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MANCHESTER
CITY COUNCIL

Executive

Date: Wednesday, 13 February 2019
Time: 10.00 am
Venue: Council Antechamber - 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.

Access to the Council Antechamber

Public access to the Antechamber is via the Council Chamber on Level 2 of the Town Hall Extension, using the lift or stairs in the lobby of the Mount Street entrance to the Extension. That lobby can also be reached from the St. Peter's Square entrance and from Library Walk. **There is no public access from the Lloyd Street entrances of the Extension.**

Filming and broadcast of the meeting

Meetings of the Executive are 'webcast'. These meetings are filmed and broadcast live on the Internet. If you attend this meeting you should be aware that you might be filmed and included in that transmission.

Membership of the Executive

Councillors
Leese (Chair), Akbar, Bridges, Craig, N Murphy, S Murphy, Ollerhead, Rahman, Stogia and Richards

Membership of the Consultative Panel

Councillors
Karney, Leech, M Sharif Mahamed, Sheikh, Midgley, Ilyas, Taylor and S Judge

The Consultative Panel has a standing invitation to attend meetings of the Executive. The Members of the Panel may speak at these meetings but cannot vote on the decision taken at the meetings.

Supplementary Agenda

4.	**Global Revenue Budget Monitoring report to the end of December 2018** The report of the City Treasurer is now enclosed	**All Wards** 5 - 22
5.	**Capital Programme Monitoring 2018/19** The report of the City Treasurer is now enclosed.	**All Wards** 23 - 74
6.	**The Budget 2019/20** The report of the Chief Executive and the City Treasurer is now enclosed.	**All Wards** 75 - 98
7.	**Medium Term Financial Plan 2019/20 - 2021/22** The report of the City Treasurer is now enclosed	**All Wards** 99 - 162
8.	**Capital Strategy and Budget 2019/20 to 2023/24** The report of the City Treasurer is now enclosed.	**All Wards** 163 - 216
17.	**Treasury Management Strategy Statement and Borrowing Limits and Annual Investment Strategy 2019/20** The report of the City Treasurer is now enclosed.	**All Wards** 217 - 274

Information about the Executive

The Executive is made up of ten Councillors: the Leader and two Deputy Leaders of the Council and seven Executive Members with responsibility for: Children Services; Finance & Human Resources; Adult Services; Schools, Culture & Leisure; Neighbourhoods; Housing & Regeneration; and Environment, Planning & Transport. The Leader of the Council chairs the meetings of the Executive

The Executive has full authority for implementing the Council's Budgetary and Policy Framework, and this means that most of its decisions do not need approval by Council, although they may still be subject to detailed review through the Council's overview and scrutiny procedures.

It is the Council's policy to consult people as fully as possible before making decisions that affect them. Members of the public do not have a right to speak at meetings but may do so if invited by the Chair.

The Council is concerned to ensure that its meetings are as open as possible and confidential business is kept to a strict minimum. When confidential items are involved these are considered at the end of the meeting at which point members of the public and the press are asked to leave.

Joanne Roney OBE
Chief Executive
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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 Friday, 8 February 2019 by the Governance and Scrutiny Support Unit, Manchester City Council, Level 3, Town Hall Extension (Lloyd Street Elevation), Manchester M60 2LA

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Manchester City Council
Report for Resolution

Report to: Executive – 13 February 2019

Subject: Global Revenue Budget Monitoring Report to end of December 2018

Report of: City Treasurer

Summary

This report contains a summary of the Council's revenue budget and forecast outturn position for 2018/19, based on an assessment of income and expenditure to the end of December 2018 and financial profiling to 31 March 2019.

Recommendations

The Executive is requested to:

1. Note the report.

2. Approve the proposed virements in paragraph 12.

3. Approve the use of budgets to be allocated in paragraph 13.

4. Approve the use of contingency in paragraph 14.

5. Approve the use of reserves in Paragraph 15.

6. Approve the use of grants in addition to that already planned, as detailed in paragraph 16.

Wards Affected: All

Manchester Strategy outcomes	Summary of the contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The effective use of resources underpins the Council's activities in support of its strategic priorities
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

The report identifies a projected net revenue overspend of £1.060m for 2018/19, based on income and expenditure up to the end of December 2018. All Strategic Directors continue working to address, identifying greater efficiencies and accelerating savings where possible in order to support the overall financial position of the City Council.

With the likely scale of funding pressures and future resource reductions, it is important that the Council holds a robust position on reserves and maintains the ability to deal with issues that arise during the financial year. Requests to allocate funding to or from reserves in year are included within the report.

Financial Consequences – Capital

The revenue budget includes funding to meet the capital financing costs of the Council. Changes in the capital programme can affect the budget to meet such costs.

Contact Officers:

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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.

- February 2018 Executive suite of Budget Reports

1 Introduction

1.1 The purpose of this report is to provide the Executive with a summary of the Council's revenue budget and forecast outturn position for 2018/19, based on an assessment of income and expenditure to the end of December 2018 and financial profiling to 31 March 2019.

1.2 Budget monitoring information is integral to supporting robust management arrangements across the Council; and is part of a programme of continuous improvement. Its purpose is to raise issues which need to be controlled through further management action and, as such, the position may change as work is done by Strategic Directors to bring spend back in line with budgets.

1.3 Budgets are monitored on a monthly basis by senior management and there is monthly reporting to individual Executive Members through Strategic Directors.

2. Background

2.1 The City Council set a three-year budget strategy covering the period 2017-20 in March 2017 following consultations with the people of Manchester on what really mattered to them and what they valued most, namely:

- care and support for vulnerable people including older people and those with learning disabilities and mental health needs; taking action on family poverty and giving young people the best start in life;
- tackling homelessness;
- supporting people in to jobs and training;
- keeping roads and neighbourhoods in good shape; and
- parks and leisure to keep people active and happy.

2.2 The budget for 2018/19 approved by Council in March 2018 represented year two of the budget strategy updated for the latest assumptions underpinning the financial position.

2.3 This report details the latest position based on information as at the end of December 2018 and the work being undertaken with Directorates to ensure that there are robust budget recovery plans to address the forecast overspend position and other potential risks

3. Summary Budget Position 2018/19

Overall Position

3.1 The forecast position for 2018/19 taking into account budget recovery plans, workforce assumptions and the restraint on discretionary non-priority spend is set out below. However, risks to delivery in some areas remain and are set out in this report.

	Revised Budget 2018/19 £000	Forecast Outturn 2018/19 £000	Forecast Outturn 2018/19 £000
Total Available Resources	(576,162)	(578,105)	(1,943)
Total Corporate Budgets	123,963	122,150	(1,813)
Directorate Budgets			
Children's Services	112,855	119,854	6,999
Adult Social Care	180,234	183,434	3,200
Homelessness	9,225	10,024	799
Corporate Core	70,017	66,556	(3,461)
Neighbourhoods Directorate	72,575	71,887	(688)
Strategic Development	7,293	5,260	(2,033)
Total Directorate Budgets	452,199	457,015	4,816
Total Use of Resources	**576,162**	**579,165**	**3,003**
Total Overspend	**0**	**1,060**	**1,060**

3.2 An overspend of £1.060m as at the end of December 2018 is forecast. The Council will continue to work to bring down the overspend further before the end of the financial year.

Business Rates and Council Tax

3.3 The Council is responsible for the collection of local taxes (Council Tax and Business Rates). At the end of December 2018, 73.96% of Council Tax had been collected. This is 0.3% behind the position at the end of December last year which may be attributed to residents choosing to pay in twelve instalments rather than ten. The final Council Tax collection rate is not expected to reduce from last year.

3.4 Business Rates collection is 78%, 1.4% behind last year. Whilst collection rates are behind last year, the continued volatility in the position for appeals and new buildings coming onto the list means that it is very difficult to predict what the final position will be for the year. The Business Rates collection rate is not expected to reduce from last year.

3.5 However, it should be noted that the income to be included in 2018/19 for these areas is fixed. Any variances will not impact until future years.

4. Overall Corporate costs and resources

Available Resources (underspend £1.943m)

4.1 The underspend on the total available resources of £1.943m relates to a £0.650m refund of Business Rates in relation to Heron House and additional dividends of £0.760m from National Car Parks Limited and £367k from

Piccadilly Triangle, £5k additional housing subsidy from Department of Work and Pensions, £89k release of corporate bad debt provision and an additional £72k from events income relating to Manchester Central.

Corporate Budgets (underspend £1.813m)

4.2 The total Corporate Budgets underspend of £1.813m relates, in the main, to release of the £1.580m waste contingency which has been set aside to mitigate changes in the levy and costs of collection and is not anticipated be required in this financial year. Historic pension costs are forecast to underspend by £206k due to the reduced number of recipients there is and a £27k over achievement of grant income relating to magistrates courts. Other corporate items are expected to be in line with budget and it is currently assumed that contingencies and budgets held centrally will be required.

4.3 Budgets for inflation and pressures, such as increases in demand, are held corporately and allocated on the basis of need. To date £16.6m of the £19.0m has been allocated. An amount of £0.825m is held for inflationary increases. In addition there is budget for the Apprenticeship Levy (£0.900m) and the Carbon Reduction charge (£0.660m) which are held corporately and will be allocated when the final figures are known

4.4 Allocations from general contingency include £277k for the Arena Anniversary event. A further £0.3m general contingency remains.

Further funding announcements and changes affecting 2018/19

4.5 The Council has received a number of recent funding notifications which relate to 2018/19. These include:

- The proposed return of funds from Greater Manchester Combined Authority (GMCA) - GMCA will propose the return of £6.021m of retained business rates to the City Council and this will formally be considered at the meeting of the Combined Authority on 15 February.

- The return of £2.699m in 2018/19 from the unused central business rates levy surplus held by Government. This is to be distributed to all councils on the basis of need (as determined in the annual Settlement Funding Assessment).

- £1.840m funding from Government following an error in the calculation and payment of S31 grant for Small Business Rates Relief dating back to 2017/18. The Ministry of Housing, Communities and Local Government shared the calculation, relating to the adjustment, with authorities in December, however, the official confirmation of allocations is yet to be received from the Ministry.

4.6 These additional funds will be taken to reserves in 2018/19 and used to support the proposed three year investment plans as set out in the Budget Covering Report, Medium Term Financial Plan and Business Plans elsewhere on the agenda.

4.7 As previously reported to January Executive the airport dividend announcement was made in December 2018. As this is not a guaranteed income stream the majority of the airport dividend is applied a year in arrears to support the Council's revenue budget, therefore this will be included within the Airport Dividend Reserve and used to support the 2019/20 budget.

4.8 There are also other Council held provisions/reserves totalling £4.195m which are proposed to be released to support investment priorities in 2019/20. These include the provision for sleep-in allowances of £2.100m which is no longer required and £2.095m from Adult Social Care related reserves.

4.9 On 29 January 2019 the Government announced an additional £56.5m to help councils with Brexit preparations. The Council's initial allocation is £210k covering two financial years - £105k in 2018/19 and 2019/20 respectively. This funding will be taken to reserves and earmarked to meet future costs.

5. Children's and Education Services (Children's Services budget overspend of £6.999m and Dedicated Schools Grant overspend of £0.552m)

5.1 The 2018-20 budget delivery plan projected that the level of need for children and young people would cost an additional of £19.6m over the period 2018-20. Based on an estimate of placement need and further developments as a continuation of the existing strategy, numbers in external residential and foster care provision were expected to reduce during 2018/19 and 2019/20 with a reduction in costs of £12.6m over the same period to leave a funding requirement of £7m which was provided in the approved 2018-20 budget.

5.2 The position reported to Scrutiny in December was that in 2018/19 while there has been progress in achieving the strategy the overall external residential and foster care numbers have not reduced in line with the plan. Increased need is largely being met through the internal and external foster care service; which has been supported by improvements in securing a 'permanent' arrangement through the increased number of Special Guardianship Orders (SGOs). This is positive as it means that new demand is being met more effectively and efficiently.

5.3 The reported overspend of £6.999m for Children's Services is based on actual expenditure to the end of December 2018 and the full year effect of existing placements, workforce and other known commitments. The pressures are largely as a result of the external residential and external foster care placements. The position reflects additional funding to reduce the forecast overspend as set out below:

- Application to Corporate inflation contingency to meet increased cost of placements and other inflation pressures of £2.9m.
- Draw down of £1.5m of non-recurrent funding set aside as part of the 2018-20 budget to mitigate the risk of external residential placements numbers

not reducing during the remainder of 2018/19.

5.4 There has been a £1.178m increase in the overspend since the end of October. The main variances on the Children's Services budget are summarised as follows.

5.5 External Residential - The forecast position is an overspend of £3.167m, which is an increase of £229k since October. This is due to a net increase in the number of placement by three, offset by the confirmation of partner contributions following multi-agency agreements to jointly review, support and fund complex placements. The position remains volatile as a small change in placement numbers can have a significant increase on costs.

5.6 External and Internal Fostering and Special Guardianship Orders (SGOs) - the forecast position is an overspend of £3.068m which is an increase of £0.665m since October mainly due to the net increase of 10 placements across fostering and SGO's.

5.7 Youth Offending Service - The forecast position is an overspend of £250k, which is a new emerging pressure since October. This has recently come to light following updated information on the level of remand to date and the expected level for the remainder of the year. This is a highly volatile area and is reported to partners at the Youth Justice board on a regular basis. The service will continue to work with the Judiciary in order to minimise the remand period.

5.8 Other Children's Services budget overspends are as follows:

- Adoption Service - £206k projected overspend in part due to a higher than budgeted management fee for the Regional Adoption Agency (RAA).
- Legal Fees - £430k projected overspend due to legal advice and court proceedings costs being higher for the increased volume of work.
- Home to School Transport and Free Travel - £262k projected overspend. The analysis of the spend since the change in Children's Act legislation in September 2015 has shown that there has been a 50% increase in the number of routes and a 24% increase in the number of children transported.
- Overspend of £315k relating to the higher cost of support for additional accommodation, essential living, adoption allowances, leaving care allowances, assessments and translations and birth certificates spend being higher than budgeted for.
- Other variations totalling £21k overspend

5.9 The overspend position is offset by the following:

- Children's Social Work - Projected underspend of £201k which is due to vacancies across the localities. Work continues, to ensure that vacancies are filled.
- Complex Safeguarding Hub and Multi Agency Safeguarding Hub - Projected underspend of £108k due to the phasing of costs for this new service against the full year allocated budget.
- Directorate Core and Back Office - projected underspend of £411k as a

result of the review on discretionary spend.

5.10 Children Services revised budget proposals strategy for 2019/20 is to put the budget onto a realistic footing going forward given the local and national pressures being faced on Children's Social Care but also to progress the planning and associated activity to ensure adequate and effective investment into early help and interventions that deliver longer term achieve better outcomes and financial sustainability.

5.11 The centrally retained Dedicated Schools Grant (DSG) is projecting a net overspend of £0.552m, largely on the high needs block. This has reduced by £1.648m since last October. This movement is mainly as a result of £1.28m additional funding allocation from the Department for Education (DfE) in 2018/19 and the reduction in the level of funding required for in-year expansions. The pressures in the part of DSG that supports children with high needs are believed to be on-going and this has been recognised nationally by the DfE.

5.12 During the autumn the Council consulted schools and the Schools Forum on a transfer of funding from the schools block to the high needs block of up to 0.5%per pupil (£2m) in 2019/20. This was to address an underlying pressure in the High Needs budget largely resulting from an increase in the number of children and young people with Education, Health and Care Plans. As a result of additional DSG for high needs of £2.562m (£1.281m for 2018/19 and 2019/20) announced by the DfE in December 2018, the Council is no longer seeking to make the transfer for 2019/20. However, despite this increase there are continuing pressures on the high needs block. The Council will continue to identify further savings options during 2019/20.

6. Adult Services (Overspend £3.200m)

6.1 There is a projected overspend of £3.2m, a reduction of £216k since October 2018. Of the overspend £3.278m relates to spend against the Manchester Health and Care Commissioning (MHCC) Pooled Budget for Adult Social Care and with a £78k underspend for Adult Social Care services outside the pool.

6.2 The ongoing pressure on the Pooled Budget relates to the longer than planned time to implement the new care models and thus deliver savings. There is collaborative work across a number of organisations ongoing to accelerate progress against the original plans and ensure the impact of new care models on reducing demand for health and care services is as expected. This will need to be balanced against the demand currently in the system, particularly with regard to the pressures experienced during the winter. Where the new care models have been implemented, evaluation of those schemes is ongoing to ensure maximum delivery of the savings in year and ensure safe outcomes for clients.

6.2 Funding for demographic growth of £7.416m was approved as part of the Council's contribution towards the MHCC Pooled Budget. This was a prudent assessment of need based on predicted trends. The current requirement reflects the activity levels across the service areas and the projected demand until the end of the financial year. Drawdown of the funding is subject to approval by the City Treasurer in consultation with the Executive Member for Finance and Human Resources. The current requirement reflects the planned application of £6.266m. A further £1.15m has been retained and a request to release the money will be on the basis of demand exceeding present trends for the remainder of the year.

6.3 As part of the 2018 Autumn budget and December 2018 finance settlement the government announced £240m of additional funding for 2018/19 and 2019/20 for councils to spend on adult social care services to help councils alleviate winter pressures on the NHS, getting patients home quicker and freeing up hospital beds across England. The allocation to the City Council, which is based on the Adults Relative Needs Formula, totals £2.67m in each year. The use of the 2018/19 allocation was agreed between partners and at the Council's Executive in December 2018. The budget proposals include the funding being smoothed over 2-3 years to support the creation of a sustainable establishment to manage both the homecare mobilisation and the waiting lists to support the health and social care system to manage winter pressures. The proposals for deployment have been aligned with other funding and developed jointly with partners across the health and social care system.

6.4 A summary of the forecast overspend (£3.200m) variations are set out below:

- Residential and Nursing budget overspend of £0.916m - The residential and nursing numbers are 93 lower than 12 months ago. The new Extra Care schemes, opened in 2018, remain popular and very well utilised and this is contributing to lower levels of spend and reduced numbers admitted into care. These lower numbers result in a saving of £1.57m. The residential overspend is largely as a result of savings from other new care models being re-phased into 2019/20.
- There remains a strong focus on reducing the number of people with a delayed discharge from hospital. The delays being experienced are now running at a level close to the national average, which is a result of close working by all parties across the care sector. Any discharge into residential care going forward will be covered by utilisation of the winter pressures funding.
- Homecare overspend of £2.984m due to the delays in implementing the new care models, particularly for Assistive Technology. Work is ongoing to match the correct cohort of people with the correct equipment to deliver savings in 2019/20. The forecast includes that £0.5m of savings can be delivered from the reablement care model currently being implemented in the last quarter of 2018/19. This reflects an evaluation of the levels of recruitment.
- Learning Disability overspend of £164k due to a shortfall against planned savings from the implementation of 'strengths based' support planning. Savings from reviews of high cost placements have been delivered in full.
- Mental Health £413k overspend due to the non-achievement of savings

against the ‘strengths based’ support planning saving. Greater Manchester Mental Health Trust have commenced work to look at re-assessments which will utilise the ‘strengths based’ approach.

- Local Care Organisation budgets have an overspend of £1m. This relates to the fact that agency staff are still required in care services provided in house to ensure the required staffing ratios are met. Initial recruitment to crucial service delivery roles is complete, which should reduce the need for agency placements. Further work has commenced to look at future staffing levels as the service develops new provision which should also result in the need for less agency capacity in the future.
- Commissioning budgets have an overspend of £0.524m as a result of savings that have not been achieved in 2018/19. Potential areas for savings have been identified for 2019/20 as part of wider re-commissioning work.
- £2.5m of demographic funding has been applied to cover pressures across the care budgets
- Other areas have a net underspend of £303k.

7. Homelessness / Welfare reforms (Overspend £0.799m)

7.1 The budget for Homelessness Service is £5.7m net of grants. The service also receives external funding including:

- The Flexible Housing Support Grant (FHSG) of £1.3m
- New burdens funding for the Homelessness Reduction Act of £0.509m over two years which has been allocated by MHCLG.
- Greater Manchester Combined Authority (GMCA) has received funding of £1.8m over two years to support three hubs across Greater Manchester. Manchester’s allocation is £0.745m over the two years.
- Rough Sleeper Initiative Grant of £418k for 2018/19 and recently announced additional funding of £0.5m from 2018/19, conditional on meeting the success criteria.

7.2 There has been a significant increase in the numbers of households who are homeless in Manchester in recent years, including families, single people, young people and people who are rough sleeping. This trend is also reflected nationally. Total bed and breakfast numbers have increased from 20 per night in 2014 to a high of 202 per night in October 2018, with approximately 118 per night for single people and 84 per night for families in October 2018. There has been a reduction in December to an average of 89 singles and 53 families but this had already been factored in to the forecast as the numbers historically reduce in December. Dispersed temporary accommodation placements have increased from 153 in April 2014 to 1,433 in December 2018.

7.3 There is a projected overspend of £0.799m which is a decrease of £442k since October 2018. Following a review of the recharge calculation between Revenues and Benefits and Homelessness linked to the loss of the Temporary Accommodation Management Fee the recharge has reduced by

£250k between October and December, this has resulted in the Homelessness overspend reducing by £250k. In addition to this, income received from GM to support the Longford Centre is higher than previously forecast which has reduced the forecast spend in Singles Accommodation by £192k.

7.4 In response to the further roll out of Universal Credit and in order to provide funding to residents who are experiencing hardship that is not covered through Housing Benefit or the Housing element of Universal Credit an additional £1.0m of City Council resources was approved to provide a total Discretionary Housing Payments budget of £3.433m. The expenditure to date is £2.502m, with a further £0.560m committed, this leaves £0.371m funding available to award for the remainder of the year.

7.5 Manchester is currently reviewing the cold weather provision in line with council priorities to accommodate all people who are sleeping rough for the period October 2018 to April 2019. Work is being done with the GMCA to agree how the service will be funded. In addition the Council is working with other councils and the voluntary sector to establish a joint approach to the cold weather provision

8. Corporate Core (Underspend £3.461m)

8.1 The forecast £3.461m underspend is made up of the underspends in Corporate Services £4.087m, and Chief Executives £7k; offset by the forecast delay in the achievement of the Cross Cutting Savings of £0.633m.

8.2 The overall underspend shows an improvement of £0.665m since October 2018. The main changes are £200k increased housing benefit subsidy, £148k additional Capital Programmes income, £85k contract budget savings in ICT, £50k additional purchase of annual leave with the remaining difference being due to further savings on both employee and running costs across services within the Corporate Core.

8.3 The Chief Executives overall forecast position is an underspend of £7k. There is a net underspending in relation to staff costs of £317k, together with the release of a £168k provision held for potential repayment of grant monies and £200k higher than forecast savings through the purchase of annual leave.

8.4 The main areas of overspend relate to Statutory and Democratic Services and Executive which includes £0.544m for the Coroners service due to a combination of increased case numbers, and more complex cases that the service is dealing with and additional costs of £162k in respect of elections.

8.5 Corporate Services forecast an underspend of £3.454m. This includes employee savings and running costs of £1.874m due to vacant posts in Commissioning, Procurement, Revenue and Benefits, Customer Services, Financial Management and Commercial Governance; a saving of £1.4m in Revenue and Benefits due to a reduced need for bad debt provision (£1.2m) and housing subsidy (£200k); £0.826m underspend in ICT due to lower than expected revenue costs of moving the data centre, and £148k additional income in Capital Programmes. These underspends are reduced by the unmet cross cutting savings of £633k and £161k historic teachers' pension costs.

9. Neighbourhoods Directorate (Underspend £0.688m)

9.1 The budget for the Neighbourhoods Directorate is £72.58m which includes £15.0m for Highways. The forecast outturn is an underspend £0.688m an improvement of £82k since October.

9.2 The Neighbourhoods Service reports an underspend of £202k, an adverse movement of £82k since October. The main in-year variations are:

- An underspend in staff costs within Community Safety and Compliance (£0.611m), particularly in where there are delays in filling some vacant positions due to the additional time taken for police vetting and to fill vacancies.
- The other main areas of underspend relate to Libraries, Galleries and Culture where a combination of vacancies and reduced expenditure provide a forecasted underspend (£153k), Parks, Leisure and Events (£20k) due to increased forecasted income and Bereavement Services additional income of (£57k).
- This is partly offset by overspends in Manchester Markets of £412k due to vacant units and unrecoverable service charges at New Smithfield Market, significant reductions in income at the Sunday Market Car Boot and reduced income across the markets estate through reduced tenants.
- There is a £43k underachievement of income on the Christmas Offer due to lower than anticipated mug sales.
- Neighbourhood area teams £154k overspend largely due to the costs of enhanced safety measures within the City Centre.
- Other minor budget overspends of £30k.

9.3 Highways forecast an underspend of £486k, an improvement of £164k since October. The main variances are due to additional permit income of £115k and the reduced costs of bridge inspections £85k. Highways Capital Programmes have additional fee income of £226k due to reprogramming their work and two new schemes. Manchester Contracts has reduced costs on plant and machinery by £170k. These underspends are reduced by an overspend on winter services £52k and accident and trips £58k based on the current number of claims.

10. Strategic Development (Underspend £2.033m)

10.1 As at October, the Directorate is forecasting an underspend of £2.033m, this is an improvement of £433k against the forecast at the end of October. The overall underspend is made up as follows:

- Operational Property – additional income at the Town Hall Extension totalling £170k.

- Facilities Management underspend of £277k due mainly to staffing savings in management support and building cleaning.
- Investment Estate forecast underspend of £0.751m due to increased rental income for land used for car parking, offset by reduced rents whilst properties are undergoing redevelopment and reduced advertising income.
- Housing and Residential underspend of £132k due to staff savings from vacant posts, and increased income.
- Planning Building Control and Licensing underspend of £0.682m which includes underspends in staffing costs and additional income.
- Work and skills are forecasting a £97k underspend largely due to staff savings from vacant posts.
- An overspend of £76k in City Centre Regeneration - the amount of drawdown from Capital to fund staffing costs has reduced.

10.2 Due to the nature of property budgets and the volatility of income streams and running costs it is recognised that the position could change in the final quarter.

11. Housing Revenue Account

11.1 The Housing Revenue Account (HRA) outturn position is currently a £7.666m favourable variance, this is due to:

- A delay in the requirement for Revenue contribution to capital outlay (RCCO) of £8.044m due to the capital programme expenditure being re profiled to take account of the decision to install sprinklers in high rise blocks.
- Additional PFI payments of £0.568m, the majority of which have been brought forward from previous years.
- Higher than forecast rental income of £339k due mainly to a reduction in the number of right to buy applications since the start of the financial year.
- Additional payment to Northwards £142k.
- Other minor variances – totalling £7k underspend.

11.2 The HRA is a ring-fenced account and any surplus/ deficit in year has to be transferred to/taken from the HRA reserve. For 2018/19 it is forecast that £0.897m will be transferred to reserves. This leaves a forecast balance of £65.466m in the HRA General Reserve. The 30 year business plan currently forecasts that reserves will be exhausted by 2034/35 and work is ongoing to identify efficiencies that ensure that the reserves are kept at a sufficient level to ensure risk can be managed and there are sufficient resources available to fund future investment needs.

12. Virements

12.1 The following virement is proposed for the revised budget 2018//19 and requires Executive approval:

12.2 The budget for the Adults and Children's Services business support budget is shared and is currently still included in the Children's cash-limit budget. The Director of Adult Social Care and Director of Children's Services are in the process of disaggregating the service to support the transition to the LCO. An estimated sum of £2.957m is proposed to be vired from Children's Services to Adult Social Care for 2018/19 in advance of this work being finalised to set a baseline for 2019/20 budget. An adjustment will be made when the final allocation for each Directorate is agreed.

12.3 Based on current levels of spend the discretionary payments budget is forecast to overspend unless the existing approval criteria is tightened. In order to be able to continue with the existing criteria in 2018/19 a virement of £500k from underspend within Revenues and Benefits budget is requested to provide further support to vulnerable households, this consists of £400k for discretionary housing payment budget and £100k to the Welfare Provision Scheme.

12.4 Increasing development in the City centre leads to a higher number of partial road closures due to the scaffolding/hoarding requirements of the development. These works are required to have permits and these are administered by the Streetworks team resource within Highways services. In order to provide increased resource to ensure compliance a virement of £60k from non-pay to pay is requested to fund two additional FTE's.

13. Budgets to be allocated

In line with the February 2018 budget report to Executive the inflationary pressures and budgets are allocated on the assessment of individual business cases approved by the Executive Member for Finance and Human Resources and the City Treasurer. The following allocation is recommended:

- Landfill sites at Barlow Hall Farm, and Cringle Farm - £146k. The River Mersey pump was repaired and switched on in July 2018. Since switch on the plant is pumping 500m3 of water per day which will result in significant effluent costs currently estimated at £60k per quarter. Pumping is likely to continue through into the new year with total estimated costs for 2018/19 at current levels being £310k for which MCC is liable for 60% (£186k) under the legal agreement. As there is only £40k in the budget to pay for this, the request is for the balance of £146k from budgets to be allocated.

14. Contingency

14.1 The following release of earmarked sums from central contingency is submitted for approval:

- Manchester Arena First Anniversary Commemoration - £277k to fund costs associated with a number of events held across the City.

15. Reserves

15.1 Approval for the following unplanned use of reserves is requested:

- Music Hub Grant - £19k to be drawn down from the Children's Services reserve. The spend will enable disadvantaged children to attend cross music centres, and to support the tuition of endangered instruments.
- Car Park Dilapidation Surveys - £203k to be drawn down from the Parking reserve. To conduct a dilapidation survey of all assets included in the NCP/Joint Venture. This should determine the best outcome for Manchester when deciding how off street parking should be managed at the end of the existing NCP/JV arrangement.

16. Grants

16.1 Notification has been received in relation to specific external grants, the use of which were not confirmed as part of the 2018/19 budget setting process and therefore have been considered through the Revenue Gateway process in year.

- Support to end homelessness - £71k from the Department of Education. The funding is intended to enable local authorities to employ specialist Personal Advisors to provide intensive support to care leavers who are at highest risk of homelessness/rough sleeping.

17. Prudential Borrowing Indicators

17.1 As part of the Prudential Borrowing requirements, the Council sets a range of indicators designed to ensure that the borrowing it enters into is sustainable. These indicators are monitored regularly to ensure they are not breached and are reported in Appendix 1**.**

18. Conclusions and Next Steps

18.1 This report sets out the projected outturn position of £1.060m overspend, an improved position from the reported overspend of £4.9m in October 2018.

18.2 A detailed review of social care related savings which were not delivered in 2018/19 and the impact for 2019/20 has been carried out with revised proposals contained within the 2019/20 budget. 2019/20 completes the three-year budget commitment, additional one-off government funding of £12m and council resources have been used to provide more funding in these areas based on a reassessment of demand. Funding has been smoothed over three years with a reserve to cover future demand.

19. Recommendations

19.1 The recommendations appear at the front of this report.

Appendix 1 - Prudential Indicators

	Prudential Indicator		**Target**		**Actual as at end of December 2018**	**Target Breached Y/N**
1	Ratio of Financing Costs to Net Revenue Stream	Non – HRA		7.74%	7.7%	N
		HRA		£m 3.83	£m 3.83	N
2	Capital Expenditure			£m	£m	
		Non – HRA		600.0	476.8	N
		HRA		27.5	16.2	N
		Total		**595.5**	**493.0**	
3	Capital Financing Requirements			£m	£m	
		Non – HRA		1,409.6	1,206.9	N
		HRA		281.7	281.6	N
		Total		**1,691.3**	**1,488.5**	
4	Authorised Limits for External Debt			£m	£m	
		Borrowing		1,454.8	693.6	N
		Other Long Term Liabilities		216.0	155.9	N
		Total		**1,670.8**	**849.5**	
				£m	£m	
5	Operational Boundaries for External Debt	Borrowing		1,146.7	693.6	N
		Other Long Term Liabilities		216.0	155.9	N
		Total		**1,362.7**	**849.5**	
6	Upper Limits for Fixed Interest Rate Exposures	Net Borrowing at Fixed Rates as a percentage of Total Net Borrowing		100%	42%	N
7	Upper Limits for Variable Interest Rate Exposures	Net Borrowing at Variable Rates as a percentage of Total Net Borrowing		85%	58%	N
			Lower Limit	*Upper Limit*		
8		under 12 months	0%	70%	0%	N

	Maturity Structure of Borrowing	12 months and within 24 months	0%	100%	33%	N
		24 months and within 5 years	0%	80%	43%	N
		5 years and within 10 years	0%	70%	0%	N
		10 years and above	20%	80%	24%	N
9	Upper Limits for Principle Sums Invested for over 364 days			£0	£0	N

Manchester City Council
Report for Resolution

Report to: Executive – 13 February 2019

Subject: Capital Programme Monitoring 2018/19

Report of: The City Treasurer

Summary

This report informs members of:

(a) Progress against the delivery of the 2018/19 capital programme to the end of December 2018.

(b) The revised capital budget 2018/19 taking account of changes between the approved capital budget and any further changes occurring in year.

(c) The latest forecast of expenditure and the major variations since the Capital Programme Monitoring report submitted in October 2018.

(d) The impact any variations may have on the Capital Programme for the period 2018/19 to 2023/24.

Recommendations

The Executive is requested to recommend that Council:

1. Approve the virements over £0.5m between capital schemes to maximise use of funding resources available to the City Council set out in Appendix A.

The Executive is requested to:

2. Note that approval of movements and transfers to the full capital programme, including projects on behalf of Greater Manchester, will reflect a revised total capital programme budget of £600.5m and a latest full year forecast of £493.0m. Expenditure to the end of December 2018 is £336.2m.

<u>Manchester City Council Programme</u>

3. Agree that the capital budget be amended to reflect movement in the programme, attributable to approved budget increases and updates to spending profiles.

4. Approve the virements below £0.5m between capital schemes to maximise use of funding resources available to the City Council set out in Appendix A.

5. Note that capital resources will be maximised and managed to ensure the capital programme 2018/19 remains fully funded and that no resources are foregone.

6. Note that approval of movements and transfers to the Manchester City Council capital programme will reflect a revised capital programme budget of £468.2m and a latest full year forecast of £397.2m. Expenditure to the end of December 2018 is £265.9m.

Projects carried out on behalf of Greater Manchester

7. Agree that the capital budget be amended to reflect movement in the programme, attributable to approved budget increases and updates to spending profiles.

8. Note that approval of movements and transfers to the Greater Manchester capital programme will reflect a revised capital programme budget of £132.3m against a latest full year forecast of £95.8m. Expenditure to the end of December 2018 is £70.3m.

Wards Affected: All

Manchester Strategy outcomes	Summary of the contribution to the strategy
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 this community strategy, notably the 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	The capital programme includes investment in highways infrastructure, and broadband expansion.

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

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

All Revenue consequences are included in the current Revenue Budget.

Financial Consequences – Capital

The latest forecast of expenditure for 2018/19 is £493.0m, compared to a proposed revised budget of £600.5m. Spend to date is £336.2m. The programme is subject to continual review to establish whether the forecast remains achievable. Whilst the intention is for the City Council to progress the programme as stated, some projects and their sources of funding may require re-profiling into future years.

The Greater Manchester programme is hosted by the City Council, but is managed by the Combined Authority which also monitors the projects. The City Council is currently working with the Greater Manchester Combined Authority (GMCA) to finalise the novation of a number of Housing Investment Fund projects following the granting of the relevant borrowing powers to the CA. This will reported in further detail once the position is confirmed.

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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.

- Report to the Executive 7th February 2018 – Capital Strategy and Budget 2018/19 - 2022/23)
- Report to the Executive 7th March 2018 – Capital Programme – Proposed Increases
- Report to the Executive 21st March 2018 – Capital Programme – Proposed Increases
- Report to the Executive 30th May 2018 – Capital Programme Monitoring 2017/18 Outturn
- Report to the Executive 30th May 2018 – Capital Programme – Proposed Increases
- Report to the Executive 27th June 2018 – Capital Programme – Capital Programme Update
- Report to the Executive 11th July 2018 – Capital Programme – Capital Programme Update
- Report to the Executive 25th July 2018 – Capital Programme – Capital Programme Monitoring
- Report to the Executive 25th July 2018 – Capital Programme – Capital Programme Update
- Report to the Executive 12th September 2018 – Capital Programme – Capital Programme Update
- Report to the Executive 17th October 2018 – Capital Programme – Capital Programme Monitoring
- Report to the Executive 17th October 2018 – Capital Programme – Capital Programme Update
- Report to the Executive 14th November 2018 – Capital Programme – Capital Programme Update
- Report to the Executive 12th December 2018 – Capital Programme – Capital Programme Update
- Report to the Executive 16th January 2018 – Capital Programme – Capital Programme Update

1 Introduction

1.1 The purpose of the report is to:

- Provide an update to members on the progress of the capital programme in the nine months to the end of December 2018.
- Inform members of the latest estimates of capital expenditure for 2018/19 and to show forward commitments into the 2019/20 to 2023/24 capital programme.
- Confirm that there are adequate levels of resources available to finance the capital programme.
- Update members on the projects carried out on behalf of Greater Manchester.

