of Best Value and Public Interest reports into Local Authority commercial ventures. This has been due to the high profile failing of some companies which have put some Councils in financial distress. Following analysis of the published Best Value and Public Interest reports, there is a similar pattern of areas of weakness in those failings that have been highlighted:

- Limited or no reporting back to the Council as Shareholder;
- Lack of scrutiny of business plans in order to highlight risks to the Board and / or Shareholder;
- Unclear company objectives or purpose;
- Boards not relevantly skilled to lead specific types company activities or understanding of the Council's role as Shareholder and Council Members and / or Directors not appropriately trained to fulfil their duties.

3.5 There has been a thorough assessment undertaken on the Manchester approaches the issues outlined at 3.4. It is to be noted that there have been no specific weaknesses found in the way in which the Council operates or structure its companies. There are already a number of areas where the Council is embedding good practice, but through the reflection on current practices, this has provided an opportunity for further enhancements to current ways of working with appropriate. These include:

Establishment of a Shareholder Panel

3.6 From reviewing the findings of a number of the recent reports into Local Authority commercial activity, lack of Shareholder oversight was found to be a consistent weakness. Whilst the Council does maintain a regular overview of company activity, it was felt that this need to be further formalised to ensure consistent oversight. This would be additional governance and oversight to that provided through the bi-annual Register of Significant Partnerships assessment process.

Introduction of Directors training programme

3.7 Work is currently underway with CIPFA to design a training programme for both Members and Officers who are taking on roles as Directors. There will be two training cohorts – a refresher session for more experienced Directors who already have a Directorship(s) and a session for those new to undertaking a company Director role or about to become a Director.

Member Oversight

3.8 Member oversight is already strong, with all wholly owned companies been established as a result of Executive and Key Decisions. This has been strengthened in recent years with the Register of Significant Partnerships which reports to Audit Committee twice a year and includes an updated risk assessment of all of the Council's significant partnerships so Members are aware of any changes and developments which may affect the viability of the entities so that any early actions can be identified.

4. Wholly Owned Companies

4.1 The COVID-19 pandemic has posed a challenge to a number of Council wholly owned companies. Due to their robust and resilient business plans and careful financial planning, these entities have mitigated the impact and challenge of COVID-19 on their trading activities as far as possible. The sections below provide some case studies into Council wholly owned companies in terms of current trading position and examples of good practice in terms of adopting a strong approach to governance.

4.2 In order to demonstrate in more detail some of the wide range of companies which the Council own, the case studies below provide some further detail and context about these wholly owned ventures.

4.3 Manchester Central Convention Complex Limited (MCCCL)

4.3.1 Manchester Central Convention Complex Limited (Co. No. 00953285) is a subsidiary of Destination Manchester Limited (Co. No. 05360083), which Manchester City Council the owner of and ultimate controlling party. Destination Manchester Limited acquired G-Mex Limited in 2005, which was renamed to Manchester Central Convention Complex Limited in 2007.

4.3.2 MCCCL was initially established in partnership with GM authorities to covert the empty station into a conference centre. This would not have been achievable if still within the Council. The main function of MCCCL is the hosting of conferences, exhibitions and events at Manchester Central Convention Complex, with additional income derived from rental income from adjoining properties. In addition to this the company also provide retail catering, hospitality and event services to Manchester Town Hall and Central Library, since winning the contract in April 2013. The March 2020 accounts show that the event sector of the business continued to growth from strength to strength, with turnover increasing by 4% attributable to the events and conferences held at Manchester Central.

4.3.3 The success of Manchester Central has not only been measured through financial performance but through the contribution to the wider economy as a whole. In 2020, it was estimated that every £1 of direct spend in the venue, a further £5 was spent elsewhere in the city. In addition to this, for overnight delegates staying in the city centre, it estimated that this has an average impact of £358 per person.