1.2 This report has been redesigned, to provide more information on the activities undertaken in delivering the programme and the risks associated with the works, as well as the financial monitoring and changes required.

1.3 A summary of each part of the programme is included within the report, providing detail on the major projects, issues, and risks for that area. This is presented alongside a summary of the financial position, and any changes to the budget that are required.

1.4 Appendix A details the virements requested across the programme. Appendix B details the revised capital budget for each project, taking into account the virements requested and any re-profiling between years which has been identified.

2 Capital Budget

2.1 The Capital Budget for the period 2018/19 to 2023/24 is currently £1,794.4m. This is an increase of £23.9m compared to the budget reported to Executive as at Quarter 2 2018/19. The profile before the changes proposed in this report, is shown below:

Capital Programme 2018-2024 £m	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Total Programme**
Capital Budget (May 18)	597.0	557.2	240.0	286.1	3.1	0.0	**1,683.4**
Capital Programme Update (Approved May 18)	3.1	6.5	2.4	0.0	0.0	0.0	**12.0**
Capital Programme Update (Approved June 18)	2.3	2.0	1.1	0.0	0.0	0.0	**5.4**
Budget Reprofiling Q1	-28.2	-44.9	73.2	-107.0	75.0	31.9	**0.0**
Capital Programme Update (Approved July 18)	38.4	18.5	6.1	2.7	0.0	0.0	**65.7**
Capital Programme Update (Approved September 18)	3.5	0.5	0.0	0.0	0.0	0.0	**4.0**
Budget Reprofiling Q2	-11.4	-5.8	13.9	20.4	-6.9	-10.2	**0.0**
Capital Programme Update (Approved November 18)	2.0	19.9	0.0	0.0	0.0	0.0	**21.9**

Capital Programme 2018-2024 £m	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Total Programme**
Capital Programme Update (Approved December 18)	-8.3	0.7	0.1	0.0	0.0	0.0	**-7.5**
Capital Programme Update (Approved January 19)	2.2	4.1	3.2	0.0	0.0	0.0	9.5
Revised Capital Budget	**600.5**	**558.7**	**340.1**	**202.2**	**71.2**	**21.7**	**1,794.4**
Of which:							
Manchester City Council Programme	468.2	440.1	310.7	202.2	71.2	21.7	**1,514.1**
Programme on behalf of Greater Manchester	132.3	118.6	29.4	0.0	0.0	0.0	**280.3**

2.2 The figures shown above include changes approved since the 2017/18 outturn report by the Executive Member for Finance and Human Resources and the City Treasurer under delegated powers.

3 Projects carried out on behalf of Greater Manchester

3.1 The Greater Manchester programme is forecasting to spend £95.8m against a budget of £132.3m, a variance of £36.5m. This is based on the revised likely pipeline for Housing Investment Fund loans. The Housing Investment Fund will novate to the Greater Manchester Combined Authority in the near term. The Council will retain a number of loans which cannot easily be novated and the Combined Authority will provide loan finance to offset these assets and provide a guarantee against any loses. The exact number and value of loans retained will be reported once the detail of the novation is completed.

3.2 The rest of this report will focus on the Council’s Capital Programme.

4 Capital Programme Forecast 2018/19

4.1 The forecast expenditure for 2018/19 is £397.2m compared to a budget of £468.2m. The variations, by service area, are shown in the table below.

4.2 The main changes to the programme since the report to Executive in October 2018 are:

- £6.0m movement of budget to future years for various projects within the Highways Portfolio, to reflect an updated timing of the schedule of works in the programme including the Manchester/Salford Inner Relief Road, School Crossings programme, Installation of new pay and display machines and Drainage works across the City.

- £1.0m of the remaining Waste Reduction Measures programme will be moved in to next financial year to enable prior consultation with residents affected by the new recycling arrangements. The remaining roll out will now take place in 2019/20.

- £7.2m reprogramming of works in the Asset Management Programme across various projects including Wythenshawe Hall, the Space building, Eastland's Estate, the National Football Museum, Bridgewater Hall and Heaton Park and Hall.

- £5.5m variance against the Strategic Acquisitions Programme including £4.2m underspend as works around the Spire Hospital site have been delivered significantly under budget. There are also changes to this budget due to the current standing of negotiations on other various potential acquisitions which is largely out of the Council's control.

- £8.5m changes to the Civic Quarter Heat Network budget as the legal agreements have now been signed and programme of works updated.

- £13.3m amendments to both the Gateway programmes of work to support the likely land acquisitions for the Northern Gateway Project and the demolition and additional works as part of the Eastern Gateway Project.

- £8.4m for the Northwards Housing Programme as planned works relating to high rise blocks and the installations of sprinkler systems will now commence in March 2019.

- £11.9m changes to the Basic Need and SEND programme due to an updated schedule of works meaning that some of the final phases of existing projects are now expected to begin in 2019/20.

Capital Programme 2018/19 budget, forecast and spend to date at 31st December 2018

Manchester City Council Programme	**Budget £m**	**Forecast £m**	**Variance £m**	**Spend to Date £m**	**Spend to Date as % of Forecast**
Highways	43.8	37.8	-6.0	20.6	54.5%
Neighbourhoods	13.1	11.2	-1.9	7.7	68.8%
Strategic Development	159.8	122.1	-37.7	50.0	41.0%
Town Hall Refurbishment	11.6	11.1	-0.5	4.6	41.4%
Housing - GF	26.9	26.9	0.0	15.2	56.5%
Housing - HRA	24.6	16.2	-8.4	9.7	59.9%
Children's Services	45.2	31.8	-13.4	27.3	85.8%
ICT	8.5	6.1	-2.4	2.0	32.8%
Corporate Services	134.7	134.0	-0.7	128.8	96.1%
Manchester City Council Programme	**468.2**	**397.2**	**-71.0**	**265.9**	**66.9%**
Programme on behalf of Greater Manchester	132.3	95.8	-36.5	70.3	73.4%
TOTAL	**600.5**	**493.0**	**-107.5**	**336.2**	**68.2%**
		Reprofiling	-101.9		
		Cost Variations	-4.6		

Net over (under) spend	-1.0

4.3 There is a forecast capital programme variance of £107.5m between the budget and the latest expenditure forecast. Of this, £101.9m is due to schemes requiring budget re-profiling, made up of £106.9m slippage and £5.0m acceleration, £1.0m is due to potential net underspends against the budget and £4.6m of cost variations. Section 4 of this report looks at the re-profiling required and the cost variations together with the recommended budget changes to take this into account.

4.4 The variation will be closely monitored with the final outturn position being highly dependent on schemes commencing and continuing on schedule and delivering to plan.

5 Highway Services Programme

5.1 The Highways capital programme is forecasting to spend £37.8m compared to a budget of £43.8m, a variance of £6.0m. Spend to date is £20.6m, or 54.5% of the current forecast. The programme is shown in the table below:

Highways	**18/19 Spend to Date £m**	**18/19 Budget £m**	**18/19 Forecast £m**	**18/19 Variance £m**	**All Years Budget £m**	**All Years Forecast £m**	**All Years Variance £m**
Highways Planned Maintenance Programme	8.5	16.0	14.0	-2.0	116.4	116.3	-0.1
Manchester/Salford Inner Relief Road (MSIRR)	2.5	6.5	6.0	-0.4	13.9	13.9	0.0
Street Lighting PFI	7.0	11.1	11.1	0.0	32.8	32.8	0.0
Mancunian Way and Princess Parkway NPIF	0.2	0.6	0.4	-0.1	8.2	9.7	1.5
Other Projects	2.5	9.7	6.2	-3.5	119.2	133.7	14.5
Total Highways	**20.6**	**43.8**	**37.8**	**-6.0**	**290.5**	**306.4**	**15.9**
			Reprofiling	**-5.9**			
			Cost Variations	**-0.1**			
			Net over (under) spend	**0.0**			

5.2 The schemes within the current Highways portfolio include the highways improvement investment fund, projects to improve and increase the use of cycle routes which relieve congestion and reduce air pollution from CO_2 emissions, improvements to pedestrian access in areas in the City, improvements to safety measures and schemes to reduce energy consumption for street lighting.

<u>Activities</u>

5.3 An updated methodology to establish the programme of works for the School crossing programme has been agreed and as a result the first seven schemes are expected to be awarded to contractors in the next quarter.

5.4 The Carriageway Resurfacing and Prevention programme is progressing well with patching works and gully cleaning being delivered across the city, resulting in an acceleration to the programme in 2018/19.

5.5 The Manchester/Salford Inner Relief Road continues to progress in line with the agreed programme of works with the scheme scheduled to complete in 2020.

5.6 A number of Highways major projects have completed designs and undertaken public consultation including the Manchester to Chorlton Cycleway, Great Ancoats Street and Mancunian Way and Princess Parkway schemes.

<u>Variances – All Years</u>

5.7 There is an underspend of £0.1m on the Planned Highways Maintenance Programme which backdates to 2014/15. Highways have confirmed that all retentions have been paid for that year.

5.8 Various projects in the Highways Portfolio are showing an overall overspend of £16.0m. Of this £3.5m relates to the Stockport SEMMMS A6 scheme which is works carried out by Stockport MBC on a section of the Council's road network. There is also a forecast overspend of £1.5m on the Mancunian Way and Princess Parkway NPIF scheme. An application has been submitted to cover both of these overspends by additional grant funding. The forecast for the Cycle City Phase 2 project is £9.7m higher than budget to reflect expected additional grant funding from the Greater Manchester Mayor's Cycling Fund.

<u>Variances – In Year</u>

5.9 The main variances reported are:

Highways Maintenance Programme

- The Carriageway Preventative Programme is progressing well resulting in an acceleration of £1.3m in 2018/19;

- £0.3m of the Carriageway Resurfacing budget has been moved in to 2019/20 due to it taking longer than anticipated to get the required traffic regulation orders (TROs) in place.

- Drainage works have experienced a delay in starting the works within the Planned Maintenance Programme for 2018/19. As a consequence, slippage of £0.5m has been forecast into 2019/20, although there will be an overall acceleration to the programme next year;

- Additional funding allocations of c. £1.9m have been received to support essential highways works on potholes and road patching, as detailed in the Capital Update report to Executive in January; this funding must be used by 31st March 2019. The Council has therefore added this funding to the capital programme for the current financial year which will release existing £2.4m Council funding into future years. This aligns to the spend profile review for the overall investment programme.

- There are other minor variances of £0.1m to the Other Improvements works and Bridge Maintenance scheme within the Highways Maintenance Programme as the schedule of works to be completed is not yet finalised.

MSIRR

- Manchester/Salford Inner Relief Road (MSIRR) has seen total re-profiling in to future years of £0.4m as a result of timing of payment applications and a movement in risk and contingency;

Other Projects

- There has been total slippage into future years of £0.9m to the School Crossings programme as a result of a review of the order of works;

- Installation of new pay and display machines across the City Centre will now take place next year and therefore £0.9m has been moved in to 2019/20;

- The main construction works to the gantry on the Princess Road Safety Review scheme will now commence in 2019/20 as the service are still awaiting final designs. This has resulted in a movement of £0.3m budget into future years;

- A request for additional grant funding from the Greater Manchester Mayor's Cycling Fund has been submitted for the Cycle City Phase 2 programme to support the Chorlton element of the programme meaning the current scheme needs to be revised indicating slippage of £0.3m in to future years;

- Green Bridge at Airport City is awaiting the funding agreement to be signed. In addition, the airport have delayed construction due to planning permission of an adjacent multi storey car park, which indicates a movement of £0.4m into future years.

- The Hyde Road (A57) Pinch Point Widening scheme to reduce traffic congestion by widening a bridge that goes over the road requires a re-profiling of £0.2m budget in to 2019/20 due to the designs not yet being finalised.

- There are other variances totalling £0.5m to the Highways Programme including £0.1m Safe Routes to schools, £0.1m Integrated Transport Block, £0.1m 20mph Zones, and £0.1m Parking Schemes to allow for the scope, design and costs of all of the projects to be finalised. The other £0.1m for the

Velocity/Cycle City Phase 1 project will be moved to 2019/20 to cover any further fee claims.

Risks

5.10 With the nature of the projects in Highways, there are inherent risks around external factors, such as weather conditions, which can hinder the schedule of works.

5.11 With the construction market in Manchester buoyant, access to the requisite resources and expertise to deliver projects and programmes has been identified as a risk which the Highways service are currently managing across their programme of works. The impact of external factors on cost and scope creep have also been identified as risks for specific projects within the Highways Portfolio with mitigating activity identified within the risk profiles.

6 Neighbourhoods Programme

6.1 The Neighbourhoods programme is shown in the table below, and is split across three main themes, the details of which are provided separately below:

Neighbourhoods Capital Programme 2018/19 (December 18)

Neighbourhoods	**Budget £m**	**Forecast £m**	**Variance £m**	**Spend to Date £m**	**Spend to Date as % of Forecast**
Environment and Operations	2.3	1.3	-1.0	0.7	53.8%
Leisure	9.7	9.3	-0.4	6.6	71.0%
Libraries	1.1	0.6	-0.5	0.4	73.1%
Total Neighbourhoods	**13.1**	**11.2**	**-1.9**	**7.7**	**68.8%**
		Reprofiling	**-1.8**		
		Cost Variations	**0.0**		
		Net over (under) spend	**-0.1**		

Environment and Operations Programme

6.2 The Environment and Operations programme is forecasting to spend £1.3m compared to a budget of £2.3m. Spend to date is £0.7m, or 53.8% of the current forecast. The programme is shown in the table below:

Environment and Operations	18/19 Spend to Date £m	18/19 Budget £m	18/19 Forecast £m	18/19 Variance £m	All Years Budget £m	All Years Forecast £m	All Years Variance £m
Waste Reduction Measures	0.0	1.3	0.3	-1.0	4.7	4.7	0.0
Waste Contract	0.4	0.5	0.6	0.1	11.5	11.5	0.0
Other Projects	0.3	0.5	0.4	-0.1	0.9	0.9	0.0
Total Environment	**0.7**	**2.3**	**1.3**	**-1.0**	**17.1**	**17.1**	**0.0**
			Reprofiling	**-1.0**			
			Cost Variations	**0.0**			
			Net over (under) spend	**0.0**			

6.3 The schemes within the Environment and Operations programme are centred on improving the environment with the main focus on the control of waste disposal and promoting recycling.

Activities

6.4 The Waste Reduction Measures scheme is to procure 16,000 residual bins with 140 litre capacity to encourage recycling in communal properties and terraced housing. Two thirds of the buildings within the scheme are now completed with the project team assessing the impact on waste tonnage. The final third of the scheme is due to commence and the budget will be moved to the next financial year to enable the consultation with residents to take place.

6.5 The Waste Contract scheme is a loan to Biffa which relates to the purchase of vehicles for use within the waste and street cleansing contract. To date, two vehicles have been purchased with eight further vehicles on order to be delivered next year. The budget has therefore been moved into 2019/20.

6.6 A programme for the installation of smart litter bins in the City Centre has been developed pending approval to spend being granted for the scheme.

Variances – In Year

6.7 The remaining £1.0m of the Waste Reduction Measures programme and Reduction of Cost Waste in Apartments will be moved into next financial year to enable the prior consultation with residents affected by the new recycling arrangements. It is envisaged that remaining roll out will now take place in 2019/20.

Leisure Programme

6.8 The Leisure programme is forecasting spend of £9.3m compared to a budget of £9.7m, a variance of £0.4m. Spend to date is £6.6m, or 71.0% of the current forecast. The programme is shown in the table below:

Leisure	18/19 Spend to Date £m	18/19 Budget £m	18/19 Forecast £m	18/19 Variance £m	All Years Budget £m	All Years Forecast £m	All Years Variance £m
Parks Development Programme	0.5	2.1	1.7	-0.4	29.4	29.4	0.0
Indoor Leisure – Abraham Moss	0.1	0.7	0.7	0.0	14.8	14.8	0.0
Indoor Leisure – Moss Side	5.4	5.6	5.6	0.0	8.7	8.7	0.0
Other Projects	0.6	1.4	1.4	0.0	38.0	38.0	0.0
Total Leisure	**6.6**	**9.7**	**9.3**	**-0.4**	**90.9**	**90.9**	**0.0**
			Reprofiling	**-0.4**			
			Cost Variations	**0.0**			
			Net over (under) spend	**0.0**			

6.9 The Leisure Programme provides leisure, sports and park facilities and services to communities across the City to promote health and wellbeing. It includes improvements to energy equipment to reduce consumption to realise economic and environmental benefits. The programme also includes improvements to facilities which are used for events and which may provide an economic benefit.

Activities

6.10 Works at Didsbury Park Play area are now completed, improving the quality and capacity of play facilities on site. Works commenced at Heaton Park Southern Play area on 5th December 2018 which are expected to be completed in 2019/20.

6.11 All external and internal works at Moss Side Leisure Centre are now complete and the site was handed back to the operator in November 2018. A small repair is required to the main pool tank overflow channel and this is due to be carried out in January 2019 with the centre remaining open during the works.

6.12 An additional requirement to include LED for floodlight replacements at Wythenshawe Park Sports Facilities has uplifted project costs by £25k. This will be financed on a ‘spend to save’ basis. This slight delay may mean that the project may not achieve full spend in year and a small portion of the increased budget may slip in to 2019/20.

6.13 The contractor for the Abraham Moss Leisure Centre has been appointed with a start-up meeting for the construction element of the project to be held in mid-January 2019.

6.14 The Parks Development Programme has identified social value to be delivered as part of the overall £20.0m allocated to develop the city’s parks. Feasibility works will now be agreed in order to establish the scope and works the programme will deliver.

Variances – All Years

6.15 The Parks Development Programme budget has been re-profiled in line with the services' revised 5 year programme.

Variances – In Year

6.16 Although work has commenced at Heaton Park Southern Play area, a slight delay in finalising the contract means completion is now expected in 2019/20 and as a result £0.1m has been slipped in to next year.

6.17 Northenden Riverside Park project to enhance play facilities for 4 to 10 year olds received limited interest following a recent advert and a new tender is underway, meaning the remaining £25k budget will now be utilised in 2019/20.

Risks

6.18 Parks have updated their risk profile to include the ability to secure match funding from external partners including Historic England and Heritage Lottery Fund. This will be monitored by their Programme Board.

6.19 Parks have identified risks around progress with recruitment to deliver the Parks Development Programme pending approval to spend.

Libraries Programme

6.20 The Libraries programme is forecasting spend of £0.6m against a budget of £1.1m. Spend to date is £0.4m, or 73.1% of the current forecast. The programme is shown in the table below:

Libraries	**18/19 Spend to Date £m**	**18/19 Budget £m**	**18/19 Forecast £m**	**18/19 Variance £m**	**All Years Budget £m**	**All Years Forecast £m**	**All Years Variance £m**
Open Libraries	0.2	0.7	0.2	-0.5	3.0	2.9	-0.1
Other Projects	0.2	0.4	0.4	0.0	0.0	0.0	0.0
Total Libraries	**0.4**	**1.1**	**0.6**	**-0.5**	**3.0**	**2.9**	**-0.1**
			Reprofiling	**-0.4**			
			Cost Variations	**0.0**			
			Net over (under) spend	**-0.1**			

6.21 The library programme seeks to bring up to date accessible technology to communities, provide high quality exhibition areas attracting visitors and residents and create new community meeting spaces.

Activities

6.22 The Withington Library refurbishment is now complete and the library re-opened on 22nd October 2018. The library has reported an increase in visitor numbers with 500 people applying for open plus membership. A series of projects designed to reduce revenue costs through investment in ICT have now completed in a number of sites across the estate.

Variances – All Years

6.23 The roll out of the Central Library ICT project has identified equipment on a revenue lease basis which will provide an improved specification compared to the planned capital purchase of equipment, therefore, an underspend of £0.1m is expected.

Variances – In Year

6.24 The Open Libraries programme to install and pilot open libraries at three sites across the city (Withington, Forum and New Moston) is underway. Additional remedial works are required at two of the sites (Forum and New Moston) meaning £0.4m will now slip into 2019/20 as works will not commence until March. The small budget remaining in the current year will cover any preliminary works. The additional £0.1m variance in year is in relation to the roll out of Central Library ICT underspend as in 6.23.

Risks

6.25 No further risks are currently identified.

7 Strategic Development Programme

7.1 The Strategic Development programme is shown in the table below, and is split across three main themes, the details of which are provided separately below:

2018/19 Strategic Development Capital programme (December 18)

Strategic Development	**Budget £m**	**Forecast £m**	**Variance £m**	**Spend to Date £m**	**Spend to Date as % of Forecast**
Culture	27.6	26.7	-0.9	13.4	50.2%
Corporate Estates	70.8	49.2	-21.6	27.5	55.9%
Development	61.4	46.2	-15.2	9.1	19.7%
Total Strategic Development	**159.8**	**122.1**	**-37.7**	**50.0**	**41.0%**
	Reprofiling		**-32.6**		
	Cost Variations		**-4.2**		
	Net over (under) spend		**-0.9**		

Culture Programme

7.2 The Culture programme is forecasting to spend £26.7m compared to a budget of £27.6m, a variance of £0.9m. Spend to date is £13.4m or 50.2% of the forecast. The programme is shown in the table below:

Cultural	**18/19 Spend to Date £m**	**18/19 Budget £m**	**18/19 Forecast £m**	**18/19 Variance £m**	**All Years Budget £m**	**All Years Forecast £m**	**All Years Variance £m**
	£m	£m	£m	£m	£m	£m	£m
The Factory	13.4	27.6	26.7	-0.9	138.6	139.3	0.7
Other Projects	0.0	0.0	0.0	0.0	26.8	26.8	0.0
Total Cultural	**13.4**	**27.6**	**26.7**	**-0.9**	**165.4**	**166.1**	**0.7**
			Reprofiling	**-0.9**			
			Cost Variations	**0.0**			
			Net over (under) spend	**0.0**			

7.3 The Factory will act as a driver of the next stage of Manchester's and the North's regeneration – with clear cultural, economic, educational and social benefits for the city and the wider region. It will be a new type of venue – one that can commission, produce and present the widest range of opera, dance, theatre, visual arts and popular culture, with an emphasis on new cross-art form collaborations, for a much wider audience than any traditional venue.

Activities

7.4 An increased project budget for the Factory Arts Venue was approved by full Council in November 2018 with the 2018/19 budget now £27.6m. Works have commenced on site with programme completion scheduled for 2021 as part of the MIF Festival taking place that year. Piling works started in December 2018 and a number of orders are being progressed in line with the construction programme for the project.

Variances – All Years

7.5 The Factory is reporting a variance of £0.7m over budget across all years. The project achieved Notice to Proceed (NTP) on 21st December 2018 and as a result a more accurate cost plan and programme of works has now been agreed.

Variances – In Year

7.6 As the project has now achieved NTP, and the programme has now been agreed, the forecast now reflects what the current profile of spend is, but there are a number of consultant appointments not yet completed, hence movement of £0.2m budget to 2019/20 for The Factory – Construction project is required. The programme for the public realm works is now being developed and the main construction works will now be undertaken later in the programme with £0.7m of the budget being re-profiled into 2019/20.

Risks

7.7 The risk profile for the Factory focuses on ensuring the project is delivered within the agreed budget and the delivery and installation of the steel required for the building construction.

Corporate Estates Programme

7.8 The Corporate Estates programme is forecasting to spend £49.2m compared to a budget of £70.8m, a variance of £21.6m. Spend to date is £27.5m, or 55.9% of the current forecast. The programme is shown in the table below:

Corporate Estates	**18/19 Spend to Date £m**	**18/19 Budget £m**	**18/19 Forecast £m**	**18/19 Variance £m**	**All Years Budget £m**	**All Years Forecast £m**	**All Years Variance £m**
Asset Management Programme	5.6	16.2	9.0	-7.2	37.8	37.8	0.0
Strategic Acquisitions Programme	9.9	14.3	8.7	-5.5	23.3	19.1	-4.2
Hammerstone Road Depot	0.3	1.1	0.9	-0.2	15.0	19.9	4.9
Heron House and Registrars	9.3	15.8	15.8	0.0	19.9	19.9	0.0
Carbon Reduction Programme	0.0	0.1	0.1	0.0	9.9	10.5	0.6
Civic Quarter Heat Network	0.0	15.0	6.5	-8.5	26.0	26.0	0.0
Estates Transformation	2.2	5.6	5.2	-0.3	18.0	18.0	0.0
Other Projects	0.1	2.9	2.9	0.0	5.2	5.2	0.0
Total Corporate Estates	**27.5**	**70.8**	**49.2**	**-21.6**	**155.1**	**156.4**	**1.3**
			Reprofiling	**-17.4**			
			Cost Variations	**-4.2**			
			Net over (under) spend	**0.0**			

7.9 The Corporate Estates programme supports the provision of fit for purpose accommodation for corporate, community and residential use, proactively maintaining and managing the corporate estate which includes reduction of carbon emissions across the estate.

Activities

7.10 A construction partner has been appointed for the Hammerstone Road project, with design progressing and stakeholder meetings taking place. The project team continue to progress RIBA Stage 3 & 4 design and costings with an updated position being presented to the Strategic Capital Board in February 2019.

7.11 Design works are progressing for Alexandra House and the associated car park using the £1.6m approved for site investigations, surveys and design fees. The scheme is scheduled to complete in December 2020. Staff will be relocated to offices on City Road temporarily while the refurbishment of Alexandra House is delivered.

7.12 An additional £0.3m has been invested at the New Smithfield Market to improve health and safety, with more detailed proposals for the site under development.

Variances – All Years

7.13 There is a total underspend against the Strategic Acquisitions Programme across all years of £4.2m, as the acquisition of the Spire Hospital site and associated demolition works has been delivered significantly under the initial budget provision. The released resources can therefore be utilised elsewhere in the capital programme.

7.14 The Hammerstone Road project is currently forecasting an overspend of £4.9m, based on the outline business plan for the development. The current design incorporates significant differences to the original plan to reflect the changes to other depot sites, and the business case for proceeding is currently being developed. This may include some of the additional elements to the project being advanced on an invest to save basis, such as Winter Maintenance Facilities.

7.15 The Carbon Reduction Programme has an overall overspend of £0.6m across all years. A review of works has been carried out with potential additional projects emerging that could be invest to save opportunities for the Council. The business case for these is currently being drafted.

Variances – In Year

7.16 The Hammerstone Road scheme has experienced a slight delay in the next pre-construction contract being issued leading to £0.2m being slipped in to future years.

7.17 The Asset Management programme is reporting a total reprogramming of £7.2m to future years across various projects. A number of items must be dealt with at Wythenshawe Hall due to the complex heritage nature of the project, the Council must ensure that the appropriate approvals for heritage assets of this nature are secure. Remedial works have now been undertaken at New Smithfield Market allowing more time to agree the final scheme and programme. For the Space building the provisional programme of works have been changed as a full mapping of the drainage systems including external site areas is now required before works can be undertaken. While design has been commissioned for the Council's property within the Eastlands estate, at the National Football Museum and the Bridgewater Hall, some works resulting from this will now be delivered next year. Finally the works at Heaton Park and Hall will now start in 2019/20.

7.18 Of the unallocated element of the Estates Transformation budget £0.3m will be moved in to 2019/20 to support the delivery of future schemes.

7.19 In line with the latest position reported to Executive, the legal agreements for the Civic Quarter Heat Network have now been signed and the programme of work updated. The budget is now being adjusted accordingly with a need to re-profile £8.5m of the budget into future years.

7.20 Slippage of £1.3m is forecast on Strategic Acquisitions Programme, reflecting the current standing of negotiations on various potential acquisitions. As noted below, the timing of negotiations reaching a successful conclusion or otherwise is not within the Council's control, and there tends to be significant re-profiling of this budget year on year. The remaining £4.2m variance in year is the underspend noted in 7.13.

Risks

7.21 It should be noted that there are a number of significant elements of the Corporate Estates programme, such as the 2019/20 Strategic Acquisitions programme, which are dependent on negotiations with third parties in order to achieve a successful outcome for projects such as land acquisition. As a result there is a possibility that budgets could be re-profiled.

7.22 There may also be pressure on the Strategic Acquisitions budget as city wide strategies evolve. As such, the programme is currently subject to a detailed review and prioritisation exercise.

7.23 The Asset Management Programme profile is under a full review taking into account the planned and pipeline works and the resources available to deliver. Once this work has been completed the profiling of the budget may need to be adjusted.

7.24 Finally the costs for the Heron House scheme of works may fall early in the new financial year rather than in 2018/19 requiring a re-profiling of the budget in to 2019/20.

Development Programme

7.25 The Development programme is forecasting to spend £46.2m compared to a budget of £61.4m, a variance of £15.2m. Spend to date is £9.1m, or 19.7% of the current forecast. The programme is shown in the table below:

Development	**18/19 Spend to Date £m**	**18/19 Budget £m**	**18/19 Forecast £m**	**18/19 Variance £m**	**All Years Budget £m**	**All Years Forecast £m**	**All Years Variance £m**
Digital Asset Base – One Central Park	4.4	9.4	9.4	0.0	10.8	10.8	0.0

Eastern Gateway – Central Retail Park	0.1	1.3	1.3	0.0	40.4	40.4	0.0
Eastern Gateway – New Islington Marina	0.2	4.0	1.8	-2.2	5.2	5.2	0.0
Northern Gateway	0.0	15.0	3.9	-11.1	25.0	25.0	0.0
City Labs 2	0.9	3.7	3.7	0.0	3.7	3.7	0.0
Airport City Power Infrastructure	2.2	2.4	2.4	0.0	6.0	6.0	0.0
Digital Business Incubators	1.5	3.5	3.5	0.0	4.0	4.0	0.0
Sustaining Key Initiatives	0.0	0.0	0.0	0.0	13.6	13.6	0.0
Manchester College	0.0	17.6	17.6	0.0	27.6	27.6	0.0
Other Projects	-0.2	4.4	2.6	-1.8	89.1	88.2	-0.9
Total Development	**9.1**	**61.4**	**46.2**	**-15.2**	**225.4**	**224.5**	**-0.9**
			Reprofiling	**-14.3**			
			Cost Variations	**0.0**			
			Net over (under) spend	**-0.9**			

7.26 The Development Programme seeks to provide sustainable growth and transformation of the City, not only to support internal growth but also to retain international competitiveness by promoting opportunities to develop the City's fabric, infrastructure, business and skills base and connecting local communities to employment opportunities.

Activities

7.27 Planning has been submitted for the repaving of the Medieval Quarter with works commencing on site in March 2019. A contractor has been appointed for the Peterloo Memorial, while a public consultation on the design was held in Central Library between 1st November and 3rd November. The grant agreement for the Tech Hub is underway and due to be complete by the end of the financial year.

Variances – All Years

7.28 The Space Project – Phase 2 has completed the Tenant Fit Out element of Space Studios, against which savings of £0.9m have been identified.

7.29 The nature of the Sustaining Key Initiatives project is that it is required as and when projects necessitate support, which means forecasting spend is difficult. To reflect this and to provide a prudent capital budget, it is proposed to re-profile the budget to allow it to be accelerated as and when required.

Variances – In Year

7.30 A £25.0m budget has been ringfenced to support the likely land acquisitions required for the Northern Gateway Project. The timing of those which are likely to require City Council support means that £11.1m of the budget will now be moved into future years.

7.31 Demolition works at Central Retail Park, part of the Eastern Gateway project have commenced. These will complete over the coming months with the budget provision of £2.2m for additional works now being required in 2019/20.

7.32 There is slippage of £0.4m on the Medieval Quarter Public Realm as further site surveys will be required which are scheduled for 2019 and will result in a later date for start on site.

7.33 A decision to progress the offices/space being considered for refurbishment for the Sharp Project has not yet been made. In the interim, these spaces have been let on a short term basis and in order to be flexible and accommodating according to demand in the interim period, these lettings have now been extended in to the next financial year, meaning there is a requirement to move £0.6m of the budget in to 2019/20.

7.34 Other in year variances relate to the Space Project – Phase 2 as in 7.28.

Risks

7.35 The Eastern Gateway - Central Retail Park may require re-profiling dependant on the scheme of works for the remediation of the site.

8 Our Town Hall Refurbishment

8.1 The Our Town Hall Refurbishment programme is forecasting to spend £11.1m compared to a budget of £11.6m, a variance of £0.5m. Spend to date is £4.6m, or 41.4% of the current forecast. The programme is shown in the table below:

Our Town Hall	**18/19 Spend to Date £m**	**18/19 Budget £m**	**18/19 Forecast £m**	**18/19 Variance £m**	**All Years Budget £m**	**All Years Forecast £m**	**All Years Variance £m**
Our Town Hall Refurbishment	4.6	11.6	11.1	-0.5	305.2	305.2	0.0
Total Our Town Hall Refurbishment	**4.6**	**11.6**	**11.1**	**-0.5**	**305.2**	**305.2**	**0.0**
			Reprofiling	**-0.5**			
			Cost Variations	**0.0**			
			Net over (under) spend	**0.0**			

Activities

8.2 Lendlease have been appointed as Management Contractor for the Town Hall refurbishment and will now commence the review of work package clusters as well as their plan for the initial phase of the construction element of the programme. The intrusive surveys continue to progress with mitigation measures explored against any potential delay to the gantry works. An engagement event was held on 12th December 2018 with adjacent property building owners to update on the proposals for Albert Square. Cost consultants have been focussing on the cost planning for Stage 3 and on cost surety exercises which form part of the Stage 3 cost plan.

Variances – In Year

8.3 As the Management Contractor started later than originally forecast and the forecast is now based on the actual tendered costs, the amount of early works to be procured is greater than envisaged earlier in the year. A programme of early works has been developed with the design team and is currently being procured. The professional fees costs have been re-profiled and some specialist work is now expected later in the programme, hence budget provision of £0.5m has been moved to 2019/20.

Risks

8.4 Due to the size, duration and nature of the programme, there is an inherent risk of external factors causing delays or cost variations. The project will go through various design stages which may alter the cost projections. The refurbishment spans a number of years and therefore will also be subject to potential variations in inflation assumptions, particularly as uncertainty remains in the global markets.

9 Housing - General Fund

9.1 The Private Sector Housing programme is forecasting to spend £26.9m compared to a budget of £26.9m, variance of nil. Spend to date is £15.2m, or 56.5% of the current forecast. The programme is shown in the table below:

Private Sector Housing (General Fund)	**18/19 Spend to Date £m**	**18/19 Budget £m**	**18/19 Forecast £m**	**18/19 Variance £m**	**All Years Budget £m**	**All Years Forecast £m**	**All Years Variance £m**
Brunswick PFI Land Assembly	1.3	2.5	2.5	0.0	9.5	9.5	0.0
Disabled Facilities Grant	5.2	7.2	7.2	0.0	53.0	53.0	0.0
Extra Care	2.0	3.6	3.6	0.0	6.0	6.0	0.0
Ben St Regeneration	4.8	5.6	5.6	0.0	15.6	15.6	0.0
Marginal Viability Fund – New Victoria	0.0	0.0	0.0	0.0	10.1	10.1	0.0
Marginal Viability Fund – Bowes Street	0.0	0.0	0.0	0.0	3.3	3.3	0.0
Other Projects	2.0	8.1	8.1	0.0	90.2	90.2	0.0

Total Private Sector Housing (General Fund)	**15.2**	**26.9**	**26.9**	**0.0**	**187.7**	**187.7**	**0.0**
			Reprofiling	**0.0**			
			Cost Variations	**0.0**			
			Net over (under) spend	**0.0**			

9.2 The Private Sector Housing programme focuses on providing affordable housing including the facilities, adaptations and community focus required.

Activities

9.3 The Brunswick PFI Land Assembly scheme is preparing for an acquisition of the Brunswick Parade retail units and the compensation for the Turkish Centre. West Gorton Community Park has received approval to spend with £0.5m forecast to be spent in this financial year on the new facility. The Housing Investment Fund is currently progressing site preparation works as part of the wider scheme. Legal agreements are being drafted to enable Registered Providers to drawdown Section 22 Housing Affordability Funding to purchase empty properties.

9.4 The Homelessness programme is to purchase properties in partnership with registered providers, to accommodate families requiring more than four bedrooms. The project aims to alleviate the use of long-term private rented accommodation, for homeless families. The properties will be acquired, refurbished and managed by partner Registered Providers, with the Council retaining full nomination rights. More properties are currently being sourced, with 20 acquisitions in total being forecast.

Variances – All Years

9.5 There are no variances to the overall budget.

Variances – In Year

9.6 There is acceleration of £3.5m to the Homelessness Programme as MCC will release the full £5m to the lead Registered Provider (RP) once the legal documentation is finalised.

9.7 There are small accelerations totalling £0.1m from future years to the Collyhurst Environmental scheme due to increased activity taking place this financial year and also to the PFI Miles Platting Land Assembly due to overage liabilities that have been paid.

9.8 The Empty Homes Scheme (Section 22) project to acquire, refurbish and sell empty homes/stock surplus to requirement to first time buyers and owners has been moved to 2019/20 as Manchester are currently working with alternative Registered Providers, meaning new legal agreements are needed. The £2.0m budget has been re-profiled to next year.

9.9 A virement of £1.6m from the Strategic Acquisitions Programme to Collyhurst private sector housing projects was approved by Executive in January 2019. Work is not expected to begin until 2019/20 so the budget has been re-profiled.

9.10 Collectively the reprofiling of Private Sector Housing budgets in 2018/19 offset to nil.

Risks

9.11 Delays with acquisitions, refurbishment works or sales could potentially result in the Empty Homes Programme being delayed with action needed to minimise the amount of time the Council is responsible for the properties.

10 Housing Revenue Account (HRA)

10.1 The Public Sector Housing (HRA) programme is forecasting to spend £16.2m compared to a budget of £24.6m, a variance of £8.4m. Spend to date is £9.7m, or 59.9% of the current forecast. The programme is shown in the table below:

Public Sector Housing (HRA)	**18/19 Spend to Date £m**	**18/19 Budget £m**	**18/19 Forecast £m**	**18/19 Variance £m**	**All Years Budget £m**	**All Years Forecast £m**	**All Years Variance £m**
Northwards	4.4	17.7	9.5	-8.2	126.9	127.1	0.2
North Manchester New Builds	5.4	6.4	6.4	0.0	20.6	20.6	0.0
Other Projects	0.0	0.5	0.3	-0.2	47.9	47.9	0.0
Total Public Sector Housing (HRA)	**9.7**	**24.6**	**16.2**	**-8.4**	**195.4**	**195.6**	**0.2**
			Reprofiling	**-8.4**			
			Cost Variations	**0.0**			
			Net over (under) spend	**0.0**			

10.2 The Public Sector Housing programme seeks to bring the estate up to and maintain Decent Homes standard including statutory health and safety regulations and the reduction of CO_2 emissions.

Activities

10.3 Higher Blackley South external cyclical works completed in December 2018 with costs plans under development for a number of further projects within the overall Northwards programme of works.

10.4 On the Northward Housing Programme the target cost report has now been approved and an order raised by the Council for Dam Head Flats. Sprinkler installations have now been approved to proceed and this was endorsed by

Council on 28th November 2018. The work will start on site in March 2019. Work is also continuing on sprinkler demonstration flats, open days are ongoing for tenants to view the system and ask any questions. The Newton Heath Troydale Environmental work project is now also completed.

Variances – In Year

10.5 As outlined above, the planned work on the Northwards Housing Programme relating to high rise blocks and the installation of sprinkler systems will now commence in March 2019 and the £7.5m budget for 2018/19 will now be used in that year.

10.6 Start on site for the Dam Head Walk up Flats is now January rather than December 2018 resulting in a small slippage of £0.2m to the next financial year.

10.7 There has been £0.2m movement in to 2019/20 on the Collyhurst Estate Regeneration project due to the continued delay in receiving confirmation of funding from Central Government. The Ministry of Housing had previously announced that funding will be provided, but have since requested further information in relation to the Benefit Cost Ratio.

10.8 The Collyhurst Highways project will see a minor decreased budget of £0.1m in to 2019/20. This is due to a final account settlement with utilities companies, resulting in a credit to the capital budget. This may be utilised in future years and so has been slipped.

10.9 On the Victoria Square lifts project as part of the Northwards Housing Programme additional surveys have revealed damage to the shaft walls. Further, expert, investigation has recommended that a number of remedial actions are required to these areas. This has changed the scope of the works and impacted on the procurement route which has resulted in slippage of £0.2m.

10.10 There has been delays with the programme on the phase 2 Homeless Accommodation project Northwards are currently undertaking. One block has been completed to date. Ordinarily tenants remain in-situ, however with this provision tenants are being temporarily decanted to help enable delivery. Therefore, work can only be carried out one block at a time and there is a requirement to move £0.2m budget in to next year.

Risks

10.11 The Northwards programme relies on the performance of a number of contractors to deliver projects which creates a risk of delays. Ongoing monitoring of performance and regular communication with partners are used to manage risks in these areas.

10.12 There are other risks around obtaining listed building consent and planning approvals required for some of the projects.

11 Children's Services

11.1 The Children's Services programme is forecasting spend of £31.8m compared to a budget of £45.2m, a variance of £13.4m. Spend to date is £27.3m, or 85.8% of the current forecast. The programme is shown in the table below:

Children's Services	**18/19 Spend to Date £m**	**18/19 Budget £m**	**18/19 Forecast £m**	**18/19 Variance £m**	**All Years Budget £m**	**All Years Forecast £m**	**All Years Variance £m**
Basic Need and SEND Programme	25.2	40.4	28.5	-11.9	301.0	301.0	0.0
School Maintenance programme	1.8	2.5	2.3	-0.2	18.8	18.8	0.0
Other Projects	0.3	2.3	1.0	-1.3	6.2	6.0	-0.2
Total Children's Services	**27.3**	**45.2**	**31.8**	**-13.4**	**326.0**	**325.8**	**-0.2**
	Reprofiling			**-13.4**			
	Cost Variations			**0.0**			
	Net over (under) spend			**0.0**			

11.2 The main focus of the children's services programme is to provide additional school places for children across the City and maintain the school buildings. Ensuring that there is investment in modern, energy efficient and high quality education infrastructure which drives reductions in carbon across the estate of schools, 85% of materials are locally sourced and contractors recycle more than 75% of waste products.

<u>Activities</u>

11.3 Basic Need Funding has been agreed to increase alternate provision through the delivery of a new modular building at the Northridge High School site in East Manchester. Tender documentation has been published on the CHEST to enable the procurement of a contractor. Agreement is being sought from the Schools Organisation Strategy Board to use the remaining School's Maintenance funding to develop the next phase of works. The current timeline for Department for Education (DfE) announcements does not provide the requisite time to develop and deliver schemes during the available summer period.

<u>Variances – All Years</u>

11.4 The Special Education Needs (SEN) Grant is to support local authorities to invest in creating new school places and improving existing facilities for children and young people aged 0-25 with SEN and disabilities. A business case was submitted to develop a standalone sixth form provision at the Abraham Moss Centre as part of North Ridge Special High School. At present the programme has an underspend of £0.2m across all years according to the current planned schedule of works.

Variances – In Year

11.5 The Basic Need and Schools Maintenance budgets have been allocated based on the current programme of works. The projects within the Basic Need Programme have been assessed and some of the final works to some of the school expansions and refurbishments are now expected to complete in early 2019/20, therefore a total of £1.2m has been re-profiled. The total unallocated element of the budgets (£10.8m Basic Need and £0.3m Schools Maintenance) will now be re-profiled to 2019/20.

11.6 Within the Basic Need Programme, there is potential budget provision for a new high school (£39.2m) at Matthews Lane to increase the number of secondary places in the central and eastern area of the City. Initial works have been completed on site and the project is currently paused pending a review of the number of school places required in the context of both the Council's Basic Need Programme and the Government's Free School Programme. The project will only progress if Government funding is forthcoming to cover the cost of the scheme and at this stage the budget will be included in the programme.

11.7 The Healthy Pupil Capital Funding (HPCF) Grant has been received from the Education and Skills Funding Agency. This grant is to improve children's and young people's physical and mental health by improving and increasing availability to facilities for physical activity, healthy eating, mental health and wellbeing and medical conditions. The grant will be built in to the maintenance schemes in 2019/20 so the full budget of £0.3m will need moving to that year.

11.8 The Special Educational Needs (SEN) Grant as in 11.4 requires a movement of £0.8m budget in to future years as the majority of construction works will now take place in 2019/20. The projections are based on the current feasibility estimates and will be subject to change as a contractor is appointed and designs are developed.

Risks

11.9 The DfE have confirmed that Manchester will receive no Education Basic Need funding over the next two financial years. This is due to the level of grant funding received in previous years, but also as a reflection of the significant investment planned in free schools moving forward. Children's Services are awaiting a decision on the next wave of free schools. The statutory duty to provide places belongs to the City Council and the relationship with the DfE is key in ensuring that the free school places are delivered on time in order that the duty can be met.

12 ICT Capital Programme

12.1 The ICT programme is forecasting spend of £6.1m against a budget of £8.5m, a variance of £2.4m. Spend to date is £2.0m, or 32.8% of the current forecast. The programme is shown in the table below:

ICT	18/19 Spend to Date £m	18/19 Budget £m	18/19 Forecast £m	18/19 Variance £m	All Years Budget £m	All Years Forecast £m	All Years Variance £m
New Social Care System	0.7	2.0	2.0	0.0	3.2	3.2	0.0
ICT Investment Plan unallocated	0.0	0.5	0.0	-0.5	34.5	34.5	0.0
Other Projects	1.3	6.0	4.1	-1.9	37.4	37.4	0.0
Total ICT	**2.0**	**8.5**	**6.1**	**-2.4**	**75.1**	**75.1**	**0.0**
			Reprofiling	**-2.4**			
			Cost Variations	**0.0**			
			Net over (under) spend	**0.0**			

12.2 The aim of the ICT programme is to reduce key risks, decommission legacy platforms and to create a simpler, more robust, resilient and easier to support environment. The programme will move towards a modern infrastructure whilst adding business value.

Activities

12.3 A revised ICT structure has been proposed and currently a Head of Enterprise Architecture, a Security and Resilience Manager and a License Manager have all been appointed. The Council's call recording system was also upgraded in December 2018.

12.4 ICT have consulted with project sponsors regarding the schemes included within the ICT Plan in order to ratify committed spend against the overall budget allocated for ICT investment. A roadmap is currently being constructed to inform the order and interdependencies of ICT projects. This roadmap will also support allocation of the remaining budget across future years. The Digital Experience Programme will form part of this assessment as it identifies upgrades to infrastructure required to support future developments.

12.5 The Public Services Network (PSN) project is continuing with only 5 outstanding Win 2003 servers remaining as at the end of December 2018. The Data Centre Uninterrupted Power Supply (UPS) relocation is practically complete with the last fragment of work involving the removal and recycling of damaged kit from the current data centre which will be aligned with the exit from Sharp.

Variances – In Year

12.6 The ICT Investment Plan forecast includes unallocated funding which is then provided to projects as the business cases are approved. Based on the current business case approvals for this financial year, and the remainder of the ICT programme, it is forecast that £0.5m of the unallocated funding can be re-profiled into future years.

12.7 The Communication Room Hardware Replacement project is forecasting slippage of £0.4m due to the consultation with the supplier CISCO around high level design taking more time than envisaged and as such it is unlikely the required hardware will be acquired in 2018/19.

12.8 The Data Centre Network Design and Implementation programme is now in the third phase of works. This phase is seeking to design and implement the data centre network, connectivity, infrastructure, and core services such as internet provision required to support delivery of the Council's Data Centre Strategy. The service have amended plans to maximise the intended social value impact of the scheme, meaning the appointment of the contractor was slightly delayed. As a result, the cashflow has been re-profiled and £1.2m budget has been moved in to future years.

12.9 Other projects have realised savings, for which, a virement of the funds back into the investment pot is requested.

Risks

12.10 ICT projects are often interdependent which can lead to adjustments to the schedule of activity should changes occur in a particular project.

12.11 ICT projects are subject to external factors such as cyber security risks as an incident could result in data unavailability or loss, impacting the Council's critical applications and services. The Council has PSN compliant infrastructure and up to date anti-virus software to mitigate this. The use of end of life software and hardware form part of the ICT risk profile to ensure ongoing operation of systems and hardware.

12.12 The migration of 36 SAP servers to the Nutanix environment remains outstanding due to the complexities of the existing SAP environment. Maintenance and support for existing SAP environment expires on 1st May 2019. All SAP servers must be migrated before this date.

13 Corporate Services Programme

13.1 The Corporate Services programme is forecasting spend of £134.0m compared to a budget of £134.7m, a variance of £0.7m. Spend to date is £128.8m, or 96.1% of the current forecast. The programme is shown in the table below:

Corporate Services	18/19 Spend to Date £m	18/19 Budget £m	18/19 Forecast £m	18/19 Variance £m	All Years Budget £m	All Years Forecast £m	All Years Variance £m

Integrated Working – Gorton Health Hub	0.4	1.4	1.4	0.0	22.8	22.8	0.0
Airport Strategic Investment	124.3	125.0	125.0	0.0	125.0	125.0	0.0
Other Projects	4.1	8.3	7.6	-0.7	26.3	24.8	-1.5
Total Corporate Services	**128.8**	**134.7**	**134.0**	**-0.7**	**174.1**	**172.6**	**-1.5**
	Reprofiling			**-0.3**			
	Cost Variations			**-0.4**			
	Net over (under) spend			**0.0**			

Activities

13.2 Included in the Corporate Services programme is Gorton Health Hub which will bring together key organisations responsible for tackling worklessness and low skills. This will have a positive impact providing new opportunities for local residents and will contribute to sustainable economic growth by replacing a number of old, poorly maintained and high carbon producing buildings into a more modern, energy efficient purpose built building. The Gorton Hub Pre Contract Service Agreement is being developed to RIBA 4 with the contractor while work to finalise the design is being progressed.

13.3 As detailed in the reports to Executive on 18th October 2017, in order to drive further growth, substantial capital expenditure is required at both Manchester and Stansted Airports. Both airports are in the process of commencing terminal transformation projects. The Council are providing a term loan facility as one of the public sector shareholders along with the other District Councils. The second instalment of the Airport Strategic Investment was paid in December 2018.

Variances – All Years

13.4 The capitalisation of community equipment has previously been funded via revenue, however, the service are proposing to utilise the Disabled Facilities Grant for this project for the foreseeable future, leading to an underspend of £1.5m across all years which may be released in the future.

Variances – In Year

13.5 Due to the 2018/19 capitalisation of the community equipment budget which will not be spent as noted in 13.4, there is an in year variance of £0.4m.

13.6 Due to slight delays with property agreements and building fit outs for the Phase 1 Implementation – Locality Plan Programme Office works, the project is now expected to finish in 2019/20 and as a result £0.3m has been slipped in to next year.

Risks

13.7 The schemes noted in the table are the large projects within the Corporate Services programme. Due to the size and nature of the schemes, there is a risk of external factors causing delays.

14 Capital Programme Re-phasing and Variations 2018/19 to 2023/24

14.1 Based on the monitoring information above, it is proposed that the capital programme budget is re-phased to reflect the planned delivery of projects in 2018/19 to 2023/24. The cumulative impact of these adjustments are shown in the table below:

Proposed Capital Programme variations 2018/19 to 2023/24

	2018/19 £m	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**Total Programme £m**
Revised Capital Budget (September 18)	600.5	558.7	340.1	202.2	71.2	21.7	1,794.4
Forecast Re-profile	-101.9	-52.8	79.4	42.2	15.8	17.3	0.0
Cost Variations	-4.6	-0.5	-0.4	-0.4	0.0	0.0	-5.9
Proposed Capital Budget (December 18)	**494.0**	**505.4**	**419.0**	**244.0**	**87.0**	**39.0**	**1,788.5**
Of which:							
Manchester City Council Programme	398.2	358.9	381.1	244.0	87.0	39.0	1,508.3
Programme on behalf of Greater Manchester	95.8	146.5	37.9	0.0	0.0	0.0	280.2

14.2 Further details regarding the proposed adjustments to the programme are given below.

Budget re-profiling:

14.3 As highlighted in section 3 of this report, various schemes throughout the capital programme are now forecast to be accelerated into 2018/19, or have been moved to 2019/20 or future years. The budgets for these projects will be re-profiled to reflect the changes, and the revised budget profiles are shown at Appendix B.

Virements

14.4 Various schemes across the programme require virements in 2018/19 and 2019/20, as shown in Appendix A. Virements may be required as cost variations from the original design work occur, or because the method of delivery has changed and projects are combined or split. The reasons for the required virements are:

- ICT - to rationalise unallocated funds across all projects

- Housing Revenue Account – for cost variations across various schemes;
- Private Sector Housing – for cost variations across Collyhurst schemes and;
- Children's Services – virements are required for cost variations on Basic Need and Maintenance schemes.

14.5 The Council is recommended to approve virements over £0.5m within the capital programme as outlined in Appendix A.

14.6 The Executive is recommended to approve virements under £0.5m within the capital programme as outlined in Appendix A.

14.7 The capital programme is undergoing continuous review to analyse and challenge the current approved spending profiles and updates will be reported to the Executive in the outturn report for 2018/19.

14.8 The revised capital budget is reflected in revised prudential indicators, which are reported as part of the Global Revenue Budget Report to Executive.

15 Social Value

15.1 All capital business cases are required to provide information on social value impact likely to be generated as part of the scheme. These include details of employment of local residents, training of local residents, improvements in key health outcomes, support of community cohesion, improvement in key education outcomes, help to other excluded groups and promoting environmental sustainability. These are considered as part of the scheme approval process via the Checkpoint system. Work is on-going as part of improving overall contract monitoring to review the monitoring of these activities.

16 Capital Resources

16.1 The capital programme is reviewed on an ongoing basis to confirm the capital resources required to finance 2018/19 capital spend are in place and the future years programme is fully funded. Work will continue to ensure that resources required to finance the capital programme are secured and the level of prudential borrowing remains affordable.

16.2 The table below summarises the current funding assumptions, and this will continue to be reviewed for the remainder of the financial year to ensure that the optimum value for money is being achieved through the programme:

Draft funding position for 2018/19 Capital Programme:

	Draft Funding £m
Grants	69.6
Contributions	17.4

Capital Receipts	120.5
Revenue Contribution to Capital	17.5
Capital Fund	9.4
Borrowing	258.6
Total	**493.0**

16.3 The City Treasurer will continue to manage the financing of the programme to ensure the final capital funding arrangements secure the maximum financial benefit to the City Council.

16.4 The requirements of the capital programme over the next five years are significant and both spend and funding streams will require close monitoring, particularly with the level of uncertainty for future funding allocations.

17 Key Polices and Considerations

(a) Equal Opportunities

By investing in building adaptations, access for people with mobility difficulties is made easier.

(b) Risk Management

The capital programme is based on forecast costs and funding, and as such there are risks to achieving the programme from external factors such as shortage of labour or materials, alongside market risks such as price fluctuations and interest rate charges. The Strategic Capital Board, and associated Portfolio Boards for each part of the programme, are tasked with regular monitoring of costs, delivery, quality and affordability, to help manage and mitigate these risks.

(c) Legal Considerations

None.

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Appendix A - Proposed Capital Virements

	2018/19 Virement	2019/20 Virement	2020/21 Virement	2021/22 Virement
Project Name				
	£m	£m		
Highway Programme				
Highways Stand Alone Projects Programme				
Public Realm	175	557		
Hostile Vehicles Mitigation Measures	-175	-89		
Automatic Bollard Replacement		-468		
Drainage		184		
Other Improvement works		-184		
Total Highways Programme	**0**	**0**	**0**	**0**
Private Sector Housing Programme				
Collyhurst Regeneration			-505	-565
Collyhurst Acquisition & Demolition (Overbrook & Needwood Close)			505	565
Total Private Sector Programme	**0**	**0**	**0**	**0**
Public Sector Housing				
01.00 Northwards - External Work				
Environmental improvements Moston corolites	87			
Charlestown - Victoria Ave multi-storey replacement door entry systems	-19	-182	3,480	
Electricity North West distribution network phase 4 (various)	-122	-163		
External cyclical works phase 3a		-10		
External cyclical works phase 3b Ancoats Smithfields estate		10		
Delivery Costs		220	-125	
Replacement door entry Clifford Lamb Ct and Monsall multi storey blocks		-95		
02.00 Northwards - Internal Work				
Decent Homes mop ups phase 9 and decent homes work required to voids	27		-27	

Collyhurst - Rainwater pipes/guttering rectification work	-141	-85		
Boiler replacement programme	-75	-246	261	
Kitchen and Bathrooms programme	-2,107	-1,224	34	
Aldbourne Court/George Halstead Court/Duncan Edwards Court works		81		
Harpurhey - Monsall Multi Internal Works		2,385	85	
Fire precautions multi storey blocks	-676	-746	-500	
Installations of sprinkler systems - multi storey blocks	-2,000	-2,779		
Various - Bradford/Clifford Lamb/Kingsbridge/Sandyhill Court Internal Works		2,471	108	
Collyhurst - Mossbrook/Roach/Vauxhall/Humphries Court Internal Works		2,791	106	
Replacement of Prepayment Meters in High Rise Blocks	-58	-694	20	
Delivery Costs		265	23	
05.00 Northwards - Off Debits/Conversions				
Bringing Studio Apartments back in use	-57	-78		
Delivery Costs		-12		
06.00 Homeless Accommodation				
Delivery Costs		19	19	
12.00 Northwards - Acquisitions				
Northwards Acquisitions	32			
Stock Acquisitions	-32			
14.00 Northwards - Adaptations				
Northwards Housing Programme	5,141	-1,928	-3,484	
Total Public Sector Housing (HRA) Programme	**0**	**0**	**0**	**0**
Children's Services Programme				
Basic Need Programme				
Cheetham Academy	-14			
Cavendish Community - Increase capacity	-266			
Ashbury Meadow - Increase capacity	-71			
E-Act Academy - increase capacity	-11			
Claremont - Increase capacity	-71			
Briscoe Lane Academy	-23			

Manchester Communication Primary Academy	-224			
Dean Trust Ardwick	4			
United Learning Trust - William Hulme	47			
Lytham Rd	-143			
Co-op Academy expansion	270			
St Matthews RC	-172			
Beaver Rd Primary Expansion	-14			
Lily Lane Primary	-305			
St. James Primary Academy	-57			
Crossacres Primary School	-17			
Ringway Primary School	-166			
Webster Primary School	-49			
St. Chrysostom's Primary School	160			
Camberwell Park Specialist School	65			
Piper Hill Special School	224			
SEND Programme		8,365	15,150	
Basic need - unallocated funds	833	-8,365	-15,150	
Schools Maintenance Programme				
Abraham Moss - Hall Heating	-4			
Moston Lane - re-roof	-338			
Chorlton CofE Primary Rewire	1			
Wilbraham Primary Roof	19			
Abbott Primary School Fencing	-15			
Pike Fold Community Primary - Ground Stabilisation - Survey artificial play area	1			
Charlestown Primary Defects	-14			
All Saints Primary School	-1			
Collyhurst Nursery School	2			
Armitage CE Primary	3			
Higher Openshaw Community School - Renew Boiler	-25			
Crowcroft Park Primary School - Roof Repairs	-9			
Abbot Community Primary - Ext Joinery Repair	-14			

St Mary's - Joinery Repairs	-21			
Sandilands - Joinery Repairs	12			
Cheetwood - Rewire	112			
Pike Fold Community School - Repairs to air handling units	-11			
Button Lane Primary - Boiler Installation	-24			
Schools Capital Maintenance - unallocated	326			
Education Standalone Projects				
Tiny Tigers Ltd-Cheetham Children Centre	79			
Early Education for Two Year Olds - Unallocated	-79			
Total Children's Services Programme	**0**	**0**	**0**	**0**
ICT Capital Programme				
ICT Infrastructure & Mobile Working Programme				
Citrix 7.6 Migration	2			
Mobile Device Refresh	3			
PSN Windows 2003	-26			
Data Centre UPS Installation	-10			
Core Switch Firmware	-30			
Income Management	-32			
Customer & Bus. Relationship Management System	-32			
Corporate Reporting Tool (Business Objects)	3			
Communications Room Replacement Phase 2	5			
New Rent Collection System		9		
ICT Investment Plan	117	-9		
Total ICT Programme	**0**	**0**	**0**	**0**
Total CAPITAL PROGRAMME	**0**	**0**	**0**	**0**

Appendix - B Revised Capital Budget 2018/19 to 2022/23

Project Name	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Total
Highway Programme							
Highways Planned Maintenance Programme							
Planned Highways Maintenance Programme	221	432	75	0	0	0	728
Drainage	344	970	1,312	0	0	0	2,626
Large Patching repairs	2,000	1,088	1,281	1,313	0	0	5,682
Carriageway Resurfacing	5,400	5,287	7,190	7,535	0	0	25,412
Footway schemes	1,498	2,200	2,893	2,957	0	0	9,548
Carriageway Preventative	4,500	4,139	8,282	9,044	0	0	25,965
Bridge Maintenance	0	1,200	2,982	3,018	0	0	7,200
Other Improvement works	86	1,983	4,769	4,833	0	0	11,671
Project Delivery Procurement	0	757	1,681	1,703	0	0	4,141
Highways Stand Alone Projects Programme							
Ardwick Grove Village Parking	0	0	20	0	0	0	20
Didsbury Village Tram Stop Traffic Mitigation	0	0	18	0	0	0	18
Section 106 Highways work around Metrolink	0	0	47	0	0	0	47
Barlow Moor Road	0	27	0	0	0	0	27
Etihad Expansion - Public Realm	0	59	0	0	0	0	59
Velocity	155	567	0	0	0	0	722
Cycle City Phase 2	230	4,291	0	0	0	0	4,521
Safe Routes to Loreto High School	28	22	0	0	0	0	50
Safe Routes to Schools	22	58	0	0	0	0	80
Congestion Target Performance	20	215	0	0	0	0	235
Piccadilly Under croft Gating	1	7	0	0	0	0	8
20mph Zones (Phase 3)	20	80	370	0	0	0	470
ITB Minor Works	10	93	0	0	0	0	103
Flood Risk Management - Hidden Watercourses	0	49	0	0	0	0	49
Flood Risk Management - Higher Blackley Flood Risk	0	41	0	0	0	0	41

Hyde Road (A57) Pinch Point Widening	106	1,766	2,123	0	0	0	3,995
Manchester/Salford Inner Relief Road (MSIRR)	6,032	5,553	100	0	0	0	11,685
Great Ancoats Improvement Scheme	453	3,065	5,015	0	0	0	8,533
Mancunian Way and Princess Parkway NPIF	438	4,479	3,197	0	0	0	8,114
Cycle Parking	19	10	0	0	0	0	29
Shadowmoss Rd / Mossnook Rd	10	16	0	0	0	0	26
Birley Fields Campus improvements	0	0	34	0	0	0	34
GMCRP Multi Sites	13	0	0	0	0	0	13
Princess Rd Safety Review	100	477	0	0	0	0	577
School Crossings	286	1,403	924	0	0	0	2,613
Kingsway Speed Cameras	13	11	0	0	0	0	24
Green Bridge at Airport City	425	1,341	1,216	0	0	0	2,982
Public Realm	833	1,426	400	400	0	0	3,059
Street Lighting PFI	11,050	12,000	1,731	0	0	0	24,781
Didsbury West S106	53	10	0	0	0	0	63
S106 Whalley Grove	50	25	0	0	0	0	75
A56 Liverpool Road	10	70	0	0	0	0	80
A56 Chester Road	16	35	0	0	0	0	51
M56	0	148	0	0	0	0	148
Parking Improvements – City Centre	0	924	0	0	0	0	924
North Manchester Hospital Residents Parking	0	9	0	0	0	0	9
Parking Schemes	0	558	120	0	0	0	678
SEMMMS PROGRAMME							
Local Roads (temp SEMMMS A6 Stockport)	2,962	0	0	0	0	0	2,962
SEMMMs A6 to Manchester Airport	78	0	0	0	0	0	78
Bus Priority Package Programme							
Bus Priority Package - Oxford Road	215	137	0	0	0	0	352
Bus Priority Package - Princess Street/Brook Street	50	103	0	0	0	0	153
Total Highways Programme	**37,747**	**57,131**	**45,780**	**30,803**	**0**	**0**	**171,461**

Environment Programme							
Waste Reduction Measures	320	1,471	0	0	0	0	1,791
Waste Contract	523	5,910	0	0	0	0	6,433
Blackley Crematorium Heat Exchanger	107	0	0	0	0	0	107
Christmas Market Electrical Equipment	137	0	0	0	0	0	137
Smart Litter Bins	258	0	0	0	0	0	258
Leisure Services Programme							
Parks Programme							
Hollyhedge Park Drainage IMPS	9	0	0	0	0	0	9
Heaton Park Pay & Display	464	0	0	0	0	0	464
Parks Development Programme - Park Events Infrastructure	274	52	0	0	0	0	326
Parks Development Programme - Unallocated	97	2,566	4,045	5,699	5,699	2,462	20,568
Smedley Lane Playing Fields S106	19	0	0	0	0	0	19
Somme 100 Year Memorial	130	0	0	0	0	0	130
Painswick Park Improvement	30	0	0	0	0	0	30
Heaton Park Southern Play Area	360	120	0	0	0	0	480
Didsbury Park Play Area S106	50	0	0	0	0	0	50
Wythenshawe Park Sport Facilities S106	152	0	0	0	0	0	152
Northenden Riverside Park	50	25	0	0	0	0	75
Age Friendly Benches	18	0	0	0	0	0	18
King George V Park	93	0	0	0	0	0	93
Leisure & Sports Facilities							
Arcadia (Levenshulme) Leisure Centre	10	0	0	0	0	0	10
National Taekwondo Centre	7	0	0	0	0	0	7
Indoor Leisure - Abraham Moss	675	1,709	9,076	3,107	0	0	14,567
Indoor Leisure - Moss Side	5,597	25	0	0	0	0	5,622
FA Hubs	0	13,000	0	0	0	0	13,000
Boggart Hole Clough - Visitors Centre	535	0	0	0	0	0	535
Mount Road S106	12	0	0	0	0	0	12
Event Seating Basketball	18	0	0	0	0	0	18

Velodrome Track	713	0	0	0	0	0	713
Libraries and Info Services Programme							
Relocation of Manchester Visitor Info Centre (MVIC)	5	54	0	0	0	0	59
Central Library Wolfson Award	37	0	0	0	0	0	37
Library Refresh	4	0	0	0	0	0	4
Roll Out of Central Library ICT	220	0	0	0	0	0	220
Refresh of Radio Frequency Identifier Equipment	12	0	0	0	0	0	12
Newton Heath Library	168	0	0	0	0	0	168
Withington Library Refurbishment	200	0	0	0	0	0	200
Open Libraries	42	450	0	0	0	0	492
Total Neighbourhoods Programme	**11,346**	**25,382**	**13,121**	**8,806**	**5,699**	**2,462**	**66,816**
Cultural Programme							
First Street Cultural Facility	12	0	0	0	0	0	12
The Factory (Build)	24,365	55,253	38,078	4,725	0	0	122,421
The Factory (Public Realm)	2,344	0	2,106	0	0	0	4,450
Corporate Estates Programme							
Asset Management Programme	9,026	11,840	9,551	7,385	0	0	37,802
Strategic Acquisitions Programme	8,731	4,331	3,000	3,000	0	0	19,062
Town Hall Complex Transformation Programme	67	0	0	0	0	0	67
Hammerstone Road Depot	932	7,083	6,940	7	0	0	14,962
Heron House	14,380	0	0	0	0	0	14,380
Registrars	1,400	0	0	0	0	0	1,400
Carbon Reduction Programme	100	8,500	1,290	0	0	0	9,890
Civic Quarter Heat Network	6,500	11,500	4,000	4,000	0	0	26,000
Lincoln Square	0	0	1,200	0	0	0	1,200
Brazennose House	678	0	0	0	0	0	678
Estates Transformation	0	215	0	585	0	0	800
Estates Transformation - Hulme District Office	4,680	234	0	0	0	0	4,914
Estates Transformation - Alexandra House	559	6,961	3,848	632	0	0	12,000

Ross Place Refurbishment	2,120	0	0	0	0	0	2,120
Development Programme							
Development Programme - East Manchester							
The Space Project - Phase 2	1,085	0	0	0	0	0	1,085
The Sharp Project	0	600	0	0	0	0	600
Digital Asset Base - One Central Park	9,443	620	0	0	0	0	10,063
Sustaining Key Initiatives	0	0	5,000	8,600	0	0	13,600
New Smithfield Market	32	468	0	0	0	0	500
Beswick Community Hub - Highway and Public Realm	2	0	0	0	0	0	2
Eastern Gateway - Central Retail Park	1,312	2,000	0	0	0	0	3,312
Eastern Gateway - New Islington Marina	1,800	3,332	0	0	0	0	5,132
Hall and Rogers	346	0	0	0	0	0	346
Development Programme - North Manchester							
Collyhurst Police Station liabilities	844	0	0	0	0	0	844
Northern Gateway	3,875	2,300	6,675	7,275	4,875	0	25,000
Development Programme - City Centre							
Hulme Hall road Lighting	39	0	0	0	0	0	39
St Peters Square	602	400	0	0	0	0	1,002
Medieval Quarter Public Realm	488	1,500	0	0	0	0	1,988
City Labs 2	3,675	0	0	0	0	0	3,675
Manchester College	17,600	10,000	0	0	0	0	27,600
Development Programme - Enterprise Zone							
Airport City Power Infrastructure (EZ)	2,440	0	0	0	0	0	2,440
Development Programme - Stand Alone Projects							
Digital Business Incubators	3,500	0	0	0	0	0	3,500
Total Strategic Development Programme	**122,977**	**127,137**	**81,688**	**36,209**	**4,875**	**0**	**372,886**
Town Hall Refurbishment Programme							
Our Town Hall refurbishment	11,060	24,386	67,743	103,251	65,914	29,039	301,393

Total Town Hall Refurbishment Programme	11,060	24,386	67,743	103,251	65,914	29,039	301,393
Private Sector Housing Programme							
Brunswick PFI (PSH)							
Brunswick PFI Land Assembly	2,460	1,726	737	0	0	0	4,923
Collyhurst (PSH)							
Collyhurst Regeneration	10	173	3,700	0	0	0	3,883
Collyhurst Environmentals	65	62	0	0	0	0	127
Collyhurst Acquisition & Demolition (Overbrook & Needwood Close)	0	0	505	565	0	0	1,070
Collyhurst Land Assembly Phase 1	20	63	0	0	0	0	83
Collyhurst Land Acquisitions Phase 2	0	210	799	0	0	0	1,009
Eccleshall Street - 3 Sites	0	500	0	0	0	0	500
Housing Investment Model							
Site Investigation and Early Works HIF Pilot Sites	286	141	155	0	0	0	582
Miles Platting PFI (PSH)							
Miles Platting PFI Land Assembly	255	632	0	0	0	0	887
Private Housing Asist Citywide Programme							
Disabled Facilities Grant	7,184	7,929	6,200	6,200	0	0	27,513
Toxteth St CPO & environmental works	73	141	0	0	0	0	214
Bell Crescent CPO	0	482	0	0	0	0	482
Private Sector Housing Standalone Projects							
HCA Empty Homes Cluster Phase 2	90	801	891	0	0	0	1,782
Empty Homes Scheme (s22 properties)	0	2,000	0	0	0	0	2,000
Redrow Development Programme							
Redrow Development Phase 2 onwards	300	0	0	0	0	0	300
West Gorton (PSH)							
West Gorton Compensation	0	4	0	0	0	0	4
West Gorton Phase 2A Demolition & Commercial Acquisitions	10	490	904	0	0	0	1,404
Armitage Nursery & Community Facility	1,215	2,160	0	0	0	0	3,375

Private Sector Housing - Stand Alone Projects							
HMRF	56	50	40	0	0	0	146
Collyhurst Acquisition & Demolition (Overbrook & Needwood Close)	5	0	661	0	0	0	666
Extra Care	3,555	2,445	0	0	0	0	6,000
Moston Lane Acquisitions	0	0	0	0	0	7,500	7,500
Equity Loans	0	0	397	0	0	0	397
West Gorton Community Park	514	1,336	0	0	0	0	1,850
Ben Street Regeneration	5,574	556	6,877	0	0	0	13,007
Homelessness	5,000	0	0	0	0	0	5,000
Marginal Viability Fund - New Victoria	0	1,827	6,263	1,984	0	0	10,074
Marginal Viability Fund - Bowes Street	0	929	2,385	0	0	0	3,314
Rent to Purchase	203	0	0	0	0	0	203
Total Private Sector Housing Programme	**26,875**	**24,657**	**30,514**	**8,749**	**0**	**7,500**	**98,295**
Public Sector Housing							
01.00 Northwards - External Work							
Charlestown - Victoria Ave multi-storey window replacement and ECW - Phase 1	0	8,000	7,190	0	0	0	15,190
External cyclical works phase 3a	10	0	22	0	0	0	32
Collyhurst Environmental programme	312	0	0	0	0	0	312
Ancoats Anita St and George Leigh external cyclical works phase 3b	28	0	0	0	0	0	28
Harpurhey Lathbury & 200 Estates external cyclical works phase 3b	-25	0	38	0	0	0	13
Environmental works	113	0	0	0	0	0	113
Harpurhey Shiredale Estate externals	0	0	15	0	0	0	15
Moston Miners Low Rise externals	16	0	4	0	0	0	20
Newton Heath Limerston Drive externals	0	0	6	0	0	0	6