4.3.4 The sectors in which Manchester Central operates in has been amongst the worst affected by the COVID-19 pandemic, with by far the most significant loss of revenue stream is from conferences, exhibitions and events. Throughout this period, Manchester Central has fared much better than most of its peers due to the NHS occupancy of the venue as a Nightingale Hospital.

4.3.5 Alongside the rental income generated by the use of the facility from the NHS and government programmes such as the Job Retention Scheme (Furlough) this helped sustain Manchester Central through this challenging period. Prudent financial planning, with strong governance and oversight by the Board, facilitated MCCCL's survival through the most of challenging times.

4.3.6 At present, MCCCL's business recovery plan is currently in the process of being implemented. The plan is structured around three core themes of:

- *Respond* - Dealing with the present situation and managing continuity,
- *Recover* - Learning and emerging stronger and
- *Return* – Preparing for and shaping the "new normal".

4.3.7 Pre pandemic, MCCCL had a strong operating base with many bookings made in advance and a range of regular and returning bookings. As part of the recovery planning, a detailed analysis has been undertaken on the range of sectors and potential timeline of impact on business from these sources in order to be able to plan booking and income trends. There is a degree of confidence that the venue will recover over the coming months but there still remains an element of uncertainty how quickly full recovery could happen. To try and further negate the impacts, MCCCL are looking to the future and what events make look like moving forward and ensuring that their business model is adaptable to changing customer needs.

4.3.8 With regard to funding streams to operate the entity, these primarily derive from income generated through the hosting of events. It is to be noted that the Council did provide a loan to MCCCL in 2010 for £11.8m for a term of 17 years. Repayments on the loan are up to date but given the challenges faced by the business through COVID-19 restrictions, some flexibility has been provided in terms of timing of payments due within the 2021/22 financial year; the loan repayment will be made in one lump sum in March 2022 rather than on a quarterly basis throughout the year in order to maintain a strong cash balance in the accounts whilst trading re-commences.

4.3.9 A direct financial return is also provided to the City Council each year through a profit share arrangement. In 2019/20 this was £xm. Whilst it dipped in 2020/21 to £xm this is expected to recover back to its original level in the next couple of years.

4.3.10 In the last full set of accounts for the year ended 31 March 2020, Manchester Central Convention Complex Limited turned over more than £19m and made an operating profit of more than £1m. The venue was attended by more than 415,000 visitors and the economic impact on the City was £113m.

4.4 **Manchester Digital Creative Assets**

4.4.1 The Manchester Creative Digital Assets (MCDA) (Co. No. 10300159) was created to manage and operate a number of council assets (The Sharp Project, Space Studios Manchester, Arbeta and Screen Manchester) with the purpose of identifying gaps in provision and bring forward strategies to help digital businesses. It supports growth in an important part of the Manchester economy, which has enabled the regeneration of the former Fujitsu tower site in Gorton which is now a successful film studio. The key priorities for MCDA are as follows:

- To help fuel Manchester's ambition to be a city of digital enterprise with enviable skills and businesses;
- To enable such growth by creating innovative production and digital workspaces that combine technology with commerce to create a successful modern city; and
- To nurture and invest in local entrepreneurial talent, developing the skills to drive and support sustainable growth.

4.4.2 In this case, the Council's investment has been via the provision of 'invest to save' capital investment by the Council has enabled the successful redevelopment of Sharp, Arbereta and Space Studios. The investment is due to be repaid over the next 25 years and has helped secure a number of jobs and create benefits for the wider local economy. The Sharp Project is now home to over 60 creative digital businesses specialising in content production across animation, gaming, video and mobile tech. Space Studios Manchester is a purpose built facility for high end TV, film & commercial production. The site has more than 85,000 sq ft of high spec stages. Recent productions filmed at Space Studios include 'Cold Feet' (ITV), 'Dragons Den' (BBC), 'The A Word' (BBC) and upcoming Sky Atlantic drama 'Curfew' as well as commercial productions for a wide variety of international brands. There is a £922k income surplus returned each year which is used to pay down the debt incurred to fund the capital works previously undertaken.