Renewal of 4 automatic pedestrian gates at Victoria Square	0	45	0	0	0	0	45
External cyclical works phase 3b Harpurhey - Jolly Miller Estate phase 3b	54	0	32	0	0	0	86
External cyclical works phase 3b Moston Estates (Chauncy/Edith Cliff/Kenyon/Thorveton Sq)	7	0	2	0	0	0	9
External cyclical works phase 3b Ancoats Smithfields estate	262	10	0	0	0	0	272
External cyclical works phase 4b Charlestown Chain Bar low rise	178	0	36	0	0	0	214
External cyclical works phase 4b Charlestown Chain Bar Hillingdon Drive maisonettes	1	0	4	0	0	0	5
External cyclical works phase 4b Crumpsall Blackley Village	131	0	0	0	0	0	131
External cyclical works phase 4b Higher Blackley South	281	0	31	0	0	0	312
External cyclical works phase 4b Newton Heath Assheton estate	93	0	16	0	0	0	109
External cyclical works phase 4b Newton Heath Troydale Estate	792	0	74	0	0	0	866
External cyclical works phase 5 New Moston (excl corolites)	66	0	31	0	0	0	97
Environmental improvements Moston corolites	267	0	0	0	0	0	267
Charlestown - Victoria Ave multi-storey replacement door entry systems	0	0	18	0	0	0	18
ENW distribution network phase 4 (various)	0	219	0	0	0	0	219
Dam Head - Walk up flats communal door renewal	212	172	0	0	0	0	384
Delivery Costs	955	909	827	0	0	0	2,691
02.00 Northwards - Internal Work							
2/4 Blocks Heating replacement with Individual Boilers	24	0	122	0	0	0	146
Lift replacement / refurbishment programme	75	0	0	0	0	0	75

Fire precaution works - installation of fire seal box to electric cupboards on communal corridors in retirement blocks	6	0	0	0	0	0	6
Decent Homes mop ups phase 9 and decent homes work required to voids	212	0	0	0	0	0	212
One offs such as rewires, boilers, doors, insulation	377	0	0	0	0	0	377
Whitemoss Road and Cheetham Hill Road Local Offices - Improvements	202	0	0	0	0	0	202
Ancoats - Victoria Square lift replacement	0	265	0	0	0	0	265
Job 40502 Aldbourne Court/George Halstead Court/Duncan Edwards Court works	274	81	0	0	0	0	355
Boiler replacement programme - Job 40491	786	25	261	0	0	0	1,072
Kitchen and Bathrooms programme	0	1,788	94	0	0	0	1,882
Harpurhey - Monsall Multi Internal Works	0	2,385	85	0	0	0	2,470
Various - Bradford/Clifford Lamb/Kingsbridge/Sandyhill Court Internal Works	0	2,471	108	0	0	0	2,579
Collyhurst - Mossbrook/Roach/Vauxhall/Humphries Court Internal Works	0	2,791	106	0	0	0	2,897
Decent Homes mop ups phase 10 and voids	583	500	219	0	0	0	1,302
One off work - rewires, boilers, doors	100	200	0	0	0	0	300
Fire precautions multi storey blocks	0	1,078	1,000	0	0	0	2,078
Installations of sprinkler systems - multi storey blocks	0	2,380	221	0	0	0	2,601
Replacement of Prepayment Meters in High Rise Blocks	0	0	20	0	0	0	20
Delivery Costs	1,352	1,502	246	0	0	0	3,100
05.00 Northwards - Off Debits/Conversions							
Bringing Studio Apartments back in use	40	0	0	0	0	0	40
Delivery Costs	13	0	0	0	0	0	13
06.00 Homeless Accommodation							
Improvements to Homeless accommodation city wide	54	0	201	0	0	0	255
Plymouth Grove Women's Direct Access Centre	22	0	0	0	0	0	22
Improvements to Homeless Accommodation Phase 2	280	723	210	0	0	0	1,213

Delivery Costs	136	78	45	0	0	0	259
12.00 Northwards - Acquisitions							
Northwards Acquisitions	134	0	0	0	0	0	134
Stock Acquisitions	32	0	0	0	0	0	32
Delivery Costs	29	0	0	0	0	0	29
14.00 Northwards - Adaptations							
Adaptations	1,000	720	0	0	0	0	1,720
Northwards - Unallocated							
Northwards Housing Programme	0	1,033	17,697	21,988	0	0	40,718
Retained Housing Programme							
Collyhurst Maisonette Compensation & Demolition	0	89	0	0	935	0	1,024
West Gorton Regeneration Programme							
West Gorton phase 2A Low & High Rise Demolition	10	16	0	0	0	0	26
Future Years Housing Programme							
Collyhurst Estate Regeneration	0	700	8,695	10,235	1,841	0	21,471
Collyhurst Regeneration - Highways Phase 1	-97	0	190	97	1,394	0	1,584
Collyhurst Regeneration - Churnett Street	0	0	0	0	790	0	790
Collyhurst Regeneration - Needwood & Overbrook acquisition / demolition	3	0	124	0	0	0	127
Willert Street Park Improvements	36	0	0	0	0	0	36
North Manchester New Builds	6,358	163	0	0	0	0	6,521
North Manchester New Builds 2	75	500	10,700	0	0	0	11,275
North Manchester New Builds 3	250	0	0	0	0	0	250
Parkhill Land Assembly	0	0	0	4,270	0	0	4,270
Fire precautions multi storey blocks	0	1,200	0	0	0	0	1,200
Brunswick PFI HRA	30	0	0	0	0	0	30
Total Public Sector Housing (HRA) Programme	**16,149**	**30,043**	**48,690**	**36,590**	**4,960**	**0**	**136,432**
Children's Services Programme							
Basic Need Programme							

Cheetham Academy	-14	0	0	0	0	0	-14
Briscoe Lane Academy	127	0	0	0	0	0	127
Stanley Grove - contribution to PFI	13	0	0	0	0	0	13
Dean Trust Ardwick	15	0	0	0	0	0	15
Ardwick PRU	40	0	0	0	0	0	40
William Hulme	47	0	0	0	0	0	47
Lytham Rd	0	200	0	0	0	0	200
Manchester Health Academy expansion	3,242	0	0	0	0	0	3,242
Co-op Academy expansion	3,741	0	0	0	0	0	3,741
St Margaret's C of E	54	0	0	0	0	0	54
St Matthews RC	20	0	0	0	0	0	20
Plymouth Grove Refurbishment	4,574	427	0	0	0	0	5,001
Beaver Rd Primary Expansion	4,547	115	0	0	0	0	4,662
Lily Lane Primary	3,331	136	0	0	0	0	3,467
St. James Primary Academy	2,848	112	0	0	0	0	2,960
Crossacres Primary School	1,902	111	0	0	0	0	2,013
Ringway Primary School	1,337	60	0	0	0	0	1,397
Webster Primary Schools	1,859	111	0	0	0	0	1,970
St. Chrysostom's	160	0	0	0	0	0	160
Camberwell Park Specialist School	65	0	0	0	0	0	65
Piper Hill Special School	224	0	0	0	0	0	224
SEND Programme	101	8,264	15,150	0	0	0	23,515
Basic need - unallocated funds	235	20,032	44,007	1,138	0	0	65,412
Universal Infant Free School Meals (UIFSM) - Unallocated	335	0	0	0	0	0	335
Schools Maintenance Programme							
Abraham Moss - Hall Heating ED/43236	-4	0	0	0	0	0	-4
Chorlton CofE Primary Rewire - ED/43970	16	0	0	0	0	0	16
Moston Lane Primary - ED/43971	8	0	0	0	0	0	8
Wilbraham Primary Roof - ED/43976	59	0	0	0	0	0	59
Abbott Primary School Fencing - ED/44269	94	0	0	0	0	0	94
Crowcroft Park PS-Rewire - ED/43870/1	531	0	0	0	0	0	531

Pike Fold Community Primary - Ground Stabilisation - Survey artificial play area ED/44173	17	0	0	0	0	0	17
Charlestown Primary ED43076/1 Defects	31	0	0	0	0	0	31
All Saints Primary School	-1	0	0	0	0	0	-1
Collyhurst Nursery School	2	0	0	0	0	0	2
Armitage CE Primary - ED/43867/1	135	0	0	0	0	0	135
Higher Openshaw Community School - Renew Boiler - ED/43873/1	101	0	0	0	0	0	101
Crowcroft Park Primary - Roof Repairs - ED/44274	53	0	0	0	0	0	53
Northenden Primary School - Part Reroof - ED/44275	42	0	0	0	0	0	42
Abbot Community Primary - Ext Joinery Repair - ED/44276	248	0	0	0	0	0	248
St Mary's - Joinery Repairs - ED/44278	98	0	0	0	0	0	98
Sandilands - Joinery Repairs - ED/44279	181	0	0	0	0	0	181
Lancasterian ID Secure Lobby - ED/44231	38	0	0	0	0	0	38
Cheetwood Primary - Rewire - ED/43868/1	499	0	0	0	0	0	499
Pike Fold Community School - Repairs to air handling units - ED/44271	53	0	0	0	0	0	53
Button Lane Primary - Boiler Installation - ED/44377	60	0	0	0	0	0	60
Schools Capital Maintenance -unallocated	0	5,338	3,000	3,000	0	0	11,338
Education Standalone Projects							
Paintpots	31	0	0	0	0	0	31
Community Minded Ltd	28	0	0	0	0	0	28
Tiny Tigers Ltd- Cheetham Children Centre	79	0	0	0	0	0	79
Early Education for Two Year Olds - Unallocated	57	0	0	0	0	0	57
Gorton Youth Zone	538	962	0	0	0	0	1,500
Greenheys Toilets	67	0	0	0	0	0	67
Healthy Pupil Capital Funding	0	263	0	0	0	0	263
Special Educational Needs grant	38	2,871	164	0	0	0	3,073
Total Children's Services Programme	**31,902**	**39,002**	**62,321**	**4,138**	**0**	**0**	**137,363**

ICT Capital Programme							
ICT							
Solaris	11	0	0	0	0	0	11
ICT Infrastructure & Mobile Working Programme							
Citrix 7.6 Migration	3	0	0	0	0	0	3
Mobile Device Refresh	52	0	0	0	0	0	52
PSN Windows 2003	88	26	0	0	0	0	114
Data Centre UPS Installation	0	10	0	0	0	0	10
Core Switch Firmware	28	0	0	0	0	0	28
New Social Care System	2,039	509	0	0	0	0	2,548
End User Computing	796	90	0	0	0	0	886
Core Infrastructure Refresh	533	0	0	0	0	0	533
Income Management	1	0	0	0	0	0	1
Customer & Bus. Relationship Management System	1	0	0	0	0	0	1
Corporate Reporting Tool (Business Objects)	14	0	0	0	0	0	14
Internet Resilience	104	50	0	0	0	0	154
New Rent Collection System	70	14	0	0	0	0	84
Communications Room Replacement Phase 2	100	500	3,929	500	0	0	5,029
Care Leavers Service	91	0	0	0	0	0	91
Microsoft Enterprise Agreement Licensing renewal	227	0	0	0	0	0	227
Data Centre Network Design and Implementation	1,949	1,289	0	0	0	0	3,238
ICT Investment Plan	0	8,836	10,673	9,600	5,482	0	34,591
Infrastructure							
Wider Area Network Redesign	26	0	0	0	0	0	26
Total ICT Programme	**6,133**	**11,324**	**14,602**	**10,100**	**5,482**	**0**	**47,641**
Corporate Capital Programme							
ONE System Developments	23	25	0	0	0	0	48
Phase 1 Implementation - Locality Plan Programme Office	602	272	0	0	0	0	874
Integrated Working - Gorton Health Hub	1,400	10,150	8,627	2,619	0	0	22,796

Airport Strategic Investment	125,000	0	0	0	0	0	125,000
BioMedical Investment	7,000	5,500	6,100	2,700	0	0	21,300
Band on the Wall	0	200	0	0	0	0	200
Manchester Airport Car Park Investment	0	3,700	1,900	0	0	0	5,600
Total Corporate Capital Programme	**134,025**	**19,847**	**16,627**	**5,319**	**0**	**0**	**175,818**
Total Manchester City Council Capital Programme	**398,214**	**358,909**	**381,086**	**243,965**	**86,930**	**39,001**	**1,508,105**
Projects carried out on behalf of Greater Manchester							
Housing Investment Fund	95,805	146,522	37,951	0	0	0	280,278
Total GM projects	**95,805**	**146,522**	**37,951**	**0**	**0**	**0**	**280,278**
Total CAPITAL PROGRAMME	**494,019**	**505,431**	**419,037**	**243,965**	**86,930**	**39,001**	**1,788,383**

Manchester City Council
Report for Resolution

Report to: Executive – 13 February 2019
Resources and Governance Scrutiny Committee – 25 February 2019

Subject: Budget 2019/20 – Covering Report

Report of: Chief Executive and City Treasurer

Purpose of the Report

The 2019/20 Budget is the last of the current three year financial plan and also covers the final year of the four year financial settlement. This report sets out the context including:

- The priorities that shaped the three year Strategy
- Progress to date, building on the recent State of the City analysis
- A summary of the financial position
- The required statutory assessment of the robustness of the proposed budget

Recommendations

The Executive is requested to:

(i) Consider the Revenue Budget Reports 2019-2020 and Capital Strategy 2019-2025 elsewhere on the agenda in the context of the overarching framework of this report.

Wards Affected: All

Our Manchester Strategy Outcomes	Summary of the contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities.	This report sets out the Strategic Framework for the delivery of a balanced budget for 2019/20. The Framework is aligned to the priorities of the Our Manchester Strategy.
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 and work.	
A connected city: world class infrastructure and connectivity to drive growth.	

Implications for:

Equal Opportunities Policy – there are no specific Equal Opportunities implications contained within this report.

Risk Management – The risk management implications are set out in an accompanying report later on the agenda.

Legal Considerations – The legal implications are set out in an accompanying report later on the agenda.

Financial Consequences – Revenue and Capital

This report provides the framework for Revenue and Capital planning from 2017/18.

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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 Introduction

1.1 The 2019/20 Budget is the last of the current three year financial plan and also covers the final year of the four year Finance Settlement. This report sets out the context including:

- The priorities that shaped the three year Strategy
- Progress to date on delivering the Our Manchester Strategy, building on the recent State of the City analysis
- A summary of the financial position
- The required statutory assessment of the robustness of the proposed budget

2 Priorities and Context

2.1 The priorities for the City are set out in the 'Our Manchester' Strategy, the long-term vision for the city. The underpinning principles of the budget strategy have been developed to support a change in the way that services are delivered and in the relationship between the Council and the people of Manchester.

2.2 The three year budget strategy was agreed at a time when the City and the Region had additional powers devolved for transport, skills, health and housing which provided significant opportunities. But whilst there continues to be progress in growing the Manchester economy there is still a long way to go to tackle the legacy of deprivation that remains. The need to restructure the City's economy and eliminate the level of exclusion which a still high proportion of residents experience through unemployment, low skills and low paid unstable work helped shape the Our Manchester Strategy and remains the priority.

2.3 The Our Manchester ten year ambitions are the touchstone when decisions are taken about what to prioritise, and set the framework for the Medium Term Financial and Capital Strategies. Our Manchester seeks to make Manchester a City that is:

- Thriving - creating jobs and healthy businesses
- Filled with talent- both home grown talent and attracting the best in the World
- Fair - with equal chances for all to unlock their potential
- A great place to live - with lots of things to do
- Buzzing with connections - including world class transport and broadband

2.4 The priorities have also been informed by the extensive budget consultation with residents carried out in 2016. The areas that mattered most and were reflected in the budget decisions are as follows:

- care and support for vulnerable people including older people and those with learning disabilities and mental health needs;
- taking action on family poverty and giving young people the best start in life;
- tackling homelessness;

- supporting people into jobs and training
- keeping roads and neighbourhoods in good shape; and
- parks and leisure to keep people active and happy.

2.5 The 2017-20 budget set out the changes required to deliver the above by:

- bringing health and social care services together;
- supporting people earlier so they will avoid more costly help later;
- safely reducing the cost of children in care by finding more foster carers; changing the waste disposal arrangements to reduce costs; and
- creating the capacity to invest in the City's roads and transport network.

2.6 2019/20 is the last year of the Medium Term Financial Plan (MTFP) and there is no change in direction proposed. The challenge remains to continue to provide services when the population is increasing and the resources available to the Council are reducing. The State of City Report published in 2018 set out the progress made against Our Manchester. In Summer 2018 a Corporate Plan was agreed that set out the actions the Council needed to deliver Our Manchester. This has provided the framework for the refresh of the budget and business plans.

2.7 Finally the MTFP and Capital Strategy have been updated to reflect the 2018/19 budget position. There has also been additional one off funding, particularly for social care, made available through the Autumn Statement, Finance Settlement and the GMCA Budget Setting process. Whilst the Government may have listened and provided some additional funding to address the pressures local authorities are facing for social care, this is insufficient to meet the underlying increases in need and there is no longer term solution beyond 2019/20. The Council has therefore had to use a number of one-off resources alongside Government funding to provide sustained investment over a longer, three-year, period; recognising that the funding remains uncertain from 2020/21 when the next Spending Review period starts.

2.8 The fact remains that this is a period of austerity and significant funding reductions. The original three year budget strategy required the delivery of £35m of budget cuts with £9m to be delivered in 2019/20. The 2019/20 figure has increased to £15m with the additional demand for services experienced in 2018/19. The need to make budget cuts is expected to continue over the next four years. The LGA is estimating that by 2025 Local Government Services face a funding gap of at least £7.8bn, just to stand still, much of this relating to social care. For the Council this gap has been estimated at £75m.

3 Progress on Delivering the Our Manchester Strategy

A Thriving City /Buzzing with Connections

3.1 Manchester's population has grown rapidly over the past year with an estimated 566,650 residents in 2018 projected to reach upwards of 660,000 by 2028. This growth has been concentrated in the city centre. The number of children living in Manchester has also grown, leading to an increased demand for primary and secondary school places and this is reflected in the investment in the expansion of and new schools. International migration continues to be a key driver of the city's growing population. However, the extent of this future growth will depend upon a range of external factors, including the position of the United Kingdom (UK) outside the European Union. The potential impact of a no deal Brexit on sectors such as social care and hospitality is a real concern.

3.2 Manchester is continuing to work to shape the future, particularly in terms of transport, skills, health and housing, with new powers devolved to the city region. Over the next ten years a number of global and national issues such as changing patterns of international trade as a result of Brexit and the enduring impacts of Climate Change will impact. There will continue to have be a focus on developing international trade and investment - local and national investment in infrastructure such as High Speed Rail across the North and to London with the Capital Strategy having investment in the drivers of growth such as the City Centre, the Oxford Road Corridor and the Airport City Enterprise Zone as one of its priorities. Airport City continues to be delivered as part of an £800m joint venture which has seen the creation of 3,000 jobs.

3.3 An integrated, attractive and affordable transport network is needed to enable residents to access jobs and improve their health through increasing levels of active travel. There continues to be an increasing demand for travel in the city centre using sustainable travel modes. The city centre has recently seen a number of improvements, such as the Metrolink Second City Crossing and the opening of the Ordsall Chord.

3.4 Manchester's economy has continued to grow, with its performance exceeding that of both Greater Manchester and the UK as a whole. This has been driven primarily by growth in three sectors: business, financial and professional services; cultural, creative and digital; and science, research and development. Cultural, creative and digital industries continue to make a significant contribution to the local economy.

3.5 The creative industries across the UK are the fastest- growing economic sector and are recognised as being vital to the success of Manchester. A top-class cultural offer is vital to the international positioning and profile of the city. The significant government and Council investment in The Factory will provide an international arts venue that is unmatched outside of London and should see GVA, visitors and jobs increase.

3.6 Key developments in the city centre include St John's, Great Jackson Street, Piccadilly/Piccadilly Basin, First Street, Circle Square, and the Medieval Quarter as well as investments into life sciences to secure high quality jobs for the future.

3.7 Digital connectivity continues to improve for residents and businesses. Despite this, there is still a need to increase broadband coverage and deliver full-fibre coverage across Manchester at a faster pace to secure the city's status as a leading digital centre. The ICT Strategy will include investment to support the roll out of Full Fibre.

A City that is Filled with Talent

3.8 A highly skilled workforce is fundamental to Manchester's economic growth. Upskilling the city's population is also vitally important in reducing levels of dependency by ensuring that more people have the opportunity to access jobs and share in the city's economic growth.

3.9 The city's employment offer has continued to increase and diversify; in 2017, there were 392,400 employees working in the city, an increase of 10% since 2015. This growth has been driven by success in a number of the city's key growth sectors: science and research and development; cultural, creative and digital; and business, financial and professional services. However whilst Manchester has a higher than national average proportion of residents qualified to degree level and above, Manchester also has a disproportionate number with no qualifications; 11.1% compared to a national rate of 8%. The £69 gap between resident and workplace gross weekly wage is the largest of English core cities. In 2018 an estimated 18% of employees working in Manchester were paid less than the Living Wage Foundation Real Living Wage of £8.75 an hour. For employees living in Manchester that percentage was estimated to be 28%. The Family Poverty Strategy (2017-2022) was developed to address poverty in Manchester, which is a major challenge affecting many of the city's families.

3.10 Enabling all residents, which include the City's children, young people and their families to share in the City's economic success by getting good jobs will require further improvements in early years services, schools and skills and employment programmes. Primary schools continue to perform well but despite this, Manchester still has a lower number of pupils achieving GCSEs in English and Maths.

3.11 The number of schools judged to be good or better is increasing. Work continues to improve schools results. KS2 results, while improving are still below national average, the Attainment 8 score is improving at a faster rate and starting to close the gap. Work is taking place to ensure that education and training is aligned with the skills needed by business in and around the City. Apprenticeships and action to tackle youth unemployment, particularly in the most deprived neighbourhoods, and for Children Leaving Care continue to be a top priority. Capital investment in schools will continue with investment in the primary and secondary estate to create new places and to provide permanent accommodation where schools are currently using temporary facilities.

3.12 There are some direct links between low skills and a low- wage economy, and this is an area where some progress is being made in ensuring that everyone is paid at least a living wage. The Council is currently progressing the work to be a Living Wage accredited employer and is supporting Manchester College to provide a city centre campus that will support residents to achieve the skills required to match the jobs being created.

A Fair City

3.13 The vision is to build a safe, happy, healthy and successful future for children and young people. Progress has been achieved in Children's Social Care services, characterised by the Ofsted judgement in December 2017 that services to children and young people looked after and those in need of help and protection are no longer inadequate. However the increasing number of children and young people being looked after and the rate of referrals to Children's Services is putting a significant strain on the council's budget. Manchester has recently refreshed its approach to early help which can enable children, young people and their families to achieve their potential and reduce demand on more reactive and expensive services. Some of the additional one-off funding the council has received will be used to increase the budget in these areas.

3.14 Tackling homelessness is fundamental to the Our Manchester Strategy. There has been a significant increase in the numbers of households who are homeless in Manchester including families, single people, young people, and people who are rough sleeping. This trend is also reflected nationally. The rollout of Universal Credit, welfare reform, the capping of the Local Housing Allowance and the Homelessness Reduction Act 2017 which came into force in April 2018 have all led to further demand on services. The demand for social housing in the city and the lack of good quality, affordable private rented sector housing has led to many people being trapped within homelessness and poverty.

3.15 Changes in the national funding regime with the introduction of the Flexible Homelessness Support Grant to replace Temporary Accommodation funding did not recognise the scale of growth in homelessness seen in the city and reduced the level of funding available. Officers have been working to transfer the management of temporary dispersed accommodation properties to an alternative provider through a procurement process to enable the full amount of housing benefit to be claimed, as well as improving the standard of accommodation. As part of the 2019/20 budget the council is committing an additional £1.1m funding for discretionary housing support and other welfare related payments to take a pro-active approach to preventing homelessness and protect the most vulnerable. The council has also committed to ensuring where families have to be placed in bed and breakfast accommodation this is of an appropriate standard.

3.16 Economic improvements have not been matched by similar improvements in health outcomes. People living in Manchester experience higher levels of ill health and early death than other major cities and local authorities in England. There are 3.5 times as many premature deaths (deaths under the age of 75) in the most deprived parts of the city compared with the least deprived parts. The

Manchester Population Health Plan[1] describes how the council will work with partners to deliver improved health outcomes and reduced inequalities.

3.17 A single commissioning system with a single line of accountability is in place. In April 2018, the new Manchester Local Care Organisation (MLCO) – a partnership between the Council and a range of health organisations – took over the running of statutory community health and social-care services. The organisation will deliver integrated and accessible out-of-hospital services across the city's 12 neighbourhoods, providing integrated services that will improve outcomes at a reduced cost. The Winter Pressures funding is being used to prevent inappropriate admissions to and facilitate timely discharge from hospital and some of the one off funding the council has will be invested into adult social care to ensure that timely access to services is available for those who need them.

A Great Place to Live

3.18 Manchester's future success is inextricably linked to whether it is a great place to live. The City's different neighbourhoods need the right mix of housing that people can afford, good schools, parks, sports and cultural facilities, roads and transport links and streets and public spaces free of litter and antisocial behaviour. Residents have identified through the Our Manchester Survey that they value their local assets with satisfaction with services mirroring the quality of available shops and amenities, green spaces, libraries and health services. The Capital Strategy includes the further planned investment in the city's parks, leisure facilities and libraries as well as the £100m investment programme to improve the condition of the city's roads and footpaths. Further investment to reduce litter and fly tipping is prioritised in the updated MTFP.

3.19 There has been a notable increase in housing supply from 2017/18 with over 3,000 new homes expected to complete in 2018/19. Manchester is now delivering a nationally significant level of house building (more than any Inner London Borough in 2017/18). The Northern Gateway project (a joint venture between the Council and the Far East Consortium) has the potential for up to 15,000 new homes over the next 15 years.

3.20 The Housing Strategy includes a housing growth target of 32,000 new homes between April 2015 and March 2025 including 6,400 affordable homes. Of the latter 3,000 are either delivered, on site or committed to be delivered by March 2021 with a further minimum of 3,400 to be delivered by March 2025 through use of council land, Registered Social Landlord (RSL) partner resources and investment capacity in the Housing Revenue Account (HRA). Achieving this target is dependent on the government funding in these areas being available. The city's overall annual housing target will continue to be met in the short-term but maintaining supply will require ongoing investment in key infrastructure in, for example, the Eastern and Northern Gateways in order to unlock housing sites.

[1] http://www.manchester.gov.uk/healthplan

3.21 In respect of Climate Change, Manchester is on track to reach a 38% reduction in CO_2 emissions by 2020 against the target of 41% but this means that to stay within the carbon budget a further 56% reduction is required. This can only be achieved through a combination of local action and national policy on energy and transport. The Capital Strategy and the development of new policy frameworks in areas which are Green and Blue Infrastructure, Residential Design and, at a Greater Manchester level, through the GM Transport Strategy 2040, will drive forward the local actions. The council is also investing on an investment to save basis in making its estate more carbon efficient and in increasing the amount of waste that is able to be recycled. Whilst there has been an overall improvement in air quality in recent years parts of Manchester are still exceeding the legal limits for nitrogen dioxide (NO_2). An Air Quality Action Plan for Greater Manchester is being developed to tackle these issues.

3.22 The **Corporate Plan** which was agreed in Autumn 2018 sets out the 15 areas which the Council will focus on from its final year of the three-year budget strategy and which provide the framework for the budget and business plans. They are as follows:

Theme	Priority
Young people *From day one, support Manchester's children to be safe, happy, healthy and successful, fulfilling their potential, and making sure they attend a school graded 'good' or better*	• Ensure all children have high-quality education
	• Support more Manchester children to have the best possible start in life and be ready for school and adulthood
	• Reduce the number of children needing a statutory service.
Healthy, cared-for people *Work with partners to enable people to be healthy and well. Support those who need it most, working with them to improve their lives*	• Support Mancunians to be healthy, well and safe
	• Improve health and reduce demand by integrating neighbourhood teams that are connected to other services and assets locally, delivering new models of care.
	• Reduce the number of people becoming homeless and enable better housing and better outcomes for those who are homeless.
Housing *Ensure delivery of the right mix of good-quality housing so that Mancunians have a good choice of quality homes*	• Accelerate and sustain delivery of more housing, with enough affordable housing for those on low and average incomes, and improved quality of housing.
Neighbourhoods	• Enable clean, safe, vibrant neighbourhoods

Work with our city's communities to create and maintain clean and vibrant neighbourhoods that Mancunians can be proud of	• Reduce greenhouse gas emissions and improve air quality.
Connections *Connect Manchester people and places through good-quality roads, sustainable transport and better digital networks*	• Improve public transport and highways, and make them more sustainable
	• Facilitate the development of the city's digital infrastructure, to enable delivery of transformed public services and support a thriving digital economy.
Growth that benefits everyone *To support our priorities, we need to continue to promote and drive sustained economic growth and job creation that benefits everyone*	• Support good-quality job creation for residents, and effective pathways into those jobs.
	• Facilitate economic growth of the city
Well-managed council *Support our people to be the best and make the most of our resources*	• Enable our workforce to be the best they can be through the Our People Strategy and Our Manchester behaviours
	• Balance our budget, including delivering savings, reducing demand through reform, and generating income.

4 Financial Context

4.1 The budget for 2019/20 is being set in a period of austerity which began with the 2010/11 Budget. The Local Government Association (LGA) have calculated that by 2020 Local Government will have delivered £16bn in savings to the Treasury, whilst also absorbing inflationary increases, maintaining the delivery of services to communities and facing increasing Social Care demands. Public health grant funding will have reduced by £531m between April 2015 and April 2020. Between 2010/11 to 2019/20 the Manchester City Council's Spending Power (as defined by government) has reduced by £179m (29%) compared to an England average reduction of 16%. This has resulted in required budget cuts of £372m from 2010/11 to 2019/20 inclusive, after taking into account inflation and rising demand, and a reduction of almost 4,000 FTE (around 40% of the workforce).

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	**Total**
	£m	£m	£m	£m	£m	£m	£m	£m	£m	**£,000**
Savings Planned	107	61	36	30	55	26	17	25	15	**372**

4.2 During the earlier years (pre 2016/17) the central government grant cuts did not take into account the ability to raise council tax and cities such as Manchester with over 90% properties in council tax bands A-C were disproportionately impacted. If between 2010/11 and 2019/20 Manchester had had the average level of funding reductions it would now have c£83m more a year available.

4.3 In order to become more resilient and self-reliant the Council has had to maximise the revenues available to it including the below:

- Manchester has been a business rates growth retention and 100% retention pilot. The latter means that the Council retains 100% of the additional business rates growth achieved during the 3 year pilot period 2017 - 20. Additional retained growth was £8m in 2017/18 and is estimated at £9.1m in 2018/19 and £8.1m in 2019/20. Additionally there is a £6m proposed return from GMCA in 2018/19, subject to GMCA approval at its meeting on 15 February, which has been made available to support the budget.

- The Council's commercial investments have generated: dividend income of £62.3m in 2018/19 (predominantly but not exclusively from the Airport), net income from the commercial estate of c£12m per annum both of which are supporting the revenue budget. Proceeds from loans to the airport advanced in 2018/19 are contributing a net £5m each year to support capital financing costs

- The success in encouraging housing growth, particularly in the City Centre has seen an average growth in council tax base of over 3% 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 which is essential to the longer term financial sustainability of the council. As an example the 2% council tax precept levied to fund social care would generate around £7.4m in a typical shire and c£3m in Manchester.

4.4 Local authorities are also in a state of considerable uncertainty regarding future funding and facing increasing pressures. The LGA is estimating that by 2025 Local Government Services face a funding gap of at least £7.8bn, just to stand still, much of this relating to social care. For the Council this gap has been estimated at £75m.

4.5 2019/20 is the last year of the four year Finance Settlement. There is no certainty over either the quantum or distribution of local government funding after that date and with an unprecedented level of uncertainty which includes:

- the economic and service impact of any Brexit decision and the fact that the Government has reserved the right to have a further Spring Budget should a no deal scenario occur.

- There is no clarity on the Spending Review (SR) timeline and process and it is rumoured any subsequent Finance Settlement may only be for 1-2 years. The SR sets the quantum of funding available for local government whilst the Finance Settlement sets out the distribution to individual local authorities.

- The Adult Social Care Green Paper is expected to set out a more sustainable longer term funding solution for adult social care but has been delayed until at least April 2019. The adult social care funding streams which technically end after 2019/20 include the Better Care Fund (£24.3m), improved Better Care Fund (£3.7m) and Winter Pressures Funding (£2.7m).

- Funding for each local authority is predicated on a funding formula. Funding is largely comprised of retained business rates and either a government top up is received or a surplus of business rates is paid back for redistribution based on the formula. The Fairer Funding Review is looking to establish a new formula with proposals out to consultation (closes 21 February). Of concern is the suggestion the current use of deprivation factors to allocate funding maybe reduced. This is a key driver of spend and Manchester will be significantly disadvantaged if this goes ahead.

- Finally, it is also likely that Greater Manchester will no longer be a 100% retention pilot from 2020/21. The work to move to 75% business rates retention across all Local Authorities will lead to a 'hard reset' in 2020/21 which means that Manchester will lose the benefit of the additional growth generated since 2013 and during the Greater Manchester pilot 100% retention period as the baseline for growth is reset.

Update of the 2019/20 Budget

4.6 Despite the pressures being faced the Council is determined to deliver the agreed priorities for Manchester. The budget is not just about how to manage within reducing resources but also on where funding should be invested to deliver on resident priorities and working with partners to jointly new ways of delivering services such as prevention and early help, giving families strengths and self-reliance so they will benefit from greater self-determination and improved life chances thus reducing the need for more costly support in the future. The difficult balance has to be maintained between protecting investment to generate growth (and grow the revenues available to the council), provide high quality universal services and to protect the most vulnerable.

4.7 The report to Executive in January 2019 set out the current budget position based on the Officer proposals to address the £21.6m budget gap for 2019/20 which went through the December Scrutiny Committee process and updated for the Local Government Finance Settlement received in December 2018.

The proposals included further savings of £6m from 2019/20. These will be in addition to the £9m already included in the original budget plan.

4.8 There has also been additional one off funding, particularly for social care, made available through the Autumn Budget, Finance Settlement and the GMCA Budget Setting process, the latter to be finalised at the GMCA meeting on 15 February. The report to January Executive did not set out how the following would be used:

- The additional grant funding for Social Care agreed as part of the Autumn Statement and confirmed in the Finance Settlement - £2.67m to support winter pressures and £4.55m for children's and adults social care.
- The return of £2.7m in 2018/19 from the unused central business rates revenue account surplus
- The subsequent proposed return *of funds from Greater Manchester Combined Authority (GMCA)* - GMCA will propose the return of c£6m of retained business rates and c£1m of transport resources to the City Council and this will formally be considered at the meeting of the Combined Authority on 15 February.
- The key decisions taken later in January to set the Council Tax and Business Rates Base and Collection Fund surpluses

4.9 An additional £12.6m one off government funding has been allocated to the Council since the Autumn Budget. The late announcement and one off nature of the funding allocated has made effective longer term planning more difficult and whilst central government have recognised the pressures local authorities are facing in these areas, the funding does not continue beyond 2019/20 and is insufficient to meet the increases in demand for services. When taken alongside the proposed return of revenues from the GMCA, the Council is relatively cash rich in the short term but is facing uncertainty and budget reductions in the future.

4.10 It was therefore recommended at the January Executive meeting that any one-off funding is used over a 2-3 year period and prioritised to the following areas:

- Care and support for vulnerable people by ensuring there is a sustainable amount of funding for Adult Social Care that enables the move to a more permanent structure, despite the volume of one-off funding;
- Giving young people the best start in life through investment in Youth Services plus a need to invest greater amounts into Children's services
- Taking action on family poverty including enhanced enforcement of the private rented sector and appropriate enforcement action;
- Tackling homelessness
- Further action to tackle littering, fly tipping and poor business waste management.