4.5 Manchester Heat Network (Civic Quarter Heat Network)

4.5.1 Manchester Heat Network (MHN) is a Special Purpose Vehicle that has been established to oversee the operation of the city's Civic Quarter Heat Network, supplying heat and power to a range of commercial and Council buildings. This forms an important part of the Council's zero carbon ambitions.

4.5.2 The project is funded by a combination of debt and equity from the Council, alongside an element of government grant. A SPV structure was required to be established to allow the heat network to trade with external customers in order to generate sufficient income to cover the operating contract for network and also repay the finance which the Council had out in the venture. One of the key rationales for supporting the project was due to the network's contribution to reducing the Council's direct carbon emissions by approximately 2,200 tonnes of CO2 when fully operational with 1,600 tonnes being saved in the first year of operation alone.

4.5.3 The SPV is not yet an operational entity but careful consideration has been given to its governance and structure to ensure that there is a robust oversight of the entity but balanced against the need for the SPV to trade autonomously. In order to ensure that there are the right controls in place, the Council has instigated the following:

- *Appointment of Non-Executive Directors*: Given the specialist nature of this particular company and reviewing lessons learnt from Robin Hood Energy in Nottingham, ensuring that there is an appropriately skilled Board in place to oversee operations has been a key activity area of focus. An extensive recruitment process for the appointment of Non-Executive Directors (NEDs) was undertaken to bring on board three specialists with relevant industry knowledge and experience. NEDs have been appointed to both the boards of HoldCo and TradeCo, with a further skills audit now being undertaken to identify any other particular areas which the Boards could benefit from. It is proposed for all new ventures, that NEDs should be appointed.

- *Delegations Matrix*: Clarity on decision making and what is required to be reported through to the Shareholder is a key area that needs to be understood by any Board. To outline these limits of authority, a clear and transparent delegations matrix has been put in place. This outlines the level of responsibility each element of the SPV has and the decision making flow through the company structure, along with the decision making that is referred into the Shareholder. It is felt that is an example of good practice and will be adopted as part of any new company set up moving forward.

- *External Assurance*: The provision of external assurance on a number of aspects of the establishment of the Heat Network has been critical to formulating the approach to effectively operate the SPV. A team of external advisors were brought together to focus on particular aspects: Browne Jacobson as legal advisors, EY provided assurance on the business plan and KPMG to prepare and review financial modelling for the duration of the heat networks operation. The independent assurance is a key factor to ensure that as a Council we are getting the balance of commerciality vs public authority accountability and that we are not becoming involved with something that has significant and inherent risk running through it.

3.5.4 The total capital budget for the CQHN is £24m. The Business Case was approved by the Executive in June 2021 and confirms that the funding model for the company. The capital has been provided via a mixture of debt and equity with interest payments on the loans commencing in 2021, and capital repayments within the first three years. There will also be savings on the Council’s energy costs. The full Business Case was included as a Part B report due to the commercially sensitive information contains.

3.5.5 The Council also expects to generate income in the longer term from the investment in the Civic Quarter Heat Network. After the initial connections have been completed, the CQHN will seek additional customers which will generate further income that could result in an income stream from the dividends generated by the company. The generating capacity of the CQHN has the ability to be expanded through the addition of a second engine which would substantially increase the number of customers that can be connected to the network.

5. Risk Management

5.1 As highlighted earlier in the report, recent Public Interest and Best Value Reports have highlighted a number of weaknesses in how Councils, from a Shareholder perspective, have not been fully sighted on the performance of companies which they own, and any emerging risks connected with the type of activities which these entities deliver. The report sets out the steps the Council has taken to ensure the learning has been taken from these reports and identifies that whilst there are always some areas for improvement, effective governance and oversight is maintained.

5.2 Each company has a range of risk associated with it which Boards are designed to oversee, track and mitigate appropriately. Given the some of the challenges linked more recently to COVID-19, the Council, as Shareholder, has been asked to provide some assistance through short term flexibilities. This has been mainly in the form of reprofiling payments due to the Council from loans or dividends to later times within the same financial year, to allow the business build up sufficient financial resilience now COVID related restrictions have been lifted and companies can now trade more freely. The impact on the Council's bottom line has been relatively limited as the companies all have their own risk management strategies and reserves, and by virtue of being private companies have been able to access government Covid support directly. The Council has supported some of its wholly owned companies by allowing in year payment profiling to protect cash positions. There are no outstanding or overdue debts owed by these companies to the Council.

6. Conclusions

6.1 Reviewing the approaches of other Local Authorities and lessons learnt from recently published reviews has been something which the Council has both compared ourselves against and reflected upon. There are strong governance arrangements in place from concept through to implementation and beyond, with clear lines of accountability to the Commercial Board, Scrutiny Committees and ultimately the Executive. In addition, there a number of areas where there are robust assurance process which are already established and working well. The Council will continue to regularly review and reflect upon the way in which we operate our wholly owned ventures to ensure they remain fit for purpose and continue to deliver benefits for the City as originally intended.

6.2 As well as ensuring effective governance, officers continue to closely monitor the financial performance of the wholly owned companies to ensure risks can be mitigated and to maximise the return for the Council.

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Manchester City Council
Report for Information

Report to:	Resources and Governance Scrutiny Committee – 7 September 2021
Subject:	The Capital Programme Assurance Review
Report of:	Deputy Chief Executive and City Treasurer

Summary

The purpose of this report is to update Members on the external independent assurance review of the Council's Capital Programme commissioned by Internal Audit as outlined in the report to Members in February 2021.

Recommendations

Members are asked to note the report.

Wards Affected: All

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Background documents (available for public inspection): None

1. Introduction

1.1. The purpose of the report is to update Members on the external review of the Council's capital programme governance framework and the progress made by the Council following the LGA Peer review in 2018.

1.2. The draft of the report has been received and the summary of findings are included in Section 2 below, however the final signed off external report is yet to be received by officers.

1.3. Details of the peer review recommendations and the actions taken to support service improvement and development were included in a previous report to Resources and Governance Scrutiny Committee on 9 February 2021.

1.4. The three areas of focus for the review were: Financial Management and Investment Planning; Programme Governance and Reporting; and Project Delivery Management.

1.5. The methodology included corporate engagement and scoping involving: -

1.5.1. Holding a series of interviews with officers across the Council and identified stakeholders in order to understand current capital governance arrangements and provide a clear understanding of capital programme management.

1.5.2. A desktop appraisal of all documents requested. The review considered the quality and availability of documentation and worked with officers to allow full and meaningful analysis of the information provided.

1.5.3. Reviewing a sample of ten projects from the capital programme to assess if the key controls were embedded and operating effectively.

1.6. The review's approach was to obtain an understanding of the overarching governance and capital programme management framework and compare this to generally accepted good practice.

1.7. The review was carried out using a risk-based approach in order to understand the effectiveness of capital programme management. It resulted in a report containing observations and recommendations for consideration that are summarised in sections 3 and 4 below.

1.8. The external review was commissioned to review the effectiveness of the management of the delivery of the Council's capital programme and has been designed to build on and enhance the existing sources of assurance and oversight of the capital programme. These arrangements are that:

- The Strategic Capital Board and portfolio boards oversee the approval and delivery of projects and programmes, with regular financial reporting to Directorate Leadership Teams, Strategic Management Team, Executive and Scrutiny.

- The Capital Programme Decision and Highways Project Management Offices provide management oversight and support and set out the standards and processes with which projects in their purview are expected to comply.

- Financial reporting is also overseen by finance officers who report through to the Deputy Chief Executive and City Treasurer and provide support and challenge to the establishment, monitoring and reporting of budgets and actual spend.

1.9. The capital programme and projects therein are also subject to internal audit review based on an assessment risk and overseen by SMT and Audit Committee as noted in the February 2021 report.