4.11 The budget includes the following proposals for additional investment above that originally planned as part of the 2018 budget setting process, with the full details being available in the relevant Business Plans:

- £4.6m additional investment into Children's Services to address budget pressures due to the increased number of placements for looked after children as well as seeking to release resource for early help and prevention and a further £150k for Youth Services. This is in addition to the £6m agreed in the January Executive Report and £2.8m agreed as part of the original budget set last year for 2019/20, bringing the total investment for 2019/20 to £13.6m.
- £7.6m rising to £8.0m for years 2 and 3 into adult social care to ensure service stability and that residents can access services on a timely basis. This includes the £2.8m included in the January Executive report and is in addition to the £3.8m agreed as part of the original budget for 2019/20, bringing the total investment for 2019/20 to £11.4m.
- £500k to support further action to tackle littering, fly-tipping and poor business waste management
- £255k to support food inspections
- £500k for enhanced enforcement activity in the private rented sector, as part of the homelessness budget. This is in addition to the £3.8m agreed for homelessness in the January Executive Report and £250k agreed as part of the original budget for 2019/20 set last year, bringing the total additional investment for 2019/20 to c£4.6m.
- £1.1m for welfare related support funded from additional council tax revenues in 2019/20. In future it proposed these costs will be met from additional Council Tax income relating to the proposed changes to empty property reliefs, if approved and subject to the outcomes of the consultation.

4.12 The changes outlined above would enable a balanced budget to be achieved for 2019/20, with a contribution to General Fund reserve of £65k as shown in the table below.

	2018 / 19 £000	**2019 / 20 £000**
Resources Available		
Business Rates related funding	324,753	314,653
Council Tax	154,070	166,507
Other non ring fenced Grants / Contributions	38,735	54,426
Dividends and Use of Airport Reserve	53,342	62,390
Use of Reserves to support the budget	8,743	12,439
Total Resources Available	**579,643**	**610,415**
Resources Required		
Corporate Costs:		
Levies/Charges	68,655	70,090

	2018 / 19 £000	2019 / 20 £000
Contingency	3,103	1,600
Capital Financing	44,507	44,507
Transfer to Reserves	7,286	6,902
Sub Total Corporate Costs	*123,551*	*123,099*
Directorate Costs:		
Additional Allowances and other pension costs	10,030	10,030
Insurance Costs	2,004	2,004
Directorate Budgets	439,919	465,272
Inflationary Pressures and budgets to be allocated	4,139	9,945
Total Directorate Costs	*456,092*	*487,251*
Total Resources Required	**579,643**	**610,350**
Transfer (to) General Fund Reserve	**0**	**(65)**

4.13 The full detail of the Council's budget is set out in the following reports which are also on the agenda:

- The Medium Term Financial Plan (MTFP)
- Business Plans (Children and Young People; Health and Social Care; Neighbourhood Services; Strategic Development; and the Corporate Core)
- Capital Strategy and Budget
- Housing Revenue Account
- Dedicated Schools Grant
- Treasury Management Strategy
- The Business Plans have been considered at the following Scrutiny Committees prior to this Executive.

4.14 The table below shows which scrutiny committees have considered which scrutiny business plans.

Business Plan	**Meeting**
Manchester Health and Care Commissioning Pooled Budget 2019/20, including Adult Social Care	Health Scrutiny Committee - 8 February 2019
Homelessness Business Planning: 2019/20	Neighbourhoods and Environment Scrutiny Committee - 9 February 2019

Children and Education Services Business Planning 2019-2020	Children and Young People Scrutiny Committee - 8 February 2019
Neighbourhoods Directorate Business Planning: 2019-20	Neighbourhoods and Environment Scrutiny Committee - 9 February 2019
Strategic Development Business Planning: 2019-2020	Neighbourhoods and Environment Scrutiny Committee - 9 February 2019 Economy Scrutiny Committee - 9 February 2019 Resources and Governance Scrutiny Committee - 10 February 2019
Corporate Core Business Plan: 2019/20	Resources and Governance Scrutiny Committee - 10 February 2019

5 **Section 25 Report**

5.1 Section 25 of the Local Government Act 2003 also requires that when a local authority is making its budget calculations, the Chief Finance Officer of the authority must report to the Council on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves.

5.2 In setting the budget the Council has a duty to ensure:

- it continues to meet its statutory duties
- Governance processes are robust and support effective decision making
- its Medium Term Financial Strategy reflects the significant challenges being faced and remains responsive to the uncertainties in the economy by continuing to deliver against its savings targets
- its savings plans are clearly communicated and link to specific policy decisions, with the impact on service provision clearly articulated
- it has the appropriate levels of reserves and that it closely monitors its liquidity to underpin its financial resilience
- it continues to provide support to members and officers responsible for managing budgets
- it prepares its annual statement of accounts in an accurate and timely manner

Legal Issues

5.3 In coming to decisions in relation to the revenue budget and Council Tax the Council has various legal and fiduciary duties. The Council is required by the Local Government Finance Act 1992 to make specific estimates of gross revenue expenditure and anticipated income leading to the calculation of the council tax requirement and the setting of the overall budget and Council Tax. The amount of the council tax requirement must be sufficient to meet the

Council's legal and financial commitments, ensure the proper discharge of its statutory duties and lead to a balanced budget.

5.4 In exercising its fiduciary duty the Council should be satisfied that the proposals put forward are a prudent use of the Authority's resources in both the short and long term; that the proposals strike a fair balance between the interests of council taxpayers and ratepayers on the one hand and the community's interests in adequate and efficient services on the other; and that they are acting in good faith for the benefit of the community whilst complying with all statutory duties. Officers have addressed the duty to strike a fair balance between different elements of the community and the interests of Council Tax and Business Rate payers in developing the proposals which are set out in the Directorate reports.

Duties of the City Treasurer

5.5 The Local Government Act 2003 requires the Chief Finance Officer to report to the authority on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. The Council has a statutory duty to have regard to the CFOs report when making decisions about the calculations. The City Treasurer's report in relation to the reasonableness of the estimates and adequacy of the reserves is set out below.

5.6 Section 28 of the Local Government Act 2003 imposes a statutory duty on the Council to monitor during the financial year its expenditure and income against the budget calculations. If the monitoring establishes that the budgetary situation has deteriorated, the Council must take such action as it considers necessary to deal with the situation. This might include, for instance, action to reduce spending in the rest of the year, or to increase income, or to finance the shortfall from reserves.

5.7 Under Section 114 of the Local Government Finance Act 1988, where it appears to the Chief Finance Officer that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure, the Chief Finance Officer has a duty to make a report to the Council.

5.8 The report must be sent to the Council's External Auditor and every member of the Council and the Council must consider the report within 21 days at a meeting where it must decide whether it agrees or disagrees with the views contained in the report and what action (if any) it proposes to take in consequence of it. In the intervening period between the sending of the report and the meeting which considers it, the authority is prohibited from entering into any new agreement which may involve the incurring of expenditure (at any time) by the authority, except in certain limited circumstances where expenditure can be authorised by the Chief Finance Officer. Failure to take appropriate action in response to such a report may lead to the intervention of the Council's Auditor. Following well publicised difficult financial position of some local authorities there is a growing scrutiny of the financial position of individual local authorities.

Other Statutory Duties

5.9 In considering the budget for 2018/19 the Council must also consider its ongoing duties under the Equality Act 2010 to have due regard to the need to eliminate discrimination and advance equality of opportunity between all irrespective of whether they fall into a protected category such as race, gender, religion, etc. 128. Having due regard to these duties does not mean that the Council has an absolute obligation to eliminate discrimination but that it must consider how its decisions will contribute towards meeting the duties in the light of all other relevant circumstances such as economic and practical considerations.

5.10 The Council will continue to use its Equality Impact Assessment framework as an integral tool to ensure that all relevant services have due regard of the effect that their business proposals will have on protected groups within the City.

Reasonableness of the Estimates

5.11 Finally the Council has a duty to act reasonably taking into account all relevant considerations and not considering anything which is irrelevant. This Report together with the other budget related reports on the agenda set out a total picture of the proposals from which members can consider the risks and the arrangements for mitigation set out below.

Robustness of the Estimates

5.12 The future uncertainty regarding future funding for local authorities makes a robust and evidenced assessment of financial governance and future resilience critical.

5.13 *Leadership and Governance* - the council's governance arrangements are set out in full in the Annual Governance Statement. Arrangements for revenue and capital budget planning, monitoring and delivery are believed to be robust. The council complies in full with the requirements set out in the CIPFA Statement on the role of the Chief Finance Officer. The S151 duties lie with the City Treasurer who is a full member of the Senior Management Team and fully involved in the council's governance and decision making processes.

5.14 *Longer Term Financial Planning* - It is recommended best practice that Local Authorities have a longer term strategy for financial resilience and a multi year financial plan. Whilst the suite of budget reports only cover 2019/20 to align with the central government four year Finance Settlement they are underpinned by longer term financial planning:

- Five year Capital Strategy (and financing arrangements) and asset management plans

- Five year reserve strategy with three years published in the MTFP
- Financial and scenario planning over the next spending review period
- Three-year investment proposals for the use of the additional one off funding.

5.15 Effective arrangements are in place to facilitate longer term financial planning however it is a priority that a set of clear scenarios and savings are developed for 2020/21 and beyond in advance of the Finance Settlement.

5.16 *Sustainable Service Plans over the Life of the MTFP* including tracking delivery and an assessment of success in delivery of savings - Directorates have put forward additional savings proposals in the Business Plans. The total savings required is £25.482m in 2018/19 and a further £14.798m in 2019/20. Officers have satisfied themselves with the robustness of the planned reductions and their broad deliverability. A detailed risk rated savings tracker is produced and monitored monthly and progress discussed at monthly Departmental Monitoring Meetings and Senior Management Team at its monthly budget focussed meeting. Updates are also provided monthly to Executive Members. For the areas within its remit the Manchester Health and Social Care Commissioning Board and Management Team have a detailed process to agree business plans and monitor progress on the delivery of savings which is also tracked on a monthly basis.

5.17 In 2018/19 46% of savings were considered high risk in terms of deliverability. These all related to Children's and Adult services and have been reassessed as part of the 2019/20 budget setting process. Full details are contained within the Business Plans.

5.18 *An assessment of value for money in the delivery of services* - The Council's external auditors are required to provide a Value for Money conclusion following the guidance issued by the National Audit Office November 2017 which specified the criteria for auditors to evaluate. The external auditors were satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018. An unqualified Value for Money conclusion was issued.

5.19 During December 2018 there was a review of the Children's budget position and placement numbers including an independent benchmarking of resources and performance carried out by Grant Thornton. This work was requested following budget discussions with Executive Members regarding the setting of a realistic and robust budget. The results of this review are set out in the Children's Services Business Plan and has informed the proposals for 2019/20. In addition the Performance Management Framework contains annual reporting on benchmarking information and use is made of benchmarking data such as CFO Insights to inform decision making.

5.20 *Compliance with Prudential Code* - as detailed in the Capital and Treasury Management Strategies the Council is compliant with the requirements of the Prudential Code. The Council takes a highly prudent approach to investments, both treasury and otherwise, with a view to minimising risk. External advice is taken on investments as required and the Council does not normally make strategic investments outside of the local authority boundary.

Assessment of Risk

5.21 The City Treasurer has examined the major assumptions used within the budget calculations and has carried out sensitivity analysis to ascertain the levels of potential risk in the assumptions being used. The key risks identified to the delivery of a balanced budget and their mitigation are set out in the table below.

Risk	**Mitigation**
Non Delivery of Savings	A detailed review of social care related savings which were not delivered in 2018/19 and the impact for 2019/20 has been carried out with revised proposals contained within the budget. As outlined above robust monitoring arrangements are in place to enable early corrective action to be taken. Such action in 2018/19 has successfully reduced the overspend position.
Increasing demand for social care, impact welfare reforms and rising homelessness is higher than budget assumptions	2019/20 completes the three-year budget commitment Additional one-off government funding of c£12m and council resources have been used to provide more funding in these areas based on a reassessment of demand. Funding has been smoothed over three years with a reserve to cover future demand.
Volatility of resource base including business rates	As the Council becomes more reliant on locally raised resources and commercial income it is more susceptible to any downturn in the economy. To mitigate the risk the majority of the airport dividend is used a year in arrears and a business rates reserve has been established. The position on all these income streams is reviewed each month.
Delivery of a balanced budget beyond 2019/20	Longer term planning has started to address the uncertainty beyond 2019/20. In addition, the budget has established specific reserves to fund social care over a three year period to avoid cliff edges and provide time to plan dependant on the outcome of the national funding changes and BREXIT impact.
Impact of Brexit	The potential effects of Brexit on the Council are currently un-quantified but could impact on revenue budgets, capital projects, treasury management and the pension scheme.

Risk	Mitigation
	As the risks associated with BREXIT are so difficult to quantify the approach, in line with a number of local authorities is to build up the level of the business rates reserve and protect the level of the General Fund reserve to help mitigate any adverse impact. More detailed planning and risk assessments for the different scenarios is being carried out within GM and Manchester.
Overspend on significant capital projects	The Capital Strategy has been developed to ensure that the Council can take capital expenditure and investment decisions in line with Council priorities and properly take account of stewardship, value for money, prudence, risk, sustainability and affordability. There are strong governance arrangements underpinning the decision making process, all capital investment decisions have a robust business plan that set out any expected financial return alongside risk and deliverability implications. The capital programme is monitored monthly, with quarterly reports to Executive. There are specific programme and risk management arrangements in place to assess individual projects and to oversee their completion. The Strategic Capital Board receive monthly updates from each directorate board on each board's part of the capital programme, detailing financial forecasts, risks, and expected outcomes. By reviewing projects regularly, such monitoring can be used to support future actions, including the estimation of future costs and mitigations as necessary.

5.22 The Council has a well developed corporate risk register and a financial risk register that is reviewed monthly. Each Service Head has carried out an individual risk assessment of their budgets incorporated into the Risk Registers contained within the Business Plans.

5.23 It is the opinion of the City Treasurer that any significant budget risks to the General Fund and the Housing Revenue Account have been identified and that suitable proposals are being put in place to mitigate against these risks where possible. The Council's Budget Monitoring procedures are now well embedded and are designed to specifically monitor high level risks and volatile budgets. An assessment of anticipated business rates income has been carried out based on the information available and provision has been made for outstanding appeals. There is considered to be a prudent provision.

5.24 The City Treasurer considers that the assumptions on which the budget have been proposed whilst challenging are manageable within the flexibility allowed by the General Fund balance. This and the fact that the Council holds other reserves that can be called on if necessary means that the City Treasurer is confident that overall the budget position of the Council can be sustained within the overall level of resources available. However to the degree that the budget savings are not achieved in a timely manner and reserves are called on to achieve a balanced position, further savings will need to be identified and implemented in order to ensure the Council's future financial stability is maintained.

5.25 The Council needs to be satisfied that it can continue to meet its statutory duties and meet the needs of vulnerable young people and adults. Proposals have been drawn up on the basis that Strategic Directors are satisfied that this will enable them to continue to meet their statutory duties and the needs of the most vulnerable.

Budget Scrutiny

5.26 Overview and Scrutiny committees are holding special meetings to look at the Budget Proposals and their delivery, paragraph 4.14 sets out the detail of which Business Plan went to which Scrutiny Committee. Resources and Governance Scrutiny Committee will look at the overall budget proposals and receive comments from other scrutiny committees prior to the Budget going to Budget Council.

6 Conclusion

6.1 The last few years have been challenging for the Council given the high proportion of cuts which have had to be made to the Council's budget at a time when the demand for services such as Children and Adults Social Care have been rising. This has been exacerbated by the disproportionate level of funding reductions the Council has taken.

6.2 Manchester continues to lead the way in terms of transformation, delivering efficient services and creating the conditions for all of our communities to benefit from economic growth. The Council has maintained its reputation for innovation and reform through a number of key mechanisms:

- Using the commitment to social value to ensure communities see the benefit from investments. This has included commitments from suppliers to employ staff who live locally, no use of zero hours contracts and agreements to reduce energy consumption and carbon emissions in the City.
- Working alongside partners in the Combined Authority the council has worked hard to make the most of the opportunities to focus on local priorities through the Spatial Framework, Local Industrial Strategy, digital opportunities and in tackling homelessness.
- focused on doing things differently for example developing the population modelling toolkit, creating a more meaningful definition of affordability to

support the emerging Local Plan and Housing Strategy and supporting the implementation of the Manchester Living Wage across supply chains.
- Continuing with the integration of public services to improve the offer to residents. The benefits are already being seen of the approach to integrating health and social care through improvements in the number of years men in the city can expect to live in good health.

6.3 This set of budget and business plans is a continuation of commitment to the delivery of the Our Manchester Strategy and how it has been used as a framework for prioritising the deployment of resources.

Manchester City Council
Report for Resolution

Report to: Executive – 13 February 2019
Resources and Governance Scrutiny Committee – 25 February 2019

Subject: Medium Term Financial Plan 2019/20

Report of: Chief Executive and City Treasurer

Purpose of the Report

This report sets out the budget proposals for 2019/20 based on the outcome of the Provisional Local Government Finance Settlement and the issues which need to be taken into account prior to the Council finalising the budget and setting the Council Tax for 2019/20. This report should be read in conjunction with the reports from Strategic Directors relating to budget proposals for their services, the Housing Revenue Account budget report, the Dedicated Schools Grant Report, the Budget 2019/20 Covering Report, the Capital Strategy and Budget 2019/20 - 2023/24 and the Treasury Management Strategy; all contained elsewhere on this agenda.

Recommendations

The Executive is requested to:

(i) Note that the financial position has been based on the Final Local Government Finance Settlement confirmed on 29 January 2019;
(ii) Note that there has been a review of how the resources available are utilised to support the financial position to best effect, including use of reserves and dividends, consideration of the updated Council Tax and Business Rates position, the financing of capital investment and the availability and application of grants;
(iii) Consider the detailed reports from individual Strategic Directors elsewhere on this agenda (Directorate Business Plans) and the proposals for service and expenditure changes, together with the feedback from the Scrutiny Committees, in reaching decisions regarding the final budget recommendations for 2019/20;
(iv) Note the anticipated financial position for the Authority for the period 2018/19 to 2019/20 which is based on all proposals being agreed;
(v) Note that the Capital Strategy and Budget 2018/19 -2023/24 will be presented alongside this report;
(vi) Note the City Treasurer's review of the robustness of the estimates and the adequacy of the reserves, this is covered in more detail in the Budget 2019/20 Covering Report elsewhere on the agenda;
(vii) Make specific recommendations to Council to approve for 2019/20:
    a. an increase in the basic amount of Council Tax (i.e. the City's element of council tax) by 3.49% (including 1.5% for adult social care);

b. the contingency sum of £1.6m;
c. the inflationary pressures and budgets to be allocated sum of £9.945m (as shown in table 14); and delegate the final allocations to the City Treasurer in consultation with the Executive Member for Finance and Human Resources. The MHCC elements of these costs have been included in the Pooled Budget and are subject to draw down in consultation with MHCC Finance Committee which will include consultation with the Executive Member for Finance and Human Resources;
d. corporate budget requirements to cover levies / charges of £70.090m, capital financing costs of £44.507m, additional allowances and other pension costs of £10.030m and insurance costs of £2.004m;
e. the estimated utilisation of £8.596m in 2019/20 of the surplus from the on street parking and bus lane enforcement reserves; after determining that any surplus from these reserves is not required to provide additional off street parking in the authority; and
f. the position on reserves as identified in the report and in Appendix 3 subject to the final call on reserves after any changes are required to account for final levies etc.

(viii) Approve that delegated authority be given to the City Treasurer and Chief Executive to agree the use of the Adult Social Care Reserve, Social Care Reserve and Our Manchester Reserve in conjunction with Executive Members for Finance and Human Resources, Children's Services and Adult, Health and Wellbeing;
(ix) Approve the Directorate cash limits as set out in paragraph 74;
(x) Approve the in principle contribution to the MHCC Section 75 (S75) Pooled Budget subject to the approval of the S75 agreement at March Executive;
(xi) Approve that delegated authority be given to the City Treasurer and Chief Executive in consultation with the Executive Member for Finance and Human Resources and the Leader of the Council to draft the recommended budget resolution for budget setting Council in accordance with the legal requirements outlined in this report and to take into account the decisions of the Executive and any final changes and other technical adjustments; and
(xii) Note that there is a requirement on the authority to provide an itemised council tax bill which, on the face of the bill, informs tax payers of that part of any increase in council tax which is being used to fund adult social care; and to provide specific information about the purpose of the council tax increase in the information supplied with demand notices.

Wards Affected: All

Our Manchester Strategy Outcomes	Summary of the contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive	This report considers the medium term financial strategy for 2019/20 that will

economy that creates jobs and opportunities.	underpin all of the Council's priorities as determined through the Our Manchester Strategy.
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 and work.	
A connected city: world class infrastructure and connectivity to drive growth.	

Implications for:

Equal Opportunities Policy – there are no specific Equal Opportunities implications contained within this report.

Risk Management – as detailed in the report.

Legal Considerations – there are no specific legal considerations contained within the report.

Financial Consequences – Revenue

The City Council remains committed to the three-year budget strategy established two years ago. This report sets out a number of proposals which are subject to consideration by Executive following scrutiny. The implications for the Council's revenue budget for 2019/20 if all proposals are agreed are set out within the report.

Elsewhere on the agenda are the Directorate Reports, including a joint report for Health and Social Care, the Housing Revenue Account Budget Report, the Dedicated Schools Grant Report, Budget 2019/20 Covering Report and the Capital Strategy and Budget Report and the Treasury Management Strategy and Borrowing Limits and Annual Investment Strategy report. These reports together underpin the detailed financial spend of the Council for the coming year and provide a framework for Revenue and Capital planning for 2019/20

The latest financial position for 2018/19 is set out within the Global Revenue Budget Monitoring report elsewhere on the agenda.

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.

Updated Financial Strategy 2019/20 report to Executive 16 January 2019
https://democracy.manchester.gov.uk/ieListDocuments.aspx?CId=147&MId=291&Ver=4

Update on Revenue Financial Strategy and Business Plan Process 2019/20 to Resources and Governance Scrutiny Committee Thursday, 6 December
https://democracy.manchester.gov.uk/ieListDocuments.aspx?CId=137&MId=121&Ver=4

Provisional local government finance settlement: England, 2019 to 2020
https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2019-to-2020?utm_source=89354b3a-3865-4051-9175-8247e58aeba8&utm_medium=email&utm_campaign=govuk-notifications&utm_content=immediate

Autumn Budget 2017, 29 October 2018

2018 Autumn Budget document is available on the Government's website
https://www.gov.uk/government/publications/budget-2018-documents

Medium Term Financial Plan to Executive 7 February 2018
https://secure.manchester.gov.uk/meetings/meeting/2997/executive

Section 1 - Introduction

1. This report sets out the current financial assumptions for the City Council for 2019/20 which is the last year of the government's multi-year finance settlement.

2. The financial considerations contained within this report are based on the Provisional Local Government Finance Settlement issued on 13 December 2018 which covered the final year of the four year finance settlement. The final settlement was published on 29 January 2019. There were no changes affecting Manchester.

3. Executive are asked to consider the budget proposals in this report alongside the feedback from Scrutiny meetings to make recommendations on what should be included in the revised budget.

Section 2 - Background and Context

4. The priorities for the Manchester Capital and Revenue Strategies stem from the 'Our Manchester' Strategy. Our Manchester represents both the long-term strategy for the city and is at the core of how that strategy is delivered. The underpinning principles have been developed to fundamentally change the way that services are delivered and a shift in the relationship between the Council and the people of Manchester. The vision remains for Manchester to be in the top flight of world class cities. It will be a City:

   - where residents from all backgrounds feel safe, can aspire, succeed and live well
   - that is connected, internationally and within the UK
   - with a competitive, dynamic and sustainable economy that draws on its distinctive strengths in science, advanced manufacturing, culture, creative and digital business to cultivate and encourage new ideas
   - with highly skilled, enterprising and industrious people
   - that plays its full part in limiting the impacts of climate change
   - that is clean, attractive, culturally rich, outward-looking and welcoming.

5. This has set the framework for the Medium Term Financial Plan (Revenue) and Capital Strategy. In 2017/18 a three-year Revenue Budget Strategy (2017-2020) and a five-year Capital Strategy (2018-2023) were agreed. These set out investment priorities which include support for the City's vulnerable adults and children as well as neighbourhoods including investment in housing, schools and cultural and leisure facilities together with the City's longer term prosperity through economic growth.

6. The development of the three-year financial strategy for 2017-20 followed consultation with Manchester people on what services matter most to them. The budget set was aligned to the Our Manchester Strategy and reflected what Manchester people valued most, which was:
   - care and support for vulnerable people including older people and those with learning disabilities and mental health needs;

- taking action on family poverty and giving young people the best start in life;
- tackling homelessness;
- supporting people into jobs and training;
- keeping roads and neighbourhoods in good shape; and
- parks and leisure to keep people active and happy.

7. The covering report elsewhere on the agenda sets out the context for the budget and draws on the Council's Corporate Plan which was launched in Autumn 2018 and sets out the 15 key priorities that underpin the Council's budget and business plans.

8. The budget proposals must be within the resources available to the Council. This report, therefore, considers the financial position taking into account both resources available from central government and those generated locally alongside the need to fund unavoidable cost pressures and invest in Council priorities.

<u>The Medium Term Financial Plan</u>

9. This report sets out the latest financial position and what has changed in the Medium Term Financial Strategy. This is in the context of agreed priorities with residents, the latest financial position including any recent funding announcement and the Council's statutory duties.

10. The original budget covering 2018/19 and 2019/20 was approved by Council on 2 March 2018. However, whilst the overall strategic direction has not changed since that time it is necessary to revisit the financial position. The resources have been refreshed in the context of the City's growing business and residential base and being part of the 100% business rates growth retention pilot, the 2019 Autumn Statement and 2019/20 Finance Settlement including the additional Social Care grants which were announced after the three year strategy was set. Alongside this there is a need to invest more into the Council's front line services, particularly for adults and children's social care, for services to the homeless and to help mitigate some of the impacts of welfare reform.

11. This report sets out proposals to address those issues

12. The structure of the report is as follows:

- Section 1: Introduction
- Section 2: Background and Context
- Section 3: Financial Context
- Section 4: Updated Savings Proposals
- Section 5: Overall Financial Position
- Section 6: Underpinning Financial Assumptions
- Section 7: Financial Reserves
- Section 8: Workforce Implications
- Section 9: Consultation

- Section 10: Conclusion

Section 3 - Financial Context

Original Financial Position 2018/19 to 2019/20

13. The table below shows the 2018/19 and 2019/20 budget as approved at March 2018 Council.

Table 1 – Budget per approved MTFP as at March 2018

	2018 / 19 £'000	2019 / 20 £'000
Resources Available		
Business Rates Related Funding	324,753	320,195
Council Tax	154,070	161,723
Other non ring fenced Grants	35,809	39,662
Dividends and Use of Airport Reserve	53,342	53,342
Use of other Reserves	8,188	4,490
Total Resources Available	**576,162**	**579,412**
Resources Required		
Corporate Costs:		
Levies/Charges	68,045	68,862
Contingency	3,103	2,100
Capital Financing	44,582	44,582
Transfer to Reserves	7,181	3,409
Sub Total Corporate Costs	*122,911*	*118,953*
Directorate Costs:		
Additional Allowances and other pension costs	10,003	10,183
Insurance Costs	2,004	2,004
Directorate Budgets	437,003	423,111
Inflationary Pressures and budgets to be allocated	4,241	34,128
Total Directorate Costs	*453,251*	*469,426*
Total Resources Required	**576,162**	**588,379**
Resources to be identified	**0**	**8,967**

Note the position above is as reported to Council March 2018 and does not reflect budget allocations or realignment since then.

Revised Proposals for 2019/20

14. The March 2018 report to Council noted there was a requirement for further resources or savings of £8.967m to be identified in 2019/20.

15. At Period 2 (May 2018) the Council reported an in-year overspend of £13.7m, this has reduced to £1.060m at Period 9 (December 2018) as reported elsewhere on the agenda in the Global Monitoring report, through the implementation of recovery plans and a review of the resources available.

16. It is important that the Council sets a sustainable budget moving forward into 2019/20. The most significant areas of cost pressure is the additional need arising from Social Care and Homelessness, together with the non-achievement of planned savings. The full year effect of these budget pressures is estimated at £13.222m, further increasing the budget gap of £8.967m to £22.189m.

17. To support the budget position and meet the identified pressures, there has been a full review of resources available, which has identified an additional £8.286m. These included additional council tax and business rates income, additional dividend from Manchester Airport and changes to government grants, particularly New Homes Bonus. These are set out in the report to January Executive. Further officer recovery proposals of £16.044m were identified which are appended to this report. Of these recovery proposals £5.776m are savings bringing the total of 2019/20 savings to £14.798m. As a result the savings over the three year period from 2017/18 have increased to £57m

18. After taking account of the full-year effect of the recovery plan measures, increased need to spend particularly on homelessness and social care, officer proposals to bridge the gap, and the updated position on resources the surplus was projected to be in the region of £2.1m as reported to January Executive and summarised below. Whilst the overall position has improved the underlying pressures on services such as Adult Social Care and Children's Services remain challenging.

Table 2 – 2019/20 position as reported to January Executive

	2019/20 £000
Original 2019/20 Budget Gap	8,967
Additional Pressures	13,222
Initial Shortfall	**22,189**
Resource Review	(8,286)
Officer Recovery Proposals	(13,044)
Further support for Looked After Children	(3,000)
Surplus	**(2,141)**

Changes since January Executive

19. As referenced in the January report to Executive, the Council has received notification that the Greater Manchester Combined Authority (GMCA) will propose the return of retained business rates (£6.021m) in 2018/19 and a

transport levy rebate (£0.975m) in 2019/20. This will be formally considered by GMCA on 15 February. In addition the Finance Settlement stated that an allocation of the business rates levy surplus (£2.699m) would be made from Government in 2018/19. This is a new announcement and had not been budgeted for.

20. There will also be a release of funding from Government following an error in the calculation and payment of S31 grant for Small Business Rates Relief dating back to 2017/18, providing additional resources of £1.840m in 2018/19 and £0.920m from 2019/20. Ministry of Housing, Communities and Local Government (MHCLG) shared the calculation, relating to the adjustment, with authorities in December, however, the official confirmation of allocations is yet to be received from the Ministry.

21. The Council Tax surplus has also improved by £0.904m since the production of the January report. The additional surplus will contribute towards an additional £1.1m for welfare related costs in 2019/20. In future such costs may be funded from additional Council Tax income relating to the proposed changes to empty property reliefs should this be approved; this consultation closes on 6 February 2019.

22. Additional funding for Social Care in 2019/20 was announced in the Autumn Budget. This included £2.666m to support winter pressures and £4.555m for children's and adult's social care. A report to Executive on 12 December outlined proposals to deploy the 2018/19 allocation of £2.666m and led to an Executive recommendation to deploy the additional posts required permanently using the 2019/20 funding.

23. Proposals have now been drawn up with partners for the most effective use of both sources of additional social care funding and are set out in detail in the Health and Social Care and Children's Services Business Plans.

24. There are also other Council held reserves / provisions totalling £7.195m which are proposed to be released to support investment and have not currently been allowed for in the funding assumptions/proposals to date. These relate to Adults Social Care services and are shown in the table below.

Table 3 – Additional One off funds

	2018 /19 £,000	2019/20 £,000
Government Funding:		
Share of Business Rates Levy Refund	(2,699)	0
Winter Pressures Grant	(2,666)	(2,666)
Social Care Support Grant (Adults and Children)		(4,555)
GMCA Rebates:		
Return of unused Business Rates Pilot Income	(6,021)	

	2018 /19 £,000	2019/20 £,000
Transport levy rebate (one-off)		(975)
Council Tax and Business Rates:		
Increase in Council Tax Collection Fund Surplus		(904)
SBRR (S31 grant) Correction	(1,840)	(920)
Reserve / Provision releases:		
Used of Adult Social Care earmarked reserves		(3,000)
Sleep in provision- judgement on back pay	(2,100)	
ASC Grant set aside	(1,000)	
Release of 2017/18 unallocated inflation (in Adults reserve)	(1,095)	
Total Additional Funding	**(17,421)**	**(13,020)**

Proposed Investment Priorities

25. Executive agreed the following priorities for any additional funding available:

- Care and support for vulnerable people by ensuring there is a sustainable amount of funding for Adult Social Care that enables the move to a more permanent structure, despite the volume of one-off funding;
- Giving young people the best start in life through investment in Youth Services plus a need to invest greater amounts into Children's services;
- Taking action on family poverty including enhanced enforcement of the private rented sector;
- Tackling homelessness and
- Further action to tackle littering, fly tipping and poor business waste management.

26. Following confirmation of the available funding and detailed work with partners and stakeholders in consultation with Executive Members a number of further investment proposals are included in the Medium Term Financial Plan and Business Plan reports.

27. January Executive agreed that one-off money should be used to further support resident priorities and front line services in a sustainable way over the coming three-year period, and that the following areas are prioritised:

- Care and support for vulnerable people by ensuring there is a sustainable amount of funding for Adult Social Care that enables the move to a more permanent structure, despite the volume of one-off funding;
- Giving young people the best start in life through investment in Youth Services plus a need to invest greater amounts into Children's services;
- Taking action on family poverty and taking enhanced enforcement action in the private rented sector;
- Tackling homelessness; and

- Further action to tackle littering, fly tipping and poor business waste management.

28. The longer term investment is to provide stability against:

- the future uncertainty of funding due to the comprehensive spending review, the fair funding review and the reform to business rates;
- funding allocations from Government are one-off, but the Council (working together with partners as necessary) needs longer-term capacity and
- the general uncertainty arising from the continuing BREXIT negotiations.

29. The main areas of significant investment over the next 2-3 years are detailed in the following paragraphs:

Children's Social Care

30. The December scrutiny proposals included investment of £6.039m a year for Looked After Children

31. Additional work was subsequently undertaken to review the children’s budget and whether it was sustainable based on the assumptions included. This took into account an independent financial review undertaken by Grant Thornton to review the children’s budget, its sustainability and the targets included in the 2018-20 budget for further reductions in external residential and foster care placements. Overall, this review suggested that the savings targets were ambitious and as a result that further investment was required.

32. The review shows that despite the investment since 2014/15, the level of expenditure on Children’s Services in 2017/18 (25%) is average compared to statistical near neighbour groups and above average compared to metropolitan neighbour groups. In addition, the Children’s Services budget overspend for Manchester in 2017/18 which was 12.5% was comparatively average to low when compared to the ‘near neighbour’ groups.

33. The recommended priority areas were to safely reduce referrals and assessments supported by a recommendation to invest further into early help, family support and prevention, where spend is low compared to ‘near neighbour’ comparative authorities.

34. Funding has been agreed for 2019/20 to reset the budget pending bringing forward a consolidated improvement plan to progress to a ‘Good’ service and setting out how budgets will be reconfigured to enable increased investment in early help and prevention.

35. The further resource requirements total £5.335m a year, largely relating to placement pressures. It is anticipated, based on the likely volume of children and young people, that MHCC could contribute a further £1.2m to these pressures based on the agreed three way funding split. This is subject to confirmation. It is proposed that the balance of £4.135m is met from 50% of

the Adult and Children's Social Care Grant i.e. c£2.278m and Council resources.

36. The placement pressures do not indicate a significant increase in the number of children looked after but instead removes the budgeted expectation that the placement numbers in external provision, both residential and foster care, would reduce. Manchester is now performing relatively well in the number of internal foster carers and Special Guardianship Orders and has a comparatively low number of external residential placement too.

Adult Social Care

37. Adult Services have produced an Improvement Plan designed to understand the immediate need for staffing resources to stabilise the service and in particular to manage waiting lists as well as work to design a fit for purpose structure for the future. Permanent recruitment to roles is an increasingly key requirement where possible, ensuring the building of high quality teams. It should be noted that this work is at a relatively early stage. The service is committed to achieve transformation through its three-year investment plan.

38. The estimated total budget requirement for the Adult Social Care (ASC) capacity required is £4.233m in 2019/20 increasing to £4.816m in 2020/21 and 2021/22 as follows:
- £1.067m in 2019/20 rising to £1.4m from 2020/21 (c60 fte) for additional capacity in Social Work, Safeguarding, the Citywide Care Homes Team, the Learning Disability service and other specialist services. Greater internal capacity for Best Interest Assessors supporting Deprivation of Liberty Safeguards
- £500k in 2019/20 rising to £750k in 2020/21 for proposals in development i.e. social work career pathway and additional team manager capacity for the in-house Learning Disability Accommodation Service.
- £1.456m to enable permanent recruitment to posts funded via ASC seasonal resilience funding as agreed at January 2018 Executive.
- £1.211m balance of seasonal resilience funding for additional winter arrangements such as placement costs as agreed between partners.

39. This will be funded across the three years 2019/20 - 2021/22 through use of the £2.666m a year Adult Social Care Resilience Grant, 50% of the Adult and Children's Social Care Grant i.e. c£2.278m, remaining Adult Social Care Reserve of £3m and £590k Council resources largely from the social care reserves outlined in table 2.

40. To fund the proposals above, in addition to the ASC winter pressures grant of £2.666m, the 2019/20 budget will be increased by a further £1.567m for the improvement plan. To reflect the likely timescales for recruitment the sum of £1.567m for 2019/20 will be phased with £0.784m added to the ASC budget and the remaining £0.783m held by the Council in the Adult Social Care Reserve to be drawn down as required in year.

41. From 2021/22 it is expected that the capacity requirements will change following transformation of services and further integration with health, improved practice and an overall stabilised and more efficient service.

Other Investment Priorities

42. After taking account of the additional Council Tax surplus and proposed investments the position is per the table below (all ongoing).
- Additional ongoing investment of **£150k** for Youth Services
- Further action to tackle littering, fly-tipping and poor business waste management of **£0.5m**.
- **£255k** investment to support Food Inspections
- **£0.5m** for enhanced enforcement activity in the private rented sector, as part of the homelessness budget. This is in addition to the £3.8m agreed in the January Executive Report and measures in the Recovery Plan bringing the total additional investment for 2019/20 to £4.3m.
- **£1.1m** for welfare related support funded from additional council tax revenues in 2019/20. In future it proposed these costs will be met from additional Council Tax income relating to the proposed changes to empty property reliefs, subject to the outcomes of consultation.

43. After taking account of the above additional funding and proposed investments the overall position for the 2019/20 Revenue Budget is per the following table.

Table 4 – Position after Additional Funds and Investments

	2019/20 £000
Surplus following January Executive	**(2,141)**
Additional Investments:	
Children's Investment	4,635
Adults Investment	4,233
Welfare Reform	1,100
Food Inspections	255
Homelessness - enhanced enforcement activity in the private rented sector	500
Further action to tackle littering, fly tipping and poor business waste management	500
Youth Funding	150
Funded by:	
Use of Social Care Grants and other reserves	(8,368)
Council Tax Surplus	(904)
Changes to Levies	(25)
Final position	**(65)**

Section 4 – Updated Savings Proposals

44. After taking into account the Recovery Plan proposals referenced in paragraph 17 and included at Appendix 1 the total saving target for 2019/20 is £14.798m.

Table 5 – Updated Savings and Budget Delivery Plans

	2019 / 20		
	Approved Savings £000	**Recovery Savings Proposals £000**	**Total £000**
Adults Social Care	18	1,975	1,993
Homelessness	0	440	440
Children and Education Services	2,269	776	3,045
Corporate Core	2,160	1,189	3,349
Neighbourhoods	4,575	376	4,951
Strategic Development	0	1,020	1,020
Total Savings identified	**9,022**	**5,776**	**14,798**

<u>Section 5 - Overall Financial Position</u>

45. Requests for additional funding to meet the spending proposals outlined in this report and detailed with Directorate Business and Budget Plans remain subject to scrutiny and Executive consideration. Should <u>all</u> requests be agreed the revised financial position will be in line with the table below. This would enable a balanced budget to be achieved for 2019/20 with a contribution to the General Fund reserve of £65k.

Table 6 - Summary of Resources Available and Budget Requirement for 2018/19 and 2019/20

	2018 / 19 £000	**2019 / 20 £000**
Resources Available		
Business Rates related funding	324,753	314,653
Council Tax	154,070	166,507
Other non ring fenced Grants / Contributions	38,735	54,426
Dividends and Use of Airport Reserve	53,342	62,390
Use of Reserves to support the budget	8,743	12,439
Total Resources Available	**579,643**	**610,415**
Resources Required		
Corporate Costs:		
Levies/Charges	68,655	70,090
Contingency	3,103	1,600

	2018 / 19 £000	2019 / 20 £000
Capital Financing	44,507	44,507
Transfer to Reserves	7,286	6,902
Sub Total Corporate Costs	*123,551*	*123,099*
Directorate Costs:		
Additional Allowances and other pension costs	10,030	10,030
Insurance Costs	2,004	2,004
Directorate Budgets	439,919	465,272
Inflationary Pressures and budgets to be allocated	4,139	9,945
Total Directorate Costs	*456,092*	*487,251*
Total Resources Required	**579,643**	**610,350**
Transfer (to) General Fund Reserve	**0**	**(65)**

Section 6 - Underpinning Financial Assumptions

46. The remainder of the report goes onto set out the detailed assumptions which underpin the final year of the three year budget.

Resources Available

Business Rates Income

47. Business Rates income is collected locally and partly redistributed between local authorities through a system of tariffs and top-ups. This redistribution is to ensure that areas do not lose out just because their local business rates are low compared to their assessed needs. The Council has been part of a pilot to retain 100% of additional business rate growth in Greater Manchester and Cheshire East since 1 April 2015. The scheme set a growth baseline above which named authorities would retain 100% of growth for the length of the pilot. On commencement of the 100% pilot the Council became a tariff authority (paying money to the government) rather than a top-up authority as it was previously under the 50% scheme.

48. In summary the total business rates related income available is as set out below.

Table 7 – Business Rates Related Funding 2018-20

	2018/19 £000	2019/20 £000
Business Rates Baseline	316,597	323,852
Business Rates Top Up / (Tariff)	(19,015)	(40,398)
Additional Business Rates Income	7,393	1,482
Business Rates Grants	19,778	29,717
Business Rates related funding	**324,753**	**314,653**

49. The **business rates baseline** is the amount of business rates income that an authority is predicted to raise annually as included in the Settlement Funding Assessment.

50. The **top up / (tariff)** is an amount received from or paid to Government to adjust income from business rates and bring it in to line with the Government's assessment of baseline funding level required.

51. **Additional Business Rates income** - This is the estimate of the additional business rates income above the government's business rates baseline. This includes the estimate of the amount the Council's anticipates collecting in business rates, less the 50% share of additional income received due to its participation in the 100% pilot that is passed to the GMCA, plus the Council's share of the business rates surplus relating to 2018/19.

52. **Business Rates Grants** - Section 31 grants totalling £19.778m are forecast for 2018/19 and £29.717m for 2019/20. Section 31 grants are awarded to offset the reduction in business rates yield due to the changes announced by government. This includes grants to facilitate the extension of the 100% Small Business Rates Relief (SBRR) and to compensate for the increase in the small business rates multiplier threshold. Annually, additional reliefs have been announced in the Autumn Statement. These have reduced business rates income and will be reimbursed as Section 31 grants e.g. retail relief from April 2019.

53. All grants reflect Manchester's increased business rates share as a result of being part of the rates retention pilot. These are taken account of when quantifying the additional income as a result of participation in the 100% pilot to be shared with the GMCA.

54. The Greater Manchester Councils, including Manchester, together with Cheshire East and Cheshire West and Chester continue to participate in the Greater Manchester and Cheshire Business Rates Pool which enables any levy that would be due to the government to be retained for the benefit of Greater Manchester and the Cheshire authorities.

55. In addition the cost of discounts, awarded to qualifying businesses within the Enterprise Zones (EZ), is reimbursed to the Council.

56. The estimate for 2019/20 anticipates that there will be growth above the EZ baseline in the Manchester Science Park. This is ringfenced for the costs of the enterprise zone growth manager and the borrowing costs associated with EZ developments.

57. The Government has confirmed that the 100% business rates growth retention pilot for Greater Manchester will continue for 2019/20. There is no confirmation of what will happen beyond next year.

Table 8 - Forecast Business Rates Grants 2018-20

	2018 / 19 £000	2019 / 20 £000
Small Business Rates Relief	13,265	13,330
Pub Relief (ends in 2018/19)	141	0
Multiplier Cap	7,604	10,758
Retail relief	0	7,606
Supporting small businesses	0	213
Discretionary Revaluation	746	310
Long term empty property relief	287	0
Enterprise Zone discounts	1,223	1,034
Adjustment to Top up in relation to multiplier cap	(3,315)	(4,821)
SBRR additional grant - correction	0	1,287
Transfer from / (to) BR reserve	(173)	0
Total Section 31 Business Rates Grants	**19,778**	**29,717**

Council Tax

58. The Council collects council tax on behalf of itself, the GMCA police and crime commissioner precept, GMCA fire precept and the GMCA mayoral general precept. This reports focuses on the increase to the Council element. There will also be increases for the GMCA precepts.

59. There have been various changes to the element of council tax relating to the Council which are broken down below. These are:

- Referendum criteria - As part of the 2017-20 budget strategy, council tax rises for 2019/20 were agreed at 1.99% along with a further 1.5% specifically to care for vulnerable adults. This will raise £5.4m. The 2019/20 Local Government Finance Settlement gives the flexibility to raise the council tax by a further 1% to cover the cost of core services. The budget assumes that the Council will remain with the commitment to keep council tax in 2019/20 at the level as reported previously as part of the 2017-20 budget strategy and will not be implementing the further 1% increase.

- The assumption for the council tax collection rate is 96.5%. This is based on historic trends in collection as council tax due in the current year will continue to be collected for a number of years.

60. The impact on these changes on the 2019/20 position are shown in the following table :

Table 9 – Net Council Tax Income Increase 2018-20

	2018/19 £000	2019 /20 £000
General Increase 1.99%	2,877	3,058
Adult Social Care Increase 1.5%	2,169	2,305
Increase to Tax Base	4,014	4,039
Change in prior year surplus	(1,497)	3,035
Total Increased Council Tax	**7,563**	**12,437**

61. The table below shows the proposed Band D impact if the proposed increases are agreed by the Council and GMCA.

Table 10 - Proposed Band D Council Tax

Impact on Manchester Band D Council Tax Precepting Authority	**2018/19** £	**2019/20** £	***Increase*** *%*
Council (including Adult Social Care precept)	1,324.54	1,370.77	3.49%
GM Mayoral Police and Crime Commissioner Precept	174.3	198.3	13.77%
GMCA Fire	59.95	59.95	0.00%
GM Mayoral General Precept	8.00	17.00	112.50%
Total	**1,566.79**	**1,646.02**	**5.06%**

Other Non Ringfenced Grants and Contributions

62. The following table lists the **other non-ringfenced grants and contributions** expected.

Table 11 - Other Non-Ringfenced Grants and Contributions 2018/19 to 2019/20

	2018 / 19 £000	2019 / 20 £000
Better Care Fund (Improved)	14,762	24,374
Additional Better Care Fund (Improved)	7,644	3,775

	2018 / 19 £000	2019 / 20 £000
New Homes Bonus	6,420	8,202
Adult Social Care Support Grant	1,667	0
Adult Social Care Winter Pressures Grant	2,666	2,666
Contribution from MHCC	0	4,000
Children and Adults Social Care Grant	0	4,555
Education Services Grant	1,260	1,260
AGMA refund	155	0
Bus Reform including concessionary travel for 16-18 year olds - GMCA contribution	0	1,618
Brexit Preparation funding	105	105
Housing Benefit Administration Subsidy	2,636	2,514
Universal Credit Funding	314	314
Council Tax Support Administration. Subsidy	944	881
Care Act Grants	162	162
Total Non Ring-fenced Grants	**38,735**	**54,426**

63. Issues around the most significant grants and contributions are as follows:

- **Better Care Fund (Improved)** - was created in the 2015 Spending Review and provided local government with new funding for adult social care. From 2017 the Spending Review made available social care funds for local government, rising to £1.5 billion by 2019-20**.** Manchester's allocation in 2019/20 is £24.374m. With the pending Adult Social Care Green Paper, there is no clarity on how this will be funded beyond 2019/20.

- **Additional Better Care Fund (Improved)** - The Spring Budget 2017 included an announcement of an additional £2bn over the 3 years 2017-20 towards spend on adult social care services. This was to ensure councils could take immediate action to fund care packages for more people, support social care providers and relieve pressure on the NHS locally. Manchester received an allocation of £24.336m for the three-year period; £12.917m in 2017/18, £7.644m in 2018/19 and £3.775m in 2019/20. This is being used to fund priorities and pressures within Adult Social Care. The full detail is set out in the Manchester Health and Care Commissioning - Adult Social Care Business Plan. There is no certainty on how this will be funded beyond 2019/20. The majority of the original BCF grant was back loaded to the last two years of the four year settlement period. This additional grant was tapered to compliment the original grant and took account of the ability to raise council tax through the 2% precept which was introduced alongside it.

- **New Homes Bonus (NHB) -** The Government has now confirmed an additional £20m in 2019/20 which will enable the baseline threshold to remain at 0.4%. The City Council allocation is £8.202m, £1.202m higher than originally budgeted. It is likely that the New Homes Bonus will be reformed post 2019/20.

- **Adult Social Care Support Grant -** Introduced in the provisional 2017/18 settlement, its stated aim was to bring forward support for adults social care pressures. This was initially announced as a one off grant in 2017/18 met through adjustments to the funding for New Homes Bonus and subsequently allocated again in 2018/19. This funding has not been continued in 2019/20.

- **Adult Social Care Winter Pressures Grant** - Local authorities' share of £240 million additional funding announced to help local areas ease winter pressure on the NHS. This is aimed at reducing delayed transfers of care. Manchester's allocation is £2.666m and for the purposes of setting the budget it is assumed the grant is ongoing which will enable the associated recruitment to be to permanent posts.

- **Contribution from Manchester Health and Care Commissioning (MHCC) -** This relates to the agreement of a longer term joint funding strategy with the CCG which includes an ongoing £4m contribution to the MHCC Pooled Budget (subject to formal agreement by the March 2019 CCG Board).

- **Children and Adults Social Care Grant -** The October 2018 budget announced a further £420m of funding for social care (Adults and Children's), the government stated this was to reduce demand on the NHS and improve the social care offer for older people, people with disabilities and children, Manchester's allocation is £4.555m.

- **Education Services Grant -** This relates to retained funding from DSG to fund statutory duties at a rate of £15 per pupil.

- **Contribution for Bus Reform including 16 – 18 year old concessionary travel -** Funding will be allocated from the Greater Manchester Combined Authority to contribute to increased transport levy costs.

- **Brexit Preparation Funding -** on 29 January 2019 the government announced an additional £56.5m to help councils with Brexit preparations. The Council's initial allocation is £210k which will be received over two financial years - 2018/19 and 2019/20.

- **Housing Benefits Administration Subsidy, Universal Credit Funding and Council Tax Support Administration Funding - allocated** to local authorities to support the costs of administering the range of welfare payments payable to residents.

- **Care Act Grants -** funding allocations for new adult social care duties previously announced.

64. **Airport Dividend and use of Airport Reserve** is forecast as follows: Originally, £52.942m was earmarked to support the budget in 2018/19. For 2019/20 the amount will be £61.990m.

- Of this dividend, £14.91m supports the budget in year, the remainder is placed in a reserve and used a year in arrears in recognition that this is not a guaranteed income stream and the dividend may reduce or increase in future years.

65. **Other Dividends**

- There is also £400k expected per annum for other dividends (National Car Parks Ltd and Piccadilly Triangle). Any additional dividend to that planned is treated as fortuitous income. In the first instance it will be added to the Capital Fund to support future investment or the Capital Financing Reserve if there are associated borrowing costs. Consideration will also be given to the current year's budget position, in particular whether there is a shortfall in achieving the overall dividend budget or pressures in the investment estate that are not met via the smoothing reserve.

66. **Use of reserves to support the revenue budget** is £8.743m in 2018/19 and £12.439m in 2019/20. Details of these reserves are shown in table 15.

Resources Required

67. The following table sets out the forecast **levy payments**.

Table 12 - Levy Payments 2018/19 to 2019/20

	2018 / 19 £000	**2019 / 20 £000**
Transport Levy *	54,373	38,157
GMCA Waste Services **	13,969	31,614
Environment Agency	211	217
Probation (Residual Debt)	22	22
Magistrates Court (Residual Debt)	9	9
Port Health Authority	71	71
Net Cost of Levies	**68,655**	**70,090**

** 2018/19 reflects the reversal of a one off transfer between the transport and waste levies, 2019/20 reflects the underlying base position for both levies. .*

*** Although included within the table of levies / charges above, the Waste Levy is administered by the Neighbourhoods Directorate and will be included within their published budget. This is to recognise that the actions within the directorate to reduce the levels of waste delivered impact on future levies which are tonnage based. It has been included above to give a complete view of the levies / charges paid.*

68. The significant expected changes to the levies are summarised below:

- The GM Waste Levy assumptions have been updated based on the most up to date tonnages and reflect savings the Council has made following service changes implemented to improve recycling rates. The final amount will be confirmed following the meeting of the GMCA on 15 February 2019 and may vary slightly. An additional contingency sum of £1m has been included within the Council's corporate contingency in 2019/20 to cover any potential increased charge in year.

- The GM Mayoral precept will be used to invest in bus reform. In the absence of final approval to the outstanding Parliamentary Order relating to Transport Functions, the GM Mayor is unable to raise monies directly for Bus Reform including the proposal for concessionary travel for 16 to 18 year olds and such costs fall on Districts by means of an increase to the transport levy. The GM Mayor will pay grants to Districts to offset those transport function costs on a pro-rata basis, the amount for Manchester is £1.618m.

- GMCA will propose the return of £0.975m transport resources to the City Council which will be formally be considered at the meeting of the GMCA on 15 February.

69. The required **contingency** amount includes:
- £1m in relation to risks around the waste levy and collection.
- £0.6m as an unallocated contingency to meet future unforeseen expenses.

70. **The capital financing budget** of £44.507m supports the costs of borrowing including interest costs and the minimum revenue provision, plus contributions to the capital financing reserve for revenue funding of the programme. Of this £25.637m is funded by interest received on loans made by the Council to Manchester Airport Group and other partner organisations

71. **Transfers to reserves** of £6.902m in 2019/20 relate to:
- Minimum Revenue Provision (MRP) saving transferred to the Town Hall Reserve £2.4m in 2019/20
- Transfer of £105k to reserves following the BREXIT preparation funding announcement. This will be fund costs anticipated to be incurred in 2019/20.
- Transfer to Social Care Reserve of £2.904m of which £1.009m was in the original budget, £975k relates to the expected transport rebate from GMCA as per paragraph 19 and £920k additional Small Business Rates Relief grant as per paragraph 20.
- Transfer to Adult Social Care Reserve £1.493m in 2019/20 from the element of Social Care grant allocated to adults to be used in 2020/21 as per paragraph 39.

72. **Additional allowances for former staff and teachers' pension costs** total £10.030m in 2019/20 relating to the historic pension cost of added years payments awarded to former employees. The Council no longer awards added years and has not done so for some time so this cost will reduce over time.

73. **Insurance costs** of £2.004m relate to the cost of external insurance policies as well as contributions to the insurance fund reserve for self-insured risks.

Directorate budgets

74. The cash limit budget for approval are set out in the table below, further detail is contained within the Directorate Reports. The figures in the table do not include the waste levy of £31.614m in 2019/20 which is shown against Corporate Items but will be monitored by the Neighbourhoods Directorate.

Table 13 – Cash Limit budgets

	2018 / 19 £000	**2019 /20 £000**
Children's Services	109,898	120,434
Adults Services	185,913	198,263
Homelessness	9,225	13,375
Corporate Core	70,087	67,838
Neighbourhood Directorate	57,561	59,847
Strategic Development	7,235	5,515
Total	**439,919**	**465,272**

Inflationary Pressures and Budgets to be Allocated

75. The main assumptions are as follows :

Table 14 – Inflationary pressures and budgets to be allocated

	2018 / 19 £000	**2019 /20 £000**
Non Pay Inflation	2,539	3,539
Pay Inflation at 2%	0	4,323
Employee Costs of Minimum Wage	0	775
Apprenticeship Levy 0.5%	900	900
Carbon Reduction Tax / Climate Change Levy	660	368
Contribution to Cemeteries Reserve	40	40
Total	**4,139**	**9,945**

The allocation relating to the pooled budget are not included in the table above as they have been included within Adult Social Care cash-limit budget as follows: National Living Wage £4.258m, Pay Inflation £1.002m and Non Pay Inflation £2.684m.

76. The main assumptions are as follows:

- Non Pay inflation provided for increased running costs each year, a balance of £2.539m in 2018/19 with a full year budget provision of £3.539m for 2019/20. This also includes funding for the anticipated increase in utility charges.

- Pay inflation at 2%, based on the approved 2 year pay award ending in 2019/20 and also reflecting the changes to the pay assimilation from April 2019.

- Employee cost of minimum wage - the estimated costs of the Manchester minimum wage are expected to be £0.775m in 2019/20.

- Apprenticeship levy - this is payable as 0.5% of the annual pay budget.

- Carbon reduction tax - from 2019/20 this will be abolished and the Climate change levy (CCL) rates will be increased. The £0.66m budget for 2018/19 has been removed therefore and the budget has been updated to include £368k for CCL costs in 2019/20.

- Contribution to Cemeteries reserve - this is an annual budget commitment to contribute to the reserve to purchase land for burials.

Section 7 - Financial Reserves

77. The Council holds a number of reserves, all of which, aside from the General Fund Reserve, have been set aside to meet specific future expenditure or risks. A full review of all the reserves held has been carried out as part of the budget setting process.

78. The reserves include:
    - Statutory reserves – such as the Bus Lane and Parking Reserves, where the use of these monies is defined in statute
    - PFI Reserves – held to meet costs across the life of the PFI schemes
    - Reserves to offset risk and manage volatility – such as the Insurance Fund Reserve, and reserves to smooth volatility in for example adult social care placements due to winter pressures
    - Schools reserves – schools funding which the Council cannot utilise
    - Reserves held to support capital schemes
    - Reserves to support economic growth and public sector reform
    - Grants and contributions which fall across more than one year – following local authority accounting standards these are held in a reserve

79. The following table shows an analysis of the planned use of reserves in 2018/19 and 2019/20 to support revenue expenditure.

Table 15 - Planned use of reserves 2018-20

	2018 / 19 £'000	2019 / 20 £'000
Statutory Reserves:		
Bus Lane and Parking reserves	7,861	5,504
Other Statutory Reserves	184	85
Balances Held for PFI's	**41**	**500**
Reserves directly supporting the revenue budget:		
Budget smoothing reserve	2,500	2,500
Capital Fund	3,493	0
Business Rates Reserve	540	490
Bus Lane (Supporting Transport Levy)	710	3,092
Social Care Reserve	1,500	6,357
Service Reserves:		
Adult Social Care	4,916	3,643
Social Care Reserve	4,015	1,320
Small Specific Reserves	**1,568**	**124**
Reserves held to smooth risk / assurance:		
Airport Dividend Reserve	38,029	45,413
Business Rates Reserve	4,000	2,000
Historic Abuse Claims Reserve	522	0
Other reserves held to smooth risk / assurance	6,333	1,730
Reserves held to support capital schemes:		
Capital Fund	23,880	10,237
Other reserves held to support capital schemes	8,385	10,408
Reserves held to support growth and reform:		
Clean City Reserve	1,684	412
Better Care Reserve	10,407	1,955
Town Hall Reserve	4,971	2,867
City Centre Reserve	2,927	0
Our Manchester Reserve	1,694	2,584
Other Reserves to support growth and reform	543	164
Grants and Contributions used to meet commitments over more than one year	**4,032**	**686**
General Fund	**1,060**	**0**
	135,795	**102,071**

80. Further detail on the main planned use of reserves is set out in more detail in the following paragraphs.

81. *Parking Reserve and Bus Lane Enforcement Reserve* - There is a statutory requirement to place income generated from on-street parking and bus lane enforcement into separate reserves. These reserves can only be used to fund certain types of highway and environmental improvements or for financial support to off street parking. The expected balance on these reserves at the 1 April 2019 is £11.936m. It is estimated that £9.049m will be added to these reserves during 2019/20 and £8.596m used. It will be used in accordance with these requirements to fund spend in the Neighbourhoods Directorate as well as part of the transport levy.

82. *Budget Smoothing Reserve* - This reserve was funded from a £5m transfer from a reserve previously set aside for historic abuse claims and is to be used to support the 2018/19 and 2019/20 budget.

83. *Social Care Investment Reserve*
A Children's Services Investment Reserve was initially established as part of the 2015/16 budget process to support the improvement of services which protect the most vulnerable children and to reduce the need for safeguarding by tackling complex problems which leaves some families dependent on targeted services.

84. During December 2018 there was a review of the Children's budget position and placement numbers including an independent benchmarking of resources and performance. The review reiterated Manchester has a very high rate of referrals and assessments and a higher than average rate of re-referrals.

85. Whilst there has been a significant reduction in external residential placements the number of placements have stabilised over the last few years. It should be noted, that during the same period there has been a significant reduction in the number of internal residential placements.

86. The analysis indicates the budget should not be set based on further reductions in external residential and external foster care placements and suggests a revised budget strategy to ensure a sustainable budget is set within the context of value of money and meeting need effectively. There are also growing pressures across a number of areas in the Council's budget relating to social care and providing the support to the vulnerable. Subsequently there is a need to use one-off resource to address these pressures as well as the delivery of children's services on a locality footprint and a three year budget strategy. Drawdown of the reserve will be predicated on the development of the Consolidated Improvement Plan for Children's Services and a business case process for any other areas.

87. *Adult Social Care Reserve* - As set out in paragraph 40 the additional funding identified for Adult Social Care will be used over 3 years to support the programme of improvement work which is underway in adult social care the aim being to 'Improve the delivery of the Council's adult social care assessment, care and support planning and statutory safeguarding offer and the delivery of the in house provider services'.

88. *Airport Dividend Reserve* - Of the airport dividend received, £14.91m supports the budget in year, the remainder is placed in the airport dividend reserve and used a year in arrears in recognition that this is not a guaranteed income stream and may reduce or increase in future years.

89. *Business Rates Reserve* – The 2019/20 use of £2.490m relates to £2m supporting the budget and £490k for Revenue and Benefit investment approved in March 2018.

90. *Town Hall Reserve* - The refurbishment of the Town Hall has revenue implications such as the cost of alternative accommodation and loss of income over a number of years; offset in part by reduced spend on maintenance and utilities. It has previously been approved that savings in Minimum Revenue Provision (MRP) be used to fund the revenue costs.

Section 8 - Workforce Implications

91. The Council's workforce will be the essential driving force behind the Our Manchester strategy. The Council would be nothing without the hard work, dedication, and passion that is seen in staff every day. Our People is the Council's commitment to offer a high quality employee experience that truly reflects the Our Manchester behaviours.

92. A comprehensive work programme is in place to deliver on the vision of Our People Strategy and, underpinning this, is a focus on strengthening core people management practices across the Council and providing managers with the tools and the support they need to manage effectively. This is crucial to supporting the organisation's overarching budget strategy, by ensuring the capacity of the organisation's human resources are deployed and developed to best effect

93. There is a clear recognition that the Council will need to continue to invest in skills for existing staff and attract, develop and retain new talent to enhance the Council's capacity and capabilities for the challenges ahead. This is being enabled by opportunities made available through natural turnover and supported by a strong focus on the development of new skills and ways of working as part of the Our People Strategy, informed by the BHeard Survey and strengthened workforce intelligence, with a particular focus on:

- **Leadership** that lives the Our Manchester Behaviours
- Consistent high quality people **management,** underpinned by clear and effective policies, guidance and support
- Driving **equality** objectives as an employer
- **Development and skills** to deliver now and in the future: supporting the development of all staff, at every level
- **Strategy** which embeds the Our Manchester behaviours in all staff do
- An approach to **resourcing** which maximised organisational capacity

Table 16: Workforce numbers

Summary by Directorate	**2018-2019 Budgeted Posts FTE**	**2019 - 2020 Saving Proposals Gross FTE Impact (Indicative)**
Adult Social Care	1,207	0.00
Homelessness	250	0.00
Children and Education Services	1,301	0.00
Corporate Core	1,741	13.00
Neighbourhoods (including Highways)	1,441	0.00
Strategic Development	668	0.00
Total	**6,608**	**13.00**

It should also be noted:

- With regards to the £3m of savings relating to HR policies and processes - £1.5m scheduled for 2018/19 has been achieved, with a further £1.5m planned for 2019/20. In 2019/20 these will be achieved via further savings from the annual leave purchase scheme, the introduction of a shared cost (salary sacrifice) model for the purchase of pension Additional Voluntary Contributions, savings from work already undertaken to rationalise the Council's senior structure and the identification of vacancies for deletion.

- A further £0.5m savings target is linked to delivering a transformation programme across the Corporate Core. - The details of this work are still emerging but it is likely to have some workforce implications.

94. Given the organisation's rate of turnover and current vacancies it continues to be anticipated that the workforce reductions can be achieved without the need for the use of an enhanced early retirement or voluntary redundancy scheme.

95. The proposed investment in services over the period of the budget will also create employment opportunities. Subject to approval, the additional posts established in the City Council will be included within the overall workforce planning requirements. This includes:

- Adult social care improvement work to put the right foundations in place through work to embed streamlined process, effective practice, and an enabled workforce with the right resources in place to manage demand. It is envisaged that this will lead to additional capacity of c100 FTE.

- Additional capacity for Homelessness support to reduce caseloads and a further proposal to provide additional funding for enforcement activity for accommodation across the City is being held in the Homelessness budget. This is also likely to result in an additional staffing requirement but the exact impact is to be determined.

- Within Neighbourhoods, additional investment is proposed to address the issue of fly tipping - if approved, this will be used to fund 3 FTEs that will seek to work with businesses to ensure commercial waste is disposed of appropriately. It is also proposed to provide investment to fund increased staffing resources of 7 FTEs required to address increased demands within Food Safety.

96. Over the past year the progress of Health and Social Care Integration has continued at pace, with a significant number of staff deployed into the Manchester Local Care Organisation (MLCO). All Council staff affected will remain employees of the Council.

Section 9 – Consultation

97. As part of the three-year budget setting process which started in 2017/18, more residents than ever before were involved in a conversation about what mattered to them, over 4,250 people got involved over 3 phases of consultation. This information was used to inform the Council's spending plans for the next three years.

98. Although there is no formal requirement to consult residents on this year's budget a commitment was made to ensure that the Council continues to inform and engage residents, businesses and council staff in the budget process. Businesses will also be engaged specifically in a conversations about businesses rates.

99. One of the ways Manchester have engaged this year is through 'Our Manchester Days', these take over days carry on the budget conversation - focusing on the areas that people told us matter most to them in the budget conversation. They highlight the services commissioned or delivered by the Council and go behind the scenes to meet staff and partners. There will also be targeted information about the budget setting process.

100. This report details proposals to meet the requirement to produce a definitive budget to be approved at the City Council meeting on 8 March 2019. The report sets out a proposed investment approach to underpin the delivery of Our Manchester. There is a reasonable basis for setting the budget for 2019/20.

101. An additional £12.6m one off government funding has been allocated to the Council since the Autumn Budget. The late announcement and one off nature of the funding allocated has made effective longer term planning more difficult and whilst central government have recognised the pressures local authorities are facing in these areas, the funding does not continue beyond 2019/20 and is insufficient to meet the increases in demand for services. When taken alongside the proposed return of revenues from the GMCA, the Council is relatively cash rich in the short term but is facing uncertainty and budget reductions in the future.

102. This is a period of continued reductions in resources and growing pressures. The savings required over the next year are £14.798m after taking account of

the one off resources to support the revenue budget. Proposals have been identified and officers have satisfied themselves with the robustness of the planned service changes and their broad deliverability.

103. The range of potential changes to Local Government Financing from 2020/21 is considerable, including:

- New Spending Review period starts 2020/21 – potential continuation of austerity. Reports Summer 2019.
- Funding formula for allocating funding to local authorities is changing. Reports Summer / Autumn 2019.
- Changes to how business rates are managed – currently the Council retains 100% of <u>growth</u> generated during valuation period, although this is then lost at the reset of the base. Likely to move to 75%.
- Business rates income very volatile and difficult to predict, particularly due to the number and scale of appeals.
- Changes to long-term funding for adult social care with the delay again of the Green Paper now expected Spring 2019.
- Increasing pressures from welfare reforms which are not fully funded.

Section 12 - Recommendations

104. Detailed recommendations appear at the front of this report.

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Appendix 1
Savings and Recovery Proposals 2019/20

Children's Services

Service Area	Description	RAG Deliverability	2019/20 £000
Original 2018-20 savings			
	Demand Management and Practice Efficiencies	Amber	500
	Travel Co-ordination	Amber	90
	Review of Commissions	Green	100
New savings proposals			
	Reduction in Use of Agency	Green	186
	Legal Compensation budget underspend	Green	50
	Information and governance existing underspend	Green	40
	Review of further commissions	Green	100
	Market management for placement costs	Red	400
Savings to manage existing pressures			
	Supported Accommodation - Leaving Care	Amber	309
	Adoption Allowances	Amber	145
	Home to School Transport	Amber	733
			2,653
	Investment Adjustment		392
Children's Services - Total Saving Proposals			**3,045**

Adults Social Care

Service Area	Description	RAG Deliverability	2019/20 £000
New Care Models Gross Savings:			
	Assistive Technology	Red	1,162
	Reablement Core / Complex	Red	3,218
	High Impact Primary Care	Red	153
Gross NCM savings			**4,533**
	New Care Models Investment:		
	Extra Care		(734)
	Reablement		(2,679)
	Use of Adult Social Care Grant Contribution to Reablement		1,568
	Total Investment		**(1,845)**
	Sub-total New Care Models - Net Savings		**2,688**
Other ASC Savings			
	High Cost Placements (Learning Disability)	Amber	500
	Strengths Based Support Planning - Mental Health	Red	775
	Homecare: Implement outcomes based commissioning	Amber	750
	Contract Review	Red	500
	Prepaid Cards for Cash Individual Budgets	Amber	200
	Strengths Based Support Planning - All ASC Packages	Red	500
	Shared Lives (net of £150k investment)	Red	150
Sub-total other Adult Social Care Savings			**3,375**

Service Area	Description	RAG Deliverability	2019/20 £000
Total Net Savings to be achieved			**6,063**
	Contribution to 2018/19 Unachieved Savings		(2,502)
Total Net 2019/20 Savings to be achieved			**3,561**
	Recovery - Use of Adult Social Care Grant		(1,568)
Total Net Savings Contributing towards 2019/20 position			**1,993**

<u>Homelessness</u>

Service Area	Description	RAG Deliverability	2019/20 £000
Recovery proposals:			
	Savings relating to additional capacity within unsupported accommodation spend	Amber	440
Homelessness Services - Total			**440**

Neighbourhoods Directorate

Service Area	Description	RAG Deliverability	2019/20 £000
Savings approved in Medium Term Financial plan:			
Parks, Leisure and Events	Reduce costs of indoor leisure through recommissioning of contracts	Green	150
	Energy improvements on leisure buildings	Green	50
	Wythenshawe Forum Trust - efficiencies from sharing back office functions	Green	50
	Co-commissioning leisure services across Greater Manchester	Green	50
	Business Units - Increasing bereavement services offer	Green	60
Waste Management			
	Planned Service change through increasing levels of recycling	Green	900
	Other service changes - apartment blocks	Amber	250
	Reviewing waste disposal costs	Green	3,000
Highways			
	Highways - Manchester Contracts off hire under used vehicles	Amber	20
	Highways - Design Team - Implement webforms to ensure staff efficiencies, introduce re-modelled fee structure, reduce consultancy usage and review team capacity.	Amber	45
Total MTFP Savings			**4,575**
New Saving proposals:			
	Neighbourhoods Service Increase in income from fees and charges	Green	156

Service Area	Description	RAG Deliverability	2019/20 £000
	The replacement of agency staff with permanent staff	Green	40
	Review of plant, equipment and vehicles expenditure at Manchester Contracts	Green	5
	Highways additional fee income by reviewing the capital fee income rates charged, permits, skips and licenses.	Green	75
	Reduced spend on supplies and services across the directorate	Green	100
Total New Saving proposals			**376**
Neighbourhoods Directorate - Total Saving Proposals			**4,951**

Corporate Core

Service Area	Description	RAG Deliverability	2019/20 £000	FTE Impact (Indicative)
Savings approved in Medium Term Financial plan:				
	ICT - Revenue savings through reduced maintenance/ licensing costs following capital investment	Amber	170	
	Legal and Democratic Services - Staffing reduction in legal services following planned reduction in Children's caseload	Amber	100	2.0
	Financial Management - Lean systems - Service review and improved efficiency through ICT development and changes to finance processes	Amber	390	11.0
	Cross Cutting HR Policies and processes - Purchase of annual leave	Green	150	
	Cross Cutting HR policies and processes - Car allowance scheme and funded vacancies	Amber	100	
	Cross Cutting HR policies and processes - Rationalisation of Senior structure	Green	540	
	Cross cutting HR Policies and processes - new AVC scheme	Amber	150	
	Cross cutting HR Policies and Processes - Review existing HR policies and Processes. Identify further funded vacancies	Red	560	
Total MTFP Savings			**2,160**	**13.0**
New Saving proposals:				

Service Area	Description	RAG Deliverability	2019/20 £000	FTE Impact (Indicative)
	Review of budgeted expenditure on supplies and services:			
	- City Policy - Special Projects	Green	100	
	- Performance Reform and Innovation	Green	4	
	- Central Communications budget	Green	25	
	- Commissioning	Green	15	
	- Human Resources	Green	50	
	Reduced cost of the Data Governance improvement programme	Green	60	
	Reduced expenditure against resources allocated for ICT investment	Green	435	
	Review of the Core Transformation work	Red	500	
Total New Saving proposals			**1,189**	**0**
Corporate Core Directorate - Total Savings proposals			**3,349**	**13.0**

Strategic Development

Service Area	Description	RAG Deliverability	2019/20 £000
New Saving proposals:			
	An increased recharge for Building Control to the Housing Revenue Account, for work on the Council property stock	Green	20
	The Investment Estate income budget will be increased by £1m relating to additional lease income from the renegotiation of the Manchester Airport car park leases.	Green	1,000
Strategic Development - Total			**1,020**

Total Recovery Proposals

Service Area		2019/20 £000	FTE Impact (Indicative)
Total Savings Proposals 2019/20		14,798	13

Recovery Proposals

Service Area	Description	2019/20 £000
Recovery proposals:		
Children’s	Additional funding built into the Looked After Children Investment Fund to further support the position over the next three to five years	3,000
Adults	Application of 2019/20 Adult Social Care Reform Grant	1,568
Adults	Risk share contribution from the pooled budget	4,000
Homelessness	Resource has been identified to support homelessness from corporate inflationary budgets	1,400
Neighbourhoods	Proposed revised utilisation of the bus lane reserve to include to enable of savings to be generated by the service.	300
Total		**10,268**

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APPENDIX 2

LEGAL BACKGROUND TO SETTING THE REVENUE BUDGET AND COUNCIL TAX

1. INTRODUCTION

1.1 The council tax is basically a tax on property with a personal element in the form of discounts and reductions. Discounts include the 25% discount in respect of dwellings occupied by a single person. Reductions include reductions in pursuance of the Council's council tax reduction scheme made under the Local Government Finance Act 2012 which has replaced council tax benefit.