2. Executive Summary of Findings

2.1. The Executive Summary from the independent review is included in full below:

The Council has implemented a number of actions following the LGA Peer review in 2018 and the direction of travel is positive.

This latest review examined a sample of capital projects/programmes spanning different sizes of project at varying stages of development across the project lifecycle and across different directorates/portfolios.

Whilst it was evident that there are many areas of good practice and control rigour, it was also clear that there is an opportunity for the Council to build on this and review the benefits of a more consistent organisation-wide approach to the delivery of capital projects underpinned by a common framework with clear reporting lines and accountability at all levels.

The benefits of a common framework and greater standardisation of approach would not only improve the speed and flow of relevant information, but also drive consistent and transparent reporting, clear insights and messaging, improved project documentation, real-time risk management and clarity around the allocation of accountability across stakeholders for benefits realisation.

It is important to highlight that the move to greater standardisation must continue to allow for a degree of flexibility in approach that is specific and relevant to each project. Given the breadth of different projects across the Council this is necessary to ensure that of the application of standard project management arrangements can be adapted to suit project complexity and risk profile.

Several areas of good practice and positive actions being undertaken by the Council as outlined below:

- A Strategic Capital Board provides a challenge process for business cases prior to checkpoint approval.

- The Checkpoint process provides a staged gateway process and detailed route map with clarity and controls on ‘Go /No Go’ decision-making process and delegated authority limits.
- A standard business case template has been designed for completion by directorates when progressing a project through the checkpoint process.
- A newly implemented Project Management Five Steps Process for major projects is being embedded and also now adopted by the Highways Programme. This provides a greater level of standardisation and consistency in reporting across major projects and alignment between the Royal Institute of British Architects (RIBA) stages and the Council Checkpoint Process e.g. Project Execution Plan’s documents and highlight dashboard reporting.
- Clear minor works projects change control processes.
- The Deputy Chief Executive and City Treasurer and Executive Member for Finance approve capital business cases and staged capital budget drawdowns.
- Improvements have been made to capital monitoring reports to members, addressing the recommendation of the LGA Peer review to improve whole life budget transparency.
- The North West Construction Hub established in 2009 and managed by the Council, to drive and improve efficiencies in public sector contractor management across three frameworks. (High Value £8m+, Medium Value £2m to £10m and Low Value £500k to £3m).

3. This section of the report sets out the actions from the report:

3.1. **Accountability and consistency in reporting**: The fieldwork highlighted several differences in approach across directorates and portfolio boards, leading to inconsistencies in reporting and a risk of duplication of effort. Action: The Strategic Capital Board (SCB) has revised the format of reports received and is nearing completion of an updated business case proforma to be utilised by all directorates/portfolios. These reporting differences will be mitigated by the SCB standardising the format of reporting and the detail required on capital expenditure which will cascade down to the individual portfolio/programme boards, with tailored reporting to align to the specific nature of a project’s reporting requirements, e.g. size of project, and also the specific performance indicators that might be relevant for specific asset types, e.g. roads, schools, civic buildings etc.

In particular, the differences in approach extend to the financial reporting and the collation of financial information across the different portfolio areas. Standardising financial requirements and introducing more dashboard style reporting would increase the efficiency in process, improve the flow of information across the boards and increase the accuracy and transparency of current year budget revisions and variances.

3.2. **Governance framework**: There is a framework for decision-making which encompasses the different portfolio areas and given the breadth of services, variations in processes inevitably exist. However, this review has highlighted that minutes and detailed decision action logs are not always maintained for governance boards, and highlight reports to project, portfolio and corporate boards are in different formats.

Action: The Council has previously introduced integrated Terms of Reference for the various decision-making boards and how these decisions flow up to the SCB. The Council will review the current governance arrangements designed to drive consistency in capital programme documentation, to ensure clarity on reporting across directorates and which will document the clear escalation processes and tolerance levels in terms of cost, time, benefits and risks. Terms of reference for all governance boards will be reviewed and updated to reflect clear roles, responsibilities and reporting lines.

3.3. **Financial management**: There is opportunity to improve forecasting and increase the accuracy of budget variations in terms of original to revised scheme budgets and profiling between years (particularly for historic schemes), by consulting at an earlier stage in the process with the relevant team, i.e. Capital Programmes for construction related projects. Not all service areas involved with construction related schemes across the Council choose to consult with the Capital Programmes Team or may consult with them only once a scheme advances to a later stage once the scope has been agreed.

Action: All teams that manage capital budgets are required to align to the corporate timetable for financial reporting and this is well established. It is not relevant for all capital works to be run through the Capital Programmes team, as other Directorates have their own specialist teams, particularly in Highways and Development. The Capital Programme Team meets regularly with directorates, attending several portfolio boards and this level of engagement has provided the Capital Programme Team with greater insight for future portfolio investment planning and the team encourages early engagement in the formulation of project budgets.

3.4. **Standardisation of approach and controls**: There is opportunity for standardisation (as identified in 3.1) which also extends to risk reporting, risk and opportunity logs, change control, project programmes and access to schedule management software.

Action: There are monthly reviews in place with all directorates involved with capital spend to review risks, opportunities, controls and management. In order to strengthen this work further standard risk matrices, change controls and management protocols will be developed that can be tailored, i.e. by value/complexity/size, to align with the relative needs of each project as it is recognised that the move to greater standardisation allows for a degree of flexibility in approach that aligns to project complexity and risk profile. Whilst some access to appropriate scheduling software is available, an audit of requirements will take place to ensure the required staff have the opportunity for regular review and validation of documents and assumptions issued by external contractors.

3.5. **Benefits planning and management**: Benefits planning and management needs to be embedded across the governance framework for the capital programme and within the checkpoint process with a view to benefits realisation becoming a more integral part of project management processes following a project's completion, i.e. once a facility / asset is in service and planned outcomes agreed at project inception can be assessed

Action: The updated business case template has specific criteria for the identification of benefits to be realised. A further review of the benefits management guidance will be undertaken to seek to standardise processes based on a more outcome focused approach that can be delivered on at the directorate level across portfolio areas. Measurable baseline assumptions will be included in business cases to provide a basis for validation of future realised benefits.

4. Conclusion

4.1. The Council has implemented a number of the identified actions following the LGA Peer review in 2018 and the direction of travel is positive. Whilst it is evident that there are many areas of good practice and control there is an opportunity for the Council to consolidate this work and develop further consistency across the capital programme.

4.2. Work has already been put in train to ensure budgets are correctly established, and to provide further transparency in reporting. This can be seen in the revised format of the recent Capital Monitoring report to Executive, for example, which focuses on the highest risk projects and variations on an exception's basis, to draw attention to the progress of the key schemes. This better summarises the progress on the capital programme and enables a more focused scrutiny of the key schemes. It reduced the length of the report considerably and made more accessible for the end reader. This approach ensures better visibility of the key issues and draws attention to the value for money delivered by the programme. Value for money is achieved overall throughout the lifecycle of schemes, starting with the initial gateway process, through procurement, project sign off, monitoring and final evaluation.

4.3. The review has highlighted that a more standardised approach, that retains the flexibility necessary to reflect the risk-based needs of individual projects/programmes, would improve the speed and flow of relevant information, provide consistent reporting, improved project documentation, real-time risk management and clarity around the allocation of accountability across all stakeholders. These recommendations will be fully implemented.

4.4. The report contains areas for further focus on how the Capital Programme Division works with other directorates and portfolios. Again these recommendations will be implemented and it is planned to convene workshops in October to agree the approach and actions with responsible officers. This will enable all responsible directorates/portfolios to confirm how agreed actions can be implemented across the breadth of the capital programme.

4.5. The action plan will be agreed by the Strategic Capital Board in November who will also oversee its delivery. These outcomes will then form part of a future cycle of the Internal Audit activities

5. Recommendations

5.1. The recommendation is at the beginning of the report.

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