1.2 All dwellings re listed in one of eight valuation bands and the amount of council tax payable in respect of each dwelling (before discounts and other reductions) is in a set proportion between each band. The Headline Tax is calculated for Band D and the tax in the remaining bands is worked out as a proportion of this amount. The lowest Band (A) is two-thirds of Band D and the highest Band (H) is twice Band D and three-times Band A. The proportions are as follows:-

A:	B:	C:	D:	E:	F:	G:	H:
6:	7:	8:	9:	11:	13:	15:	18:

1.3 There are three main stages in setting the council tax:-

STAGE 1 - The Council calculates is own **council tax requirement,** (i.e. its net revenue expenditure), including levies issued to it but not precepts.

STAGE 2 - The Council then calculates its **basic amount of council tax** which is the Manchester City Council (MCC) element of the council tax for Band D and which takes account of council tax requirement and the council tax base calculated at an earlier stage and after that the MCC element of the remaining bands.

STAGE 3 - Finally, the Council sets the council tax for the area in bands, being the aggregate of the MCC element of the tax and the element of the tax precepted by the Greater Manchester Combined Authority Mayoral Police and Crime Commissioner (GMCA MPCC) Precept and the Greater Manchester Combined Authority Mayoral General

Precept (including Greater Manchester Fire and Rescue Services).

2. STAGE 1 - THE COUNCIL TAX REQUIREMENT

2.1 Members should note that the Localism Act 2011 amended the Local Government Finance Act 1992 ("LGFA 2011") to introduce a duty to calculate a "council tax requirement".

2.2 Section 31A of the LGFA 1992 requires the Council to make three calculations, in effect -

(i) an estimate of the Council's gross revenue expenditure - Section 31A(2);

(ii) an estimate of anticipated income - Section 31A(3)

(iii) a calculation of the difference between (i) and (ii) above, (i.e. net revenue expenditure) - Section 31A(4) – this is known as the **council tax requirement.**

2.3 More specifically, in its Section 31A(2) calculation of gross expenditure the Council should include -

(a) estimated revenue account expenditure to be incurred during the year;

(b) an appropriate allowance for contingencies (i.e. an allowance for unforeseen events);

(c) any raising of reserves for future years (e.g. payments into special funds);

(d) any estimated revenue account deficit for previous years not already provided for;

(da) any amount estimated to be transferred from the general fund to the collection fund in accordance with regulations in respect of business rates.

(e) any amount estimated to be transferred from the general fund to the collection fund on account of the Council's share of any collection fund deficit

(f) an estimate of certain amounts to be transferred to the collection fund pursuant to a direction of the Secretary of State (e.g. any estimated shortfall in collection of Business Rates in excess of allowance for non-collection).

2.4 The Section 31A(3) calculation is the aggregate of the sums to be set off against gross expenditure, namely -

(a) estimated income from fees, charges, specific grants, and revenue support grant (RSG).

(aa) any amount estimated to be transferred from the collection fund to the general fund in accordance with regulations in respect of business rates

(b) any amount estimated to be transferred from the collection fund to the general fund on account of the Council's share of any collection fund surplus

(c) an estimate of certain transfers from the collection fund to the general fund e.g. allowance for costs of collecting business rates;

(d) any amount of reserves/balances intended to be used towards meeting revenue expenditure.

2.5 Section 31A(4) then requires the calculation under Section 31A(3) to be subtracted from that under Section 31A(2) to produce a calculation of estimated net expenditure known as the **council tax requirement**.

2.6 These calculations must be made before 11 March, although they are not invalid merely because they are made on or after that date. However, until the calculations are made any purported setting of the Council Tax will be treated as null and void.

2.7 It should be noted that the general fund has to stand the cost of any temporary lending to the collection fund to cover late payments/non-collection.

2.8 It should be noted that significant amounts of expenditure are financed through government grants (such as the Dedicated Schools Grant for schools budget related expenditure) and not directly through council tax. Such expenditure will be calculated under Section 31A(2)(a) and will be offset by the specific grants which will be included in the calculation under Section 31A(3)(a).

2.9 It should be noted that the Local Government Finance Act 2012 enables the Council to retain around half of Manchester's business rates income, rather than this being paid into a central government pool and redistributed. This will involve a separate calculation under Section 31A (3) (aa)

3. <u>THE LEVEL OF THE COUNCIL TAX REQUIREMENT</u>

3.1 The level of the Section 31A calculations, and in particular the calculation of the council tax requirement is of crucial importance both legally and financially. In particular -

- the amount of the council tax requirement must be sufficient to meet the Council's legal and financial commitments and ensure the proper discharge of its statutory duties.

- the amount of the council tax requirement must ensure a balanced budget

- the amount of the council tax requirement must leave the Council with adequate financial reserves.

- the level of the council tax requirement must not be unreasonable having regard to the Council's fiduciary duty to its Council Tax payers and ratepayers.

- the amount of the council tax requirement will be relevant to the question of whether or not the Council is required to hold a council tax referendum (see paragraph 5).

3.2 The level of the council tax requirement, together with the council tax base (see paragraph 4.3) will determine the Council's basic amount of council tax.

4. **STAGE 2 - THE COUNCIL'S BASIC AMOUNT OF COUNCIL TAX**

4.1 Having calculated its council tax requirement, the Council is then required under Section 31B, LGFA 1992 to calculate its **basic amount of council tax**. This is the MCC element of Band D Council Tax. Then, under Section 36, it must calculate the MCC element of all the bands as a proportion of the Band D calculation.

4.2 **Section 31B Calculation**

The MCC Element of the Band D Council Tax is known as the basic amount of council tax. This is calculated by applying the following formula -

$$\frac{R}{T}$$

where -
R is the council tax requirement, and
T is the council tax base.

4.3 **Council Tax Base**

The council tax base is basically the Band D - equivalent number of properties in the City adjusted to take account of discounts premiums and reductions and multiplied by the estimated collection rate. The City Treasurer (in consultation with the Executive Member for Finance and Human Resources) acting under delegated powers has calculated the council tax base for 2019/20 to be 116,015. It should be noted that the basis of calculations has changed as a result of localisation of council tax support and that the effect of the authority's council tax reduction scheme operates to reduce council tax base.

4.4 **Section 36 Calculation**

Having calculated the basic amount of council tax (i.e. the MCC element of the Band D tax) the Council is then required to convert it into a MCC element for all Bands by multiplying it by the formula N/D where -

N is the proportion for the band as set out below and D is 9.

4.5 The proportions for each band are as follows:-

A:	B:	C:	D:	E:	F:	G	H:
6:	7:	8:	9:	11:	13:	15:	18

5. **COUNCIL TAX REFERENDUMS**

5.1 The Localism Act 2011 ("LA 2011") abolished council tax capping and replaced it with a requirement to hold a council tax referendum if an authority increases its council tax by an amount exceeding a level set out in principles determined by the Secretary of State and approved by the House of Commons. The new requirement appears in Chapter 4ZA of Part 1 of the LGFA 1992 which was inserted by Schedule 5 of the LA 2011.

5.2 The provisions require the Council to determine whether its "basic amount of council tax" for a financial year is excessive. This question must be decided on accordance with a set of principles determined by the Secretary of State. The Secretary of State had indicated the principles he was minded to set. In relation to all principal authorities, such as Manchester, an increase of more than 4.5%, (including 1.5% for adult social care) is deemed "excessive" in 2019/20. The Council element is only increasing by 1.99% in 2019/20 not 2.99%. This reflects the allowable increases for adult social care over the 3 year period from 2017/18. All figures are based on an increase in an authority's "***basic amount of council tax"*** between 2017/18 and 2019/20. The definition of "basic amount" is set out in Section 52ZX, LGFA 1992.

5.3 The legislation places the onus on each authority to determine whether its basic amount of council tax is excessive by reference to the Secretary of State's principles. Where a precepting authority has determined that its increase is excessive, it must arrange for a referendum to be held. Where a precepting authority (e.g. GMCA MPCC or GMCA MF) has determined its increase is excessive, it must notify the billing authority to which it precepts. The billing authority or authorities will then be required to make arrangements to hold a referendum in relation to the precepting authority's increase.

5.4 If an authority determines that it has set an excessive increase, it must also make "substitute calculations" to produce a basic amount of council tax which does not exceed the principles. The substitute calculations would automatically take effect in the event that the voters reject the authority's increase in a referendum. The costs of this referendum are the responsibility of the authority which triggered it.

6. STAGE 3 - SETTING THE COUNCIL TAX

6.1 The final part of the process is for the Council as billing authority to set the overall council tax for each band. Whereas the billing authorities and major precepting authorities **calculate** their own council tax requirements, their own basic amounts of council tax and amounts for each band, the **setting** of the council tax is solely the responsibility of the City Council as billing authority.

6.2 Section 30 of the 1992 Act provides that the amounts set for each band will be the aggregate of the City element for each band calculated under Section 36 and the amount calculated for each band by each of the major precepting authorities.

6.3 The council tax must be set before 11 March (i.e. no later than 10 March), although it is not invalid merely because it is set on or after that date.

6.4 The council tax cannot be set before 1 March unless all precepting authorities have issued their precepts; nor can it be set before the Council has made the other required calculations. Otherwise, any purported setting of the tax will be treated as not having occurred.

6.5 The Council has a clear legal duty to set a council tax and a resolution not to set a council tax would be unlawful, being in breach of Section 30, LGFA 1992. So would be a resolution to set a council tax which deliberately did not balance the various calculations.

7. CONSTITUTIONAL ARRANGEMENTS

7.1 Members should note that under the Council's constitutional arrangements, the functions of calculating the council tax requirement and the basic amount of council tax and the function of setting the council tax are the responsibility of the full Council. The function of preparing estimates and calculations for submission to Council is the responsibility of the Executive.

7.2 The Council's Constitution provides a procedure for the resolution of any conflict between the Executive and the Council which gives effect to the Local Authorities (Standing Orders) (England) Regulations 2001. However, this only applies where the estimates and calculations are prepared by the Executive before 13 February. Any conflict can be resolved through the scrutiny process. The Budget and Policy Framework Rules provide that where the Resource and Governance Scrutiny Committee has any objection to the estimates and calculations prepared by the Executive, it will report such objections to the Council, the Leader and the Executive Member for Finance and Human Resources. The Leader and/or the Executive Member will report to the Council whether they agree or disagree with any objection of the Scrutiny Committee.

8. RESTRICTIONS ON VOTING

8.1 Members should be aware of the provisions of Section 106 of the Local Government Finance Act 1992, which applies to members where -

(a) they are present at a meeting of the Council, the Executive or a Committee and at the time of the meeting an amount of council tax is payable by them and has remained unpaid for at least two months, and

(b) any budget or council tax calculation, or recommendation or decision which might affect the making of any such calculation, is the subject of consideration at the meeting.

8.2 In these circumstances, any such members shall at the meeting and as soon practicable after its commencement disclose the fact that Section 106 applies to them and shall not vote on any question concerning the matter in 8.1 (b) above. It should be noted that such members are not debarred from speaking on these matters.

8.3 Failure to comply with these requirements constitutes a criminal offence, unless any such members can prove they did not know that Section 106 applied to them at the time of the meeting or that the matter in question was the subject of consideration at the meeting.

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APPENDIX 3: RESERVES

Reserve	Closing Balance 31/03/2019	Withdrawals	Additions	Closing Balance 31/03/2020	Closing Balance 31/03/2021	Closing Balance 31/03/2022	Closing Balance 31/03/2023	Purpose
	£000	£000	£000	£000	£000	£000	£000	
Schools Reserve	20,000	(259)	0	19,741	19,482	19,223	18,964	
General Fund Reserves								
Statutory Reserves	16,370	(8,681)	10,352	18,041	18,658	18,261	17,349	
Earmarked Reserves	241,191	(93,390)	97,282	245,083	230,054	210,191	196,804	
General Fund Reserve	22,779	0	65	22,844	22,844	22,844	22,844	
Total General Fund	**280,340**	**(102,071)**	**107,699**	**285,968**	**271,556**	**251,296**	**236,997**	
Housing Revenue Account Reserves:								
Housing Revenue Account General Reserve	65,352	(16,136)	0	49,216	35,106	39,217	36,994	
HRA PFI reserve	10,000	0	0	10,000	10,000	10,000	10,000	
HRA Residual liabilities fund	24,000	0	0	24,000	24,000	24,000	24,000	
Housing Insurance reserve	1,570	0	200	1,770	1,970	2,170	2,370	
Total HRA	100,922	(16,136)	200	84,986	71,076	75,387	73,364	
TOTAL RESERVES	401,262	(118,466)	104,995	387,791	359,210	343,002	326,421	
SCHOOLS RESERVE								
LMS Reserve	20,000	(259)	0	19,741	19,482	19,223	18,964	School balances - These are not a Manchester City Council resource and so cannot be used by MCC

Reserve	Closing Balance 31/03/2019	Withdrawals	Additions	Closing Balance 31/03/2020	Closing Balance 31/03/2021	Closing Balance 31/03/2022	Closing Balance 31/03/2023	Purpose
	£000	£000	£000	£000	£000	£000	£000	
Sub Total Schools	20,000	(259)	0	19,741	19,482	19,223	18,964	
<u>STATUTORY RESERVES</u>								
Bus Lane Enforcement Reserve	10,016	(4,242)	4,000	9,774	9,282	8,290	7,298	Ringfenced reserve which can only be applied to specific transport and highways related activity.
On Street Parking	1,737	(4,354)	5,049	2,432	3,841	5,250	6,659	Ringfenced reserve which can only be applied to specific transport and highways related activity.
Ancoats Square Reserve	1,872	(45)	0	1,827	1,782	1,737	1,692	Received from the HCA to cover the revenue costs of maintaining Ancoats Square for a period of at least 25 years.
Spinningfields Commuted Sum	958	(20)	0	938	918	898	878	Funds received as part of an agreement to cover maintenance costs.

Reserve	Closing Balance 31/03/2019	Withdrawals	Additions	Closing Balance 31/03/2020	Closing Balance 31/03/2021	Closing Balance 31/03/2022	Closing Balance 31/03/2023	Purpose
	£000	£000	£000	£000	£000	£000	£000	
New Smithfield Market	349	0	20	369	369	369	369	To contribute towards funding the development plans for the market
Great Northern Square Maintenance Fund	303	(20)	0	283	263	243	223	Set up in accordance with the agreement with the developers of the site. It will be used for upgrading of the square.
Education Endowments	17	0	0	17	17	17	17	Kept as part of future payments for school prizes
Landlord Licensing Reserve	319	0	1,283	1,602	1,387	658	(586)	Smoothing reserve
Art Fund Reserve	35	0	0	35	35	35	35	For art purchases
St Johns Gardens Contingency	764	0	0	764	764	764	764	Contribution from St Johns Gardens tenants for maintenance works
Sub Total Statutory	**16,370**	**(8,681)**	**10,352**	**18,041**	**18,658**	**18,261**	**17,349**	
BALANCES HELD FOR PFI'S								

Reserve	Closing Balance 31/03/2019	Withdrawals	Additions	Closing Balance 31/03/2020	Closing Balance 31/03/2021	Closing Balance 31/03/2022	Closing Balance 31/03/2023	Purpose
	£000	£000	£000	£000	£000	£000	£000	
Street Lighting PFI	500	(500)	0	0	0	0	0	Established to fund the requirements over 25 years re: the PFI contract for Street Lighting service via external contractors
Temple PFI	665	0	12	677	564	441	295	Established to fund the requirements of the PFI scheme over 25 years
Wright Robinson PFI Reserve	1,312	0	40	1,352	1,392	1,432	1,472	PFI Scheme 25 year contract drawdown will be in future years as expenditure exceeds grant.
Total held for PFI's	**2,477**	**(500)**	**52**	**2,029**	**1,956**	**1,873**	**1,767**	
Reserves directly supporting the revenue budget								
Adult Social Care	3,060	(3,643)	4,493	3,910	1,760	0	0	To support Adult and Social Care Improvement Plan
Social Care Reserve	16,597	(7,677)	2,904	11,824	5,609	31	31	To address pressures in social care, in particular the need to invest in early help and

Reserve	Closing Balance 31/03/2019	Withdrawals	Additions	Closing Balance 31/03/2020	Closing Balance 31/03/2021	Closing Balance 31/03/2022	Closing Balance 31/03/2023	Purpose
	£000	£000	£000	£000	£000	£000	£000	
								prevention in Children's Services and continued pressures on LAC budgets
Budget smoothing reserve	2,500	(2,500)	0	0	0	0	0	To address pressures in social care, in particular the need to invest in early help and prevention in Children's Services and continued pressures on LAC budgets
Total held to support the revenue budget	**22,157**	**(13,820)**	**7,397**	**15,734**	**7,369**	**31**	**31**	
RESERVES HELD TO SMOOTH RISK / ASSURANCE								
Risks								
Historic Abuse Claims Reserve	600	0	0	600	600	600	600	For potential future legal cases
Planning Reserve	1,511	0	0	1,511	1,511	1,511	1,511	Reserve to be used to fund costs of staff and studies required

Reserve	Closing Balance 31/03/2019	Withdrawals	Additions	Closing Balance 31/03/2020	Closing Balance 31/03/2021	Closing Balance 31/03/2022	Closing Balance 31/03/2023	Purpose
	£000	£000	£000	£000	£000	£000	£000	
								to meet our statutory obligations to bring forward a Local Plan
Transformation Reserve	8,953	0	0	8,953	8,953	8,953	8,953	To support costs of future service change.
Airport Dividend reserve	45,413	(45,413)	45,413	45,413	45,413	45,413	45,413	The additional airport dividend will be used to support future years budget
Land Charges Fees Reserve	373	0	0	373	373	373	373	To mitigate risk across financial years
Pension Risk Fund - MWL	514	0	10	524	0	0	0	To fund wind up costs in 2020/21
Manchester International Festival	1,508	(500)	0	1,008	508	0	0	To fund the additional costs of the Manchester International Festival Fund and Factory.
Highways reserve	1,208	(30)	0	1,178	1,148	1,118	1,088	Commuted sums received that will be utilised for highways schemes in future years
Insurance Fund	12,124	(500)	0	11,624	11,124	10,624	10,124	The insurance fund has been established

Reserve	Closing Balance 31/03/2019	Withdrawals	Additions	Closing Balance 31/03/2020	Closing Balance 31/03/2021	Closing Balance 31/03/2022	Closing Balance 31/03/2023	Purpose
	£000	£000	£000	£000	£000	£000	£000	
								to fund risks that are self insured.
Newton Heath Market Reserve	22	0	0	22	22	22	22	To fund future markets expenditure
Selective Licensing reserve	300	0	0	300	300	300	300	Costs for administering the reputable landlord initiative and ensure compliance
Investment Estate smoothing reserve	1,000	(700)	0	300	300	300	300	To manage budget pressures due to the volatility in investment income.
Business Rates Reserve	18,521	(2,490)	9,508	25,539	23,049	20,559	20,069	To mitigate Business Rates income risk
TOTAL Risk/Smooth	**92,047**	**(49,633)**	**54,931**	**97,345**	**93,301**	**89,773**	**88,753**	
RESERVES HELD TO FUND PLANNED CAPITAL SPEND								
Regeneration reserve	12,796	(2,325)	0	10,471	8,146	6,571	5,371	To deliver regeneration projects.
Enterprise zone reserve	893	(75)	563	1,381	1,313	0	0	To fund the borrowing costs of projects.
Capital Fund Reserve	51,876	(10,237)	19,217	60,856	60,692	52,104	38,041	Contribution to schemes which are being brought

Reserve	Closing Balance 31/03/2019	Withdrawals	Additions	Closing Balance 31/03/2020	Closing Balance 31/03/2021	Closing Balance 31/03/2022	Closing Balance 31/03/2023	Purpose
	£000	£000	£000	£000	£000	£000	£000	
								forward to support employment and growth as part of the Council's Capital Programme. Used to fund high priority strategic development opportunities in the city for those that do not attract external funding. This can also be used for revenue.
Capital Financing Reserve	26,542	0	5,000	31,542	36,542	41,542	46,542	To reflect increase in borrowing costs due to the Council's capital investment
Eastlands Reserve	9,445	(8,008)	7,627	9,064	9,051	9,366	9,777	English Institute of Sport - Sport England MCFC income
Total to fund capital spend	**101,552**	**(20,645)**	**32,407**	**113,314**	**115,744**	**109,583**	**99,731**	
RESERVES TO SUPPORT GROWTH AND REFORM								
Better Care	3,303	(1,955)	0	1,348	75	75	75	Contributions received from CCG's
Town Hall Reserve	10,383	(2,867)	2,400	9,916	7,540	5,329	3,100	To fund revenue expenditure on the

Reserve	Closing Balance 31/03/2019	Withdrawals	Additions	Closing Balance 31/03/2020	Closing Balance 31/03/2021	Closing Balance 31/03/2022	Closing Balance 31/03/2023	Purpose
	£000	£000	£000	£000	£000	£000	£000	
								Town Hall Complex Programme
Clean City	412	(412)	0	0	0	0	0	To support green initiatives
NW Construction Hub Reserve	213	(164)	0	49	49	49	49	The capital programme section manages the NWCH, other LA's pay a fee to use the service and the income is used to cover the cost of retendering every three years.
Our Manchester reserve	4,220	(2,584)	0	1,636	800	600	400	Additional investment made available as part of the 2017-2020 budget process to drive forward the delivery of Our Manchester
TOTAL	**18,531**	**(7,982)**	**2,400**	**12,949**	**8,464**	**6,053**	**3,624**	
GRANTS USED OVER ONE YEAR								
English Partnership (HCA)	1,362	(500)	0	862	362	0	0	HCA approval required to Fund Development

Reserve	Closing Balance 31/03/2019	Withdrawals	Additions	Closing Balance 31/03/2020	Closing Balance 31/03/2021	Closing Balance 31/03/2022	Closing Balance 31/03/2023	Purpose
	£000	£000	£000	£000	£000	£000	£000	
								appraisal and Eastlands Project team
Other Grants and Contributions	503	(48)	0	455	443	443	443	Various local Environment scheme & initiatives i.e. 'clean up campaigns'
Contributions Other Local Authorities	358	0	0	358	358	358	358	Relates to various ongoing Civil Contingencies schemes.
Other Grants and Contributions Regeneration	90	0	0	90	90	90	90	Unspent grant received in previous year
Asylum Seekers	288	(138)	0	150	150	150	150	£482k will be drawn down from the Asylum Seekers reserve that was originally set aside from The Target Asylum Contracts, earned by the NW consortium team. This will fund the Local Authority Asylum Support Officer (LAASLO) project. Remaining balance is to fund

Reserve	Closing Balance 31/03/2019	Withdrawals	Additions	Closing Balance 31/03/2020	Closing Balance 31/03/2021	Closing Balance 31/03/2022	Closing Balance 31/03/2023	Purpose
	£000	£000	£000	£000	£000	£000	£000	
								residual costs to be incurred by the local authority
Flood management reserve	37	0	0	37	37	37	37	Unspent grant received in previous year
TOTAL	**2,638**	**(686)**	**0**	**1,952**	**1,440**	**1,078**	**1,078**	
<u>SMALL SPECIFIC RESERVES</u>								
Investment Reserve from Surpluses	151	0	0	151	151	151	151	Funding belonging to schools which the Council holds on their behalf. The purpose is to fund repairs and improvements to school kitchens.
Nuclear Free Zone	51	0	0	51	51	51	51	General reserve
Highways Commuted Sum	468	(20)	0	448	428	408	388	Funds received as part of developer agreements
NSM - Car Boot	273	(45)	55	283	293	303	313	Used to fund repairs and maintenance of facilities for traders.

Reserve	Closing Balance 31/03/2019	Withdrawals	Additions	Closing Balance 31/03/2020	Closing Balance 31/03/2021	Closing Balance 31/03/2022	Closing Balance 31/03/2023	Purpose
	£000	£000	£000	£000	£000	£000	£000	
Cemeteries Replacement	401	0	40	441	481	521	561	To purchase land for burials
Primary School Catering Reserve	49	(49)	0	0	0	0	0	Reserve established to support the Service's competiveness by smoothing school meal prices during the 3 year price planning period.
Catering R & M Insurance Account	201	0	0	201	201	201	201	Reserve established to meet refurbishment cost of school kitchens.
CWAG Reserve	70	(10)	0	60	50	40	30	Held in relation to the running costs of Council's With ALMOs Group (CWAG) which is administered by MCC
Graves And Memorials	97	0	0	97	97	97	97	Money held in trust for repair and Development costs for gravestones
Other Small Specific reserves	28	0	0	28	28	28	28	Small specific reserves

Reserve	Closing Balance 31/03/2019	Withdrawals	Additions	Closing Balance 31/03/2020	Closing Balance 31/03/2021	Closing Balance 31/03/2022	Closing Balance 31/03/2023	Purpose
	£000	£000	£000	£000	£000	£000	£000	
Total Small Specific Reserves	**1,789**	**(124)**	**95**	**1,760**	**1,780**	**1,800**	**1,820**	
TOTAL EARMARKED RESERVES	**241,191**	**(93,390)**	**97,282**	**245,083**	**230,054**	**210,191**	**196,804**	
Total General Fund Reserves	**280,340**	**(102,071)**	**107,699**	**285,968**	**271,556**	**251,296**	**236,997**	

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Manchester City Council
Report for Resolution

Report to:	Executive – 13 February 2019 Council – 8 March 2019
Subject:	Capital Strategy and Budget 2018/19 to 2023/24
Report of:	Chief Executive and City Treasurer

Summary

The purpose of the report is to present the 2018/19 capital programme and forward commitments, alongside the Capital Strategy for the City Council.

Recommendations

The Executive is recommended to:

1. commend the report to Council.

2. Note the capital strategy.

3. Delegate authority to the City Treasurer in consultation with the Executive Member for Finance and Human Resources to make alterations to the schedules for the capital programme 2018/19 to 2023/24 prior to their submission to Council for approval, subject to no changes being made to the overall estimated total cost of each individual project.

The Council is recommended to:

1. Approve the budget changes for the 2018/19 capital programme.

2. Approve the capital programme as presented in Appendix 3 (for £495.3m in 2018/19, £505.6m in 2019/20, £419.0m in 2020/21, £244.0m in 2021/22, £86.9m in 2022/23 and £39.0m in 2023/24) which will require prudential borrowing of £617.2m to fund non-HRA schemes over the five year period for which provision has been made in the revenue budget for the associated financing costs (within limits previously agreed).

3. Delegate authority to:

   a) The Chief Executive and Director of Highways in consultation with the Executive Member for Environment for the approval of the list of schemes to be undertaken under the Highways capital programme.

   b) The Chief Executive and Director of Highways to implement the Highways schemes in accordance with the Capital Approval process and after consultation with the Executive Member for Environment on the final details and estimated costs.

c) The City Treasurer in consultation with the Executive Member for Finance and Human Resources to add qualifying spend to save projects to the capital budget accordingly up to a maximum of £5m in 2019/20 and then £5m per year thereafter.

d) The City Treasurer, in consultation with the Executive Member for Finance and Human Resources to accelerate spend from later years when necessary within the programme subject to resource availability.

e) The City Treasurer in consultation with Executive Member for Finance and Human Resources to agree and approve where appropriate:
   i. The programme of schemes for the delivery of the corporate asset management programme; and
   ii. Proposals relating to Corporate Compulsory Purchase Orders

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Wards Affected: Various

Manchester Strategy outcomes	Summary of the contribution to the strategy
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

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

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

The capital programme report as presented will require £617.6m (all non-HRA) of prudential borrowing over the five year period 2019/20 to 2023/24, all for Manchester City Council projects. Provision has been made in the proposed revenue budget for the associated financing costs, and for the revenue contributions to capital outlay (RCCO) which are forecast to be received from the General Fund and HRA.

Financial Consequences – Capital

For the City Council programme the latest budget for 2018/19 is £399.5m, of which £259.9m is forecast to be funded from borrowing. Across the forecast period 2019/20 to 2023/24, the budget is £1,110.0m, of which £617.6m is forecast to be funded from borrowing.

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Attachments

Appendix 1: Capital Approval Process flowchart
Appendix 2: Proposed Amendments to the Capital Budget
Appendix 3: Detailed Capital Programme 2018/19 – 2023/24
Appendix 4: Comparison of Capital Financing Requirement to External Debt and Internal Borrowing

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.

Report to the Executive 7 February 2018 (Capital Strategy and Budget 2018/19 to 2022/23)
Report to Council 2 March 2018 (Capital Strategy and Budget 2018/19 to 2022/23)
Report to the Executive 30 May 2018 (Capital Programme Monitoring 2017/18 – Outturn report)
Report to the Executive 25 July 2018 (Capital Programme Monitoring – Q1)
Report to the Executive 17 October 2018 (Capital Programme Monitoring – Q2)
Report to the Executive 17 October 2018 (Capital Update)
Report to the Executive 14 November 2018 (Capital Programme Update)
Report to the Executive 12 December 2018 (Capital Programme Update)
Report to the Executive 16 January 2019 (Capital Programme Update)

1 Introduction

1.1 As part of the suite of budget reports submitted on this agenda, Executive and Council are recommended to approve the updated Capital Strategy for 2018-24. This report details the latest position on the Strategy, the governance process and progress on delivery.

1.2 The capital strategy provides the long term context in which capital investment decisions are made and the governance for those decisions, and also gives a summary of the Council's approach to investments and treasury management strategy which is elsewhere on the agenda. The Council's capital strategy also meets the new requirements in the CIPFA Prudential Code.

2 Strategic Context

2.1 Manchester is an ambitious city with a strong track record of delivery through partnerships and effective strategic leadership, improving the quality of life for residents and delivering a vision of making Manchester a world class city. As encapsulated in the Our Manchester Strategy the vision is for Manchester in 2025 to be in the top flight of world class cities:

- with 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;
- with highly skilled, enterprising and industrious people;
- that is connected, internationally and within the UK;
- that plays its full part in limiting the impacts of climate change;
- where residents from all backgrounds feel safe, can aspire, succeed and live well; and
- that is clean, attractive, culturally rich, outward looking and welcoming.

2.2 To be internationally competitive the City Council has grasped the need to:

- deliver on meeting the need to reduce dependency and improve the productivity outcomes for residents;
- embrace the need to be a low carbon exemplar;
- invest in, and strengthen, the council's existing economic and infrastructure asset base;
- ensure that there is a diverse housing offer for the city including homes that are affordable to those households on low and average incomes; and
- support the City's cultural and sporting offer.

2.3 The Our Manchester Strategy demands an integrated approach to the deployment of revenue and capital spend against a clear set of priorities. The development of a longer term, five-year, Capital Strategy forms a critical part of the City Council's strategic and financial planning from 2018/19.

2.4 The last few years have witnessed a number of significant developments that have had, and will continue to have, a major influence on the future shape and approach to capital investment within the City. These include the "Our Manchester" Strategy, the Manchester Residential Growth Strategy, the proposals to strengthen policies on Affordable Housing in the city, new commercial development opportunities, and delivering on the outcomes of the reviews of the Highways Estate, the Operational Built Estate and the ICT Estate.

2.5 The challenge for the future is to maximise the capital resources available to the Council in order to deliver the priorities for the City. This will require continued investment for transformation to define Manchester as an attractive place to live and further improve the quality of life for residents. The following will be important to achieving this:

- to support employment growth through a strengthening and diversification of the economic base and efficient use of land;
- investment in new and upgraded transport infrastructure including delivering the Highways Investment Programme
- to provide an expanded, diverse and affordable housing offer, creating the conditions to increase the supply of affordable and social housing, and that all new homes in the city are supported by good local public services and an accessible public transport infrastructure;
- to support new and expanded high quality primary and secondary school facilities for a growing population;
- securing investment for an internationally competitive cultural and sporting offer and sustaining core assets such as parks, leisure facilities and libraries for Manchester residents
- to support businesses and residents to create thriving district centres with appropriate retail, amenities and public service offer; and
- to promote the role and continuing growth of the City Centre as a major regional, national and international economic driver.

2.6 Within a wider City Region and regional context the ambition is for Greater Manchester to become a financially self-sustaining region, sitting at the heart of the Northern Powerhouse with the size, the assets, the skilled population and political and economic influence to rival any global region.

2.7 Greater Manchester has been working hard, with Government, to turn that vision into a reality. The conurbation's priorities around growth and reform are widely recognised to be distinctive, evidenced and wholly appropriate for the long term success of the area. The City Region is one of a few economic geographies capable of becoming a national engine of growth for the North and the UK as a whole, and in doing so, becoming a net contributor to the economy. Greater Manchester has made a strong, evidence-based case for the devolved, place-based management of local services, alongside innovative funding arrangements that remove unnecessary ring-fences to enable consistent prioritisation against Greater Manchester and Northern Powerhouse growth objectives.

2.8 Against this backdrop the new Greater Manchester Strategy "Our People, Our Place" sets out a Vision to make Greater Manchester one of the best places in the world to grow up, get on and grow old. The Plan sets out the ambitions for Greater Manchester and its population of 2.8 million. It covers health, well-being, work and jobs, housing, transport, skills, training and economic growth.

2.9 In early 2019 the Greater Manchester Combined Authority published a suite of strategic documents that translate the ambitions set out in the Greater Manchester Strategy into new development and growth for the next two decades. The Greater Manchester Spatial Framework, the Greater Manchester Transport 2040 Implementation Plan and the forthcoming Greater Manchester Housing Strategy provide the frameworks for future investment in the conurbation.

2.10 In parallel with and in advance of the work at a Greater Manchester level the City Council has advanced new policy directions in the areas of housing affordability, climate change, and green and blue infrastructure all of which will strongly influence our investment plans going forward.

The 2018/19 Capital Programme

2.11 The capital programme has progressed in line with the agreed approach to capital spend and delivery in 2018/19, and as part of the overall five year capital strategy.

2.12 The £100m Highways Investment Fund has continued to deliver improvement and preventative works across the network. Further major, standalone Highways projects have commenced including the Manchester / Salford Inner Relief Route, the continued delivery of the Street Lighting PFI and Chorlton Cycle Scheme to provide further improvements to Highways infrastructure.

2.13 The refurbishment of Moss Side Leisure Centre was completed in November 2018, and the contract to deliver Abraham Moss Leisure Centre has been awarded with a project completion date of 2022. Proposals for the Parks Development Programme, seeking to deliver investment in Heaton Park, Wythenshawe Park and City wide parks are currently being developed to commence within financial year 2019/20.

2.14 The management contractor for the Town Hall Refurbishment project has now been appointed, and the expenditure incurred this year has enabled early works to be delivered and ensure the programme is maintained. The management contractor will now commence the review and letting of work packages in line with the overall procurement strategy for the project.

2.15 Works have commenced on the Factory site with programme completion scheduled for 2021 as part of the MIF Festival taking place that year.

2.16 A series of projects to increase housing stock, including affordable housing, have been delivered or are currently in progress including the Brunswick PFI, North Manchester New Build phases 1 and 2 and Ben Street. Further commercial housing opportunities are currently under development as part of proposals for the Northern Gateway programme with approval of funding currently being sought from Homes England to support delivery of elements of the overall scheme.

2.17 Capital investment through Education Basic Need funding has delivered additional school places across the city in this financial year. For example, the Beaver Road expansion which opened in September 2018 doubled intake at the school to 1,050 pupils, with other expansions being delivered across a number of further sites to meet pupil demand.

2.18 The potential for the ICT service to have a continued significant operational impact within the Council, on service delivery and for residents is clear. ICT have worked with services and partners throughout the last year to aid in transforming processes, improve information flows and enhance the user experience when using the Council's ICT services.

3 Development of the Capital Strategy

3.1 The Capital Strategy has been developed to ensure that the Council can take capital expenditure and investment decisions in line with Council priorities and properly take account of stewardship, value for money, prudence, risk, sustainability and affordability. The Strategy, therefore, sets out the longer term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and the impact on the achievement of priority outcomes.

3.2 The Council makes a clear distinction between capital investments, where the achievement of strategic aims will be considered, alongside affordability; and treasury management investments, which are made for the purpose of cash flow management.

3.3 Council investments, as opposed to pure cash flow management decisions, will be made in line with the Capital Strategy priorities which are set out in this document. These decisions are clearly within the economic powers of the Council and there are strong governance arrangements that underpin the decision making. Longer term capital investment decisions will not be made purely on the basis of commercial decisions and chasing yield, however, inevitably some schemes will be financed all or in part from returns on investment. There may also be:

- externally funded programmes such as those for schools or the Factory;
- schemes funded from ring-fenced resources such as those within the Housing Revenue Account (HRA); or
- required investment from Council resources, including capital receipts, to support strategic priorities such as investment in the highways infrastructure, ICT, asset management and the refurbishment of the Town Hall.

3.4 All capital investment decisions will be underpinned by a robust business plan that sets out any expected financial return alongside the broader outcomes including economic and social benefits.

4 Governance

4.1 Capital expenditure is spent on the purchase or improvement of assets that have a long-term value to the Council, such as land and buildings. The Council and its residents receive a benefit from the capital expenditure invested in the assets for a long period of time (i.e. more than a year). It is the Council's policy to capitalise any expenditure, over a total value of £10,000, which fulfils this criteria.

4.2 The Council does not currently exercise any of the capitalisation flexibilities potentially available to it, such as the use of capital receipts to support specific revenue expenditure related to service transformation. If such flexibilities supported Council strategy, this position would be reviewed.

4.3 The Council has revised the approval process for capital expenditure, and the new process strengthens the decision making criteria highlighted above. This strategy seeks to detail the framework in which those decisions are made, and the principles to which the Council adheres, in the context of the current capital budget. Work is continuing on improving and streamlining the process, including strengthening the links to the key decision process, and to support stronger decision making on funding sources, for example Section 106 contributions, to ensure that the use of such sources are maximised.

4.4 The capital expenditure and investment decision making process is the governance framework used by the Council when making decisions relating to the capital programme. The process has five distinct stages to cover project initiation, project design and costs, democratic process, capital expenditure approval and monitoring/review. The process is shown diagrammatically at Appendix 1.

4.5 For any project seeking capital expenditure approval a business case must be drafted, covering:

- ***Strategic Fit:*** how the project links to the City Council's strategic priorities, social value, and any statutory requirements.
- ***Economic Value:*** what economic value the project will provide to the City, including social value.
- ***Financial Implications:*** funding model, with evidence of cost and capital and revenue implications
- ***Risk and Deliverability:*** timescale for delivery and identification of risks to the project, including legal issues.
- ***Outcomes to be delivered:*** what the project will achieve, and the benefits that will be realised.

4.6 The business cases must be agreed by the relevant directorate board, and approved by the Executive member for the relevant portfolio before being submitted into the process. Once submitted, the business cases are subject to peer review within the Council and then discussed by the Strategic Capital

Board chaired by the City Treasurer. The Board will then make recommendations to members.

4.7 Throughout the decision making process the risks and rewards for each project are reviewed and revised, and form a key part of the monitoring of the capital programme. The Strategic Capital Board receive monthly updates from each directorate board on each board's part of the capital programme, detailing financial forecasts, risks, and expected outcomes. By reviewing projects regularly, such monitoring can be used to support future actions, including the estimation of future costs and project development and development.

4.8 The governance process for approving capital investments is the same as that for the wider capital programme. As with any proposed capital expenditure, any investment is peer reviewed and the external and internal risks associated with the investment explored. Within the Council there are commercial and public sector professionals who are responsible for supporting investment proposals, and establishing investment structures which mitigate the risks such investments would create for the Council. There may be occasion when the nature of a particular proposal requires additional support, for example in performing due diligence or in supporting the creation of the business case. In these circumstances the Council will seek external advice.

4.9 The capital programme is monitored monthly, with quarterly reports to Executive. Within that monitoring, new approved capital investment proposals will be included. Once an investment has been made, it will be reviewed regularly. As a minimum it will be reviewed annually as part of the accounts process, which will take into account any material changes to the standing of the investment.

4.10 The capital budget is reported to Executive and Council as part of the budget process each year, and quarterly monitoring reports are provided to Executive. New projects are reported to Executive in capital update reports, detailing the aims of the project, the source of the funding and the funding required.

5 Changes to the Capital Programme

5.1 All new capital proposals since 2017/18 have been assessed against the criteria above, highlighted at paragraph 4.5. The projects put forward within this report meet the criteria for inclusion around strategic fit, i.e. the contribution to support priorities around growth, reform and place.

5.2 There are some minor amendments to the capital programme, which have been assessed through the checkpoint process and are summarised below. A summary of the schemes, funding and profile of spend can be found at appendix 2:

- Sunbank Lane S278 – externally funded works to create a bus stop and associated works.
- Sharston Roundabouts SCOOT analysis – creation of design works to support the development of a dynamic traffic signal system for the

roundabouts. Funded by Highways England.
- Loan finance for the Contact Theatre – to support the redevelopment of the theatre with a proposed 10 year loan.
- GM Archives Web Portal – to replace the existing internet access to the GM Archives, funded by an external contribution from the National Archives.
- Additional Disabled Facilities Grant – to reflect in the capital budget the additional £0.9m Disabled Facilities Grant awarded by the Government.
- Booth St Car Park – to replace the expired entry and payment operating system at the car park, on an invest to save basis.

5.3 The Council's revised capital budget for the 2018/19 and the next five years is set out below, including the new proposals discussed above. The proposed programme constitutes the expected capital activity required by the Council to support the achievement of the Council's strategies and to maintain the operational estate.

6 Anticipated Additional Projects Within the Forecast Period

6.1 This report sets out the approved capital budget, with new projects to be approved as noted above. There are also pipeline schemes which may be submitted into the capital approval process during the forecast period of the capital programme. Details of these potential investments is contained within the programme information below.

6.2 The Capital Budget for 2018/19 and the following five years is set out below. It includes the expected capital activity required to support the achievement of the Council's strategies and to maintain the operational estate.

7 Proposed Capital Programme from 2019/20

7.1 The capital programme 2019/20 to 2023/24 comprises the continuation of the existing programme. For continuing schemes the position is based on that as of the end of December 2018 as reported in the Capital Monitoring report also on the agenda. The narrative below also includes details of potential capital projects which will be included in the budget at a later date subject to the submission of a successful business case.

7.2 The budget for 2018/19 is £399.5m. In addition there are £95.8m relating to schemes hosted on behalf of the Greater Manchester combined Authority leading to a combined total of £495.3m. The profile of capital expenditure will be updated as projects develop through the design stage or if the resource position changes. This is reported through to Executive in the regular Capital Update and Monitoring reports.

7.3 The programme is summarised in the table below.

	2018/19 budget	2019/20 budget	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget	Total	*Total 19/20-23/24*
	£m	£m	£m	£m	£m	£m	£m	*£m*
Manchester City Council Programme								
Highways	37.8	57.2	45.8	30.8			**171.6**	***133.8***
Neighbourhoods	11.7	25.5	13.1	8.8	5.7	2.5	**67.3**	***55.6***
Strategic Development	123.0	127.1	81.7	36.2	4.9		**372.9**	***249.9***
Town Hall Refurbishment	11.1	24.4	67.7	103.3	65.9	29	**301.4**	***290.3***
Housing – General Fund	27.8	24.7	30.5	8.7		7.5	**99.2**	***71.4***
Housing – HRA	16.1	30.1	48.7	36.6	4.9		**136.4**	***120.3***
Children's Services (Schools)	31.9	39.0	62.3	4.1			**137.3**	***105.4***
ICT	6.1	11.3	14.6	10.1	5.5		**47.6**	***41.5***
Adults, Children's and Corporate Services	134.0	19.8	16.6	5.4			**175.8**	***41.8***
MCC TOTAL	**399.5**	**359.1**	**381.0**	**244.0**	**86.9**	**39.0**	**1,509.5**	**1,110.0**
Projects carried out on behalf of Greater Manchester	95.8	146.5	38.0				**280.3**	***184.5***
TOTAL	**495.3**	**505.6**	**419.0**	**244.0**	**86.9**	**39.0**	**1,789.8**	**1,294.5**

7.4 Further details of the major schemes included are set out in this report and a full list of the projects and the budget split by financial year is shown at appendix 3.

7.5 The proposals in this report are for the draft capital programme from 2019/20. The programme will be updated at the May meeting of the Executive to reflect the final outturn position for 2018/19. The programme will change as projects develop, and this will be reported to members as and when it is required. Current examples of some of the factors that will influence such changes include more detailed feasibility work on the timings of the major Highways schemes planned being conducted, the conclusion of the RIBS Stage 3 design for the Town Hall which will influence the project's cash flow, and the completion of work on the affordable housing programme which will then need to be reflected in the budget.

8 Highways

8.1 The Highways capital programme consists of the investment in the City's highways network, including work on bridges, cycle paths and bus priority lanes. The programme is forecast to be £133.8m between 2019/20 and 2023/24 and the primary schemes within the programme are detailed below.

8.2 The Highways Maintenance Investment Programme (£71.7m) will continue. The programme will seek to implement longer term preventative maintenance measures, which would result in the Council's highways assets being improved and reducing maintenance costs. This includes works to drainage systems, large patching works, carriageway works and repairs to footpaths.

8.3 The Bridge Maintenance project (£7.2m) will continue to ensure that the Council's bridge assets across the highways network are maintained according to statutory guidelines.

8.4 The project widening A57 Hyde Rd (£3.9m) will continue, increasing the span of a disused railway bridge to allow removal of a pinch point, which currently reduces the number of traffic lanes from four to two. Heavy traffic congestion, particularly at peak times and journey times will both be reduced.

8.5 The Cycle City schemes (£4.3m) aim to provide a high-quality network of dedicated cycle routes across Manchester, encouraging people to make short journeys in a healthy and inexpensive way and reduce the environmental impact of private car use.

8.6 The Manchester/Salford Inner Relief Road project (£5.7m) will continue, to address traffic congestion at the Dawson St/RegentRd/Trinity Way/Water St junction and five adjacent junctions, to improve capacity and enhance the performance of the wider relief road.

8.7 The project at Great Ancoats Street (£8.1m) will reduce barriers and restrictions for pedestrians on the Street and adjacent areas of the inner relief route. The project will also include more safe crossing places for pedestrians and improved signage to aid road users.

8.8 Works at the Mancunian Way junction with Princess Road (£7.7m), funded through the Department for Transport's National Productivity Investment Fund, will continue, improving and continuing capacity by creating signalled junctions.

8.9 The Green Bridge project (£2.6m) will continue and will provide a critical public access route from Wythenshawe to the transport interchange at Airport City.

8.10 Investment in School Crossing Patrols (£2.3m) will progress, with a programme to provide permanent highways improvements to improve road safety outside schools and reduce risks at existing crossings. The programme of works will focus on those schools which have crossings which were rated red and amber.

8.11 The Public Realm programme (£2.2m) will support the maintenance and development of the Council's public realm assets.

8.12 The Street Lighting Private Finance Initiative (PFI) project (£13.7m) will deliver the procurement and installation of modern, state of the art, low energy light emitting diode (LED) street lighting technology. Once operational the scheme is planned to provide revenue savings due to reduced energy charges, and lower maintenance costs for the Council's street lighting.

Potential Future Investment

8.13 Highways Services anticipate that investment will be required around the Mayfield site, the Northern and Eastern Gateway sites (including the Etihad Campus) and the Airport City Enterprise Zone, as these are regeneration priorities for the Council. There may also be a need for infrastructure changes to support autonomous vehicles, 5G connectivity and utilities upgrades.

8.14 There are also potential funds from the GM Mayor's Fund for cycling and walking facilities, which the Council intends to bid for. If successful, this may require a further review of the delivery of the Highways programme to reduce disruption.

9 Neighbourhoods

9.1 The Neighbourhoods capital programme includes the investment required to support the City's neighbourhoods and well-being, such as libraries and leisure centres. The programme is forecast to be £55.6m between 2019/20 and 2023/24, as shown in the table below, and the primary schemes within the programme are also detailed below:

	2018/19 budget	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**	**Total**
	£m	£m	£m	£m	£m	£m	**£m**
Environment and Operations	1.3	7.4					**8.7**
Leisure	9.7	17.5	13.1	8.8	5.7	2.5	**57.3**
Libraries	0.7	0.6					**1.3**
Total Neighbourhoods	**11.7**	**25.5**	**13.1**	**8.8**	**5.7**	**2.5**	**67.3**

Environment and Operations

9.2 As part of the waste and street cleaning contract, a loan will continue to be available to the contractor to upgrade vehicles (£5.9m), including to make them clean air compliant, on a spend to save basis. The loan will be repaid through reduced service costs.

Leisure

9.3 The Parks Investment Programme (£20.5m) will focus on three key objectives, specifically the development of the Hall, Stables and Lake Hubs at Heaton Park, the development of Wythenshawe Park including restoration of the Hall, and improvements to the quality of the community and local parks, green spaces and allotments across Manchester.

9.4 Investment will continue Abraham Moss leisure centre (£13.9m). These works will reduce revenue costs associated with the upkeep of the building, and provide long-term savings to the Council.

9.5 The Manchester Football Hubs programme (£13.0m) is intended to provide football facilities including pitches, changing rooms and education suites at several sites across the City.

Potential Future Investment

9.6 Investment across the Council's estate will be required, specifically the sports facilities with regional and national status such as the Manchester Aquatic Centre and the National Cycle Centre. Work is being undertaken on an options appraisal for New Smithfield Market, to determine the likely cost.

9.7 Works across the parks estate, beyond the Parks Development Programme linked to the lifecycle replacement of park assets, may also be required - these items contribute to the successful delivery of the parks strategy and the Council will seek to maximise the use of external contributions to support this.

10 Strategic Development

10.1 Strategic Development also includes the programme for the Council's property assets, and investment in neighbourhood development and cultural facilities. . The programme is forecast to be £249.9m between 2019/20 and 2023/24, as shown in the table below, and the primary schemes within the programme are also detailed below:

	2018/19 budget	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**	**Total**
	£m	£m	£m	£m	£m	£m	**£m**
Culture	26.7	55.2	40.2	4.7			**126.8**
Corporate Property	49.2	50.7	29.8	15.6			**145.3**
Development	47.1	21.2	11.7	15.9	4.9		**100.8**
Total Strategic Development	**123.0**	**127.1**	**81.7**	**36.2**	**4.9**		**372.9**

Culture

10.2 The continuing Factory project (£100.2m) will create a cultural facility within the St John's area of the City Centre. The total budget for the Factory is c.£130m, including £78m of government funding, £7m of National Lottery funding and £5m from fundraising.

Corporate Property

10.3 The Asset Management Programme (£28.8m) will ensure that the Council's assets, including its elite assets, are well-maintained.

10.4 The Strategic Acquisitions budget (£10.3m) will provide funding for the Council to acquire key sites throughout the city, provided they become available, which can further the aims and objectives of the corporate plan particularly with regard to housing and regeneration.

10.5 The continuing Carbon Reduction Programme (£9.8m) will be used to explore schemes which can support the Council's aim of reaching zero carbon emissions by 2038. Such schemes may include the use of combined heat and power plant, solar photovoltaic panels, and the use of LED lighting within the Council's estate.

10.6 The Civic Quarter Heat Network (£19.5m) project aims to provide a heat network throughout the Council owned property estate in and around the Town Hall complex and to developments owned by the private sector in the vicinity of the Town Hall. This will reduce energy costs, and also help achieve the City's aim of reducing carbon emissions.

10.7 Public realm works at Lincoln Square (£1.2m), supporting the wider redevelopment of the area, will provide a more distinctive identity for the square.

10.8 The continuing Estates Transformation plan (£12.5m), based on the stock condition surveys commissioned by the Council to ensure buildings fit for purpose and estate rationalised. This includes the refurbishment of Alexandra House. In addition to this programme the Hammerstone Road Depot project (£14.0m) will continue, investing in the depot to allow the Council to consolidate all depots into one site. This investment will allow other sites to be released, and reduce the maintenance costs associated with these sites.

Development

10.9 The Sustaining Key Initiatives (£13.6m) investment provides the Council with the capacity to intervene to ensure key commercial and mixed use development priorities are secured in the city. It is expected that any intervention would be done primarily on an investment basis.

10.10 Following the acquisition of Central Retail Park at Great Ancoats Street as part of the Eastern Gateway programme, there is a budget (£2.0m) for remediation works ahead of future development. The project to fund remedial works at New Islington Marina (£3.3m) will also continue, to rectify the issues with the public promenade, water run-off, boardwalks and other areas.

10.11 The Northern Gateway investment plan (£21.1m) will lead to significant residential growth in the neighbourhoods of New Cross, Lower Irk Valley and Collyhurst through land assembly and the provision of core infrastructure, with the regeneration completed with Far Eastern Consortium who are the Council's joint venture partner.

10.12 The Medieval Quarter Public Realm (£1.5m) scheme will continue, providing public realm improvements in the north of the city centre around the River Irwell, Manchester Cathedral, Cheetham's and Victoria Station.

10.13 Further loan support for Manchester College (£10.0m) will continue, in addition to the c. £17.6m forecast to be provided in 2018/19, to enable the first phase of the College's expansion.

Potential Future Investment

10.14 Potential future investment within Strategic Development is likely to focus on the existing and new regeneration priorities for the Council. At this juncture there are no detailed proposals for additional investment proposals within the city centre, the Northern Gateway and the Eastern Gateway, although there is likely to be investment in Piccadilly Gardens. The February Executive will receive a report on the next phase of development at the Etihad Campus which may include a requirement for additional resources. Finally, work is underway to develop proposals for the transformation of Wythenshawe Town Centre which will take several months to develop, evaluate and consult upon.

11 Town Hall Refurbishment

11.1 The Town Hall and Albert Square Refurbishment programme is for the full refurbishment and upgrade to modern standards of the Town Hall and the associated costs for Albert Square. The programme is currently forecast to be £290.3m between 2019/20 and 2023/24 with planned spend currently £24.4m in 2019/20.

11.2 The amount of spend planned each year will be updated once the project reaches RIBA stage three design. Cost consultants are currently working on the cost planning, and to provide assurance on the costs. The management contractor has been appointed, and work can now begin on the delivery plan for the initial construction phases of the programme. Intrusive survey works are continuing, with mitigation measures being undertaken as and when required.

12 Housing – General Fund

12.1 The Housing Strategy includes a housing growth target of 32,000 new homes between April 2015 and March 2025 including 6,400 affordable homes. Of the latter 3,000 are either delivered, on site or committed to be delivered by March 2021 with a further minimum of 3,400 to be delivered by March 2025 through use of council land, Registered Social Landlord (RSL) partner resources and investment capacity in the HRA. Achieving this target is dependent on the government funding in these areas being available. A more detailed report on Affordable Housing will be going to Executive in the next few months.

12.2 The Housing – General Fund capital programme includes housing regeneration schemes, such as the Council's housing Private Finance Initiative (PFI) schemes. It also includes funding for disabled facilities and energy efficiency schemes. The programme is forecast to be £71.4m between

2019/20 and 2023/24 and the primary schemes within the programme are detailed below.

12.3 Funding remains set aside within the programme for commercial and residential acquisitions (£9.0m) which will support the existing Brunswick and Collyhurst schemes. Similarly funding is available for the acquisition of properties relating to regeneration in West Gorton (£1.4m), and for potential commitments from historical CPOs.

12.4 Major adaptations funding is available (£20.3m) to assist in works to make social rented properties suitable for disabled residents.

12.5 The West Gorton Regeneration Programme is currently being delivered. Further investment in residential development will be undertaken, and regeneration in the area (£3.5m) will focus on the provision of a new community park and a new nursery and community facility.

12.6 Further investment plans include support for the development of Extra Care accommodation within Manchester (£2.4m) and acquisitions to support the regeneration of the Moston Lane area (£7.5m).

12.7 The regeneration of the Ben Street area (£7.4m) of Ancoats and Clayton will continue to deliver new housing.

12.8 Funding is available, through the government's Marginal Viability Fund, to support the delivery of new homes on the New Victoria (£10.1m) site by addressing infrastructure works, and to create a healthcare centre at Bowes Street (£3.3m).

Potential Future Investment

12.9 A business plan to support the development of an Extra Care site at Russell Road is being prepared. A report to the March Executive will set out proposals for the delivery of affordable housing in the city.

13 Housing – Housing Revenue Account (HRA)

13.1 The Housing – HRA capital programme consists of the investment in the Council's public sector housing estate, including acquisitions and capital works on existing Council housing assets. The programme is forecast to be £120.3m between 2019/20 and 2023/24 and the primary schemes within the programme are detailed below.

13.2 Provision is also made in the budget to reflect the delivery of new works in future years that will support the ongoing 30-year HRA asset management plan (£78.3m). The funds will be used to maintain the Decent Homes Standard within Manchester's housing stock and, in addition, will support innovative climate change investment; essential health and safety works including the installation of sprinklers in multi storey blocks; public realm environmental works; and, where appropriate, it will support estate regeneration and re-modelling.

13.3 The programme includes funding for the ongoing regeneration works in Collyhurst (£24.1m), including proposals for new social housing new builds and land assembly linked to the Northern Gateway.

13.4 Work will continue on the North Manchester New Builds project Phase 2 (£11.2m) across a number of sites in North Manchester.

13.5 The land assembly programme around Parkhill Avenue (£4.3m) will continue to facilitate the regeneration of the area.

Potential Future Investment

13.6 Future investment proposals are likely to include a further phase of the North Manchester New Build programme, and the creation of an extra care development.

14 Children's Services (Schools)

14.1 The Children's Services capital programme is predominantly focused on the building of new schools, to meet school place demand, and investment in the existing school estate. The programme is forecast to be £105.4m between 2019/20 and 2023/24 and the primary schemes within the programme are detailed below.

14.2 There is potential budget provision for a new high school (£39.3m) at Matthews Lane to increase the number of secondary places in the central and eastern area of the City. Initial works have been completed on site and the project is currently paused pending both a review of the secondary places required in the context of the Council's Basic Need funded works and the Government's Free School programme. It will only progress if Government funding is forthcoming to cover the cost of the scheme and at this stage the budget will be included in the programme.

14.3 The Council will receive no Basic Need grant in 2019/20 or 2020/21. The existing unallocated grant is c. £49.3m, of which it is currently forecast c. £23.4m will be allocated to provide places for Special Educational Needs (SEN / Alternative Provision (AP) places across the City. The number of additional SEN/AP places required is being reviewed alongside the policy to integrate places into mainstream schools where possible. The remaining funding will be used to meet emerging place pressures.

14.4 Further to this, the Council has been awarded a separate grant (£3.0m) to invest in the provision of education places for children and young people with SEN and disabilities.

14.5 A Government grant-funded schools maintenance programme (£11.3m), to help maintain the Council's school assets, is included within the budget. Officers expect this funding stream to continue, however the annual budgets will be revised once confirmation of the level of funding is received.

Potential Future Investment

14.6 Discussions are ongoing with the DfE to identify a site for a Dean Trust/UK Fast secondary academy, which would create further secondary places within the city. Work is also being undertaken to develop the place planning strategy for 2020 onwards, which will include the impact of future residential development such as the Northern Gateway, the Government's free school programme, potential sites for school development or expansion, and population projections.

15 Information and Communication Technology (ICT)

15.1 The ICT capital programme provides investment to the Council's ICT estate. The programme is forecast to be £41.5m between 2019/20 and 2023/24 and the primary schemes within the programme are detailed below.

15.2 The ICT Investment Plan (£41.5m) will continue. The programme of works will include measures aimed at replacing communication room technology, and the implementation of the data centre network.

15.3 Other works to be supported include the implementation of disaster recovery works, replacement of out-of-support systems for social work casework and for telephony, and the roll out of assistive technology to support the delivery of adult social care.

15.4 It is expected that some of this budget may need to be transferred to revenue, depending on the type of works required, and this decision can only be made when the appropriate ICT solution has been identified. Such transfers will be proposed on a case by case basis, and reported to members through the regular capital increases reports.

Potential Future Investment

15.5 It is anticipated that there will be investment in full fibre networks, and 5G networks and connectivity, which will improve connectivity across the Council's estate and with partners. However, the fast developing nature of technology means that further future investment needs may be identified.

16 Adults, Children's and Corporate Services

16.1 The Adults, Children's and Corporate Services capital programme provides investment for the health and social care work of the City Council, and strategic investments. The programme is forecast to be £41.8m between 2019/20 and 2023/24 and the primary schemes within the programme are detailed below.

16.2 To provide integrated health and community services it is proposed to invest in a new facility at the Gorton District centre (£21.4m). This is on an invest to save basis with the income from the leases to partners providing the funding to repay the build costs.

16.3 Financial support for the development of project with Health Innovation Manchester (£14.3m), to conduct research on life science sub-sectors of health and medical technologies, will continue.

16.4 There is c. £5.6m available to fund the purchase of equity in car parking facilities at the Airport, which will support the development of the Airport and potentially provide a return to the City Council.

17 Projects carried out on behalf of Greater Manchester

17.1 The capital programme for projects carried out on behalf of Greater Manchester consists of schemes where Manchester is acting as the lead body but the expenditure relates to projects across the conurbation. The programme is currently forecast to be £184.5m between 2019/20 and 2023/24 based on existing budget approvals.

17.2 The budget relates to the Housing Investment Fund which the City Council has hosted because the Combined Authority did not have the borrowing powers for economic regeneration that were required. Governance of the Fund and decisions regarding the Fund are made by the Combined Authority. For the City Council decisions to invest are key decisions but only by virtue of the Council hosting the fund.

17.3 Those borrowing powers have now been granted to the Combined Authority and work is underway to novate the Fund across to the Authority. Due to the complexity of some of the existing loan agreements, the Council will be asked by the Combined Authority to retain some of the investments and the Authority will fund the Council so there will be no cost to do so.

17.4 Once the novation has been completed the budget for projects held on behalf of Greater Manchester will be reduced significantly. This is expected to happen in the early part of the 2019/20 financial year.

18 Asset Management Planning

18.1 The current approved capital programme includes several asset management streams, for the current operational estate, housing, highways and schools.

18.2 The Executive Member Estates Board is responsible for the strategic direction and decision making for the operational estate, including estate asset management and estates transformation. These decisions support the activity contained within the Asset Management Programme which forms part of the Council's approved capital budget.

18.3 The Council also holds significant assets on the basis of expected future regeneration projects. Work is undertaken to ensure that these assets are maintained until such time as the regeneration project can come to fruition.

This may mean that the asset, such as land, could gain or lose value in the intervening period, but the overarching aim of the Council is to release the value in the asset once the regeneration has been completed, and such benefits may be wider than financial considerations.

19 Capital Financing

19.1 The Council has several funding streams available to fund capital expenditure. Alongside external grants and contributions that the Council may be eligible to receive, the Council can also use revenue funding, capital receipts and prudential borrowing.

19.2 Capital receipts are generated through the sale of assets. These receipts are ring-fenced, under legislation, to fund capital expenditure and cannot be used to fund the revenue budget.

Restrictions around funds

19.3 The capital financing strategy is set in the context of restrictions around certain capital funds, some statutory and some at the Council's discretion.

19.4 The Housing Revenue Account (HRA) is a restricted fund and can only be used to fund capital expenditure on HRA assets.

19.5 The Council also operates the following fund restrictions:

- Housing capital receipts (both Housing General Fund and Housing Revenue Account) are reserved for use on new Housing projects;
- General Fund capital receipts will be used in the first instance to support the Asset Management Programme.
- Grants received will be used for the specific purpose intended even if the terms of such grants are not restrictive, unless alternative use promotes the same aims.

Prudential Borrowing

19.6 The use of prudential borrowing allows the Council to spread the cost of funding the asset over its useful economic life. Using prudential borrowing as a funding source increases the Council's capital financing requirement (CFR), and will create revenue costs through interest costs and minimum revenue provision (MRP).

19.7 Where the Council has funded expenditure through borrowing it is required to make a minimum revenue provision towards the repayment of the debt. This ensures that the revenue cost of repaying the debt is spread over the life of the asset similar to depreciation. The Council's MRP policy is contained within the Treasury Management Strategy Statement.

19.8 The estimated financing costs for the capital programme and existing debt have been calculated as part of the budget process. It has been ensured that the proposed programme and the existing debt liabilities are affordable within the existing revenue budget.

19.9 In line with the Prudential Code requirements the Local Authority must have explicit regard to option appraisal and risk, asset management planning, strategic planning, and the achievability of the forward plan.

19.10 Borrowing decisions are taken separately for the General Fund and HRA. Each must determine whether proposals requiring borrowing meet the requirements outlined above although for the HRA it is depreciation rather than MRP which is incurred.

19.11 It is proposed that the City Council capital programme, excluding the projects carried out on behalf of Greater Manchester, for 2019/20 is funded as follows:

Fund	Housing Programmes		Other Programmes	**Total**
	HRA	Non-HRA		
	£m	£m	£m	**£m**
Borrowing		0.5	152.6	**153.1**
Capital Receipts		10.2	14.6	**24.8**
Contributions		2.5	24.8	**27.3**
Grant	0.3	10.7	105.3	**116.3**
Revenue Contribution to Capital Outlay	29.8	0.8	7.0	**37.6**
Grand Total	**30.1**	**24.7**	**309.3**	**359.1**

19.12 As noted above the projects carried out on behalf of Greater Manchester will be funded via borrowing and capital receipts received as loans mature. This borrowing is provided by central Government and does not impact on the Council's capital financing budget.

19.13 Prudential borrowing of up to £617.6m over the five-year period will be needed to support the City Council programme in line with the new schemes and previous planning and profile approval. The breakdown over 2019-2024 is:

- 2019/20 - £153.1m
- 2020/21 - £179.7m
- 2021/22 - £174.5m
- 2022/23 - £79.6m
- 2023/24 - £30.7m

a. The Housing HRA programme will not require prudential borrowing at this stage but it is likely that projects will be brought forward that will require HRA borrowing which will be reported to members.

b. The General Fund programme requires £617.6m of prudential borrowing which includes:

Scheme	£m
Highways Investment Plan	59.6
Bridge maintenance	7.2
Hyde Road (A57) Pinch Point Widening	0.8
Velocity	0.6
Congestion Target Performance	0.2
Mancunian Way and Princess Parkway NPIF	3.2
Princess Rd Safety Review	0.5
School Crossing Patrols	1.8
Public Realm	0.4
Street Lighting PFI	13.7
M56 works	0.2
Bus Priority schemes	0.3
Waste Contract	5.9
Parks Investment Programme	12.5
Indoor Leisure Provision at Moss Side and Abraham Moss	13.9
FA Hubs	4.2
Libraries investment	0.5
The Factory	1.6
Strategic Acquisitions	1.4
Hammerstone Road	14.0
Carbon Reduction	9.8
Civic Quarter Heat Network	19.5
Lincoln Square	1.2
Estates Transformation	12.5
Sharp Project	0.6
One Central Park	0.6
Sustaining Key Initiatives	13.6
Eastern Gateway	5.3
Northern Gateway	21.1
St. Peter's Square	0.4
Manchester College	10.0
Refurbishment of the Town Hall and Albert Square	290.3
Regeneration of Ben St	7.4
ICT Investment Plan	41.5
Gorton integrated health development;	21.4
BioMedical Investment	14.3
Manchester Airport Car Park investment	5.6

19.14 A number of these schemes will be on an invest to save basis, and will generate savings. The remainder are affordable within the existing capital financing budget.

19.15 Further "spend to save" investment opportunities may arise and delegated authority is given to the City Treasurer in consultation with the Executive Member for Finance and Human Resources to increase the capital budget accordingly. The delegation is restricted to an annual limit of £5,000,000. This is on the understanding that the costs of borrowing (interest and principal) of any additions are financed in full by additional income, revenue budget savings, or cost avoidance.

19.16 The proposed funding for the programme across the forecast period is shown below:

	2018/19 budget £m	2019/20 budget £m	2020/21 budget £m	2021/22 budget £m	2022/23 budget £m	2023/24 budget £m	Total £m
Grant	70.7	116.3	84.0	19.5	2.4	0.8	**293.7**
External Contribution	17.4	27.3	20.0	3.7			**68.4**
Capital Receipts	24.7	24.8	45.6	11.5		7.5	**114.1**
Revenue Contribution to Capital Outlay	26.8	37.6	51.7	34.8	4.9		**155.8**
Borrowing	259.9	153.1	179.7	174.5	79.6	30.7	**877.5**
Total	**399.5**	**359.1**	**381.0**	**244.0**	**86.9**	**39.0**	**1,509.5**

19.17 The funding forecast shown above includes use of capital receipts already received and a forecast of future receipts based on officer's views on when surplus assets may be sold and the likely market valuations. These forecasts are subject to change which may affect the future funding position.

19.18 Work will continue to confirm the position for the capital programme from 2018/19 to 2023/24 and the final capital budget will be reported to Council in March. This will include the effect of any changes in the delivery of the current programme in 2018/19. It is expected that any changes will be a change to the profiling rather than a change to the estimated total funding requirement for the City Council.

20 Investments and Liabilities

20.1 The Council's capital programme and balance sheet contain investments made by the Council to support the achievement of strategic aims. A key part of the monitoring arrangements is reviewing these investments to ensure that they continue to perform as expected. With the increased national focus on council investment activities the Capital Strategy has been expanded to take a broader overview and to include relevant investments and liabilities.

Approach, Due Diligence and Risk Appetite

20.2 Council investments are managed in line with the Ministry of Homes, Communities and Local Government (MHCLG) investment guidance principles of security, liquidity and yield. The application of these principles will differ when considering capital investment rather than treasury management investment.

20.3 There is a clear distinction between capital investments, where the achievement of strategic aims will be considered and treasury management investments which are made for the purpose of cash flow management. The risk appetite for these two distinct types of investment may differ given the difference in expected outcomes.

20.4 The Council focuses its capital investments in line with its strategic objectives and priorities of the City and will take a more rounded view taking into account the economic and regeneration benefits to the city as well as security and liquidity. This may lead to a higher appetite for risk for the delivery of the City's priorities and broader economic gains. Each investment is considered on its own merit in line with the Checkpoint process and the risks, mitigations and benefits carefully assessed.

20.5 Schemes could include lending to organisations with low credit ratings if the appropriate security over the organisations assets can be provided, or guarantees from parent companies or organisations given. A key consideration for any capital investments is that income received from the investment covers the capital financing costs incurred by making it.

Summary of material investments, guarantees and liabilities

20.6 The Council has the current historic investments on the balance sheet as at 31st March 2018:

	Value as at 31/3/18 £m
Long-term Debtors	205.6
Long-term Investments	142.4
Investment Property	415.0
Total	**763.0**

20.7 The long-term debtors represent loan finance provided by the Council to other parties, and include the loans to Manchester Airport (£83.2m), Public Finance Initiative prepayments (£23.3m), and Housing Investment Fund loans (£39.6m) which are held on behalf of Greater Manchester. These figures include the short-term element of the debtor. These loans are regularly reviewed, and would be impaired if there was a risk of default. Some of the loans, such as the Housing Investment Fund investments are provided under guarantee from other organisations which will form part of the loan reviews.

20.8 The long-term investments are equity investments held by the Council, and include Manchester Airport (£112.4m), Destination Manchester (£10.2m) which is the Council's investment in Manchester Central, and Matrix Homes (£4.8m). These investments are valued on an annual basis.

20.9 Investment property is held by the Council on the basis that it will generate a revenue return, for example land at Manchester Airport and at Eastlands. Some of the properties held are being held for regeneration purposes but provide a return and therefore are shown as investment property. Investment properties are independently valued on an annual basis.

20.10 The current capital programme contains the following expected capital investments, which will create either long-term debtors, investments or investment properties, to be made:

- Waste Contract - providing a loan to the contractor to upgrade vehicles;
- Civic Quarter Heat Network - creation of a heat network through a Council-owned company;
- Private Sector Housing Equity Loans - loans to residents to provide housing support;
- Manchester Airport Strategic Investment and Car Parks - financial support to the Airport to develop the business;
- Manchester College Loan - loan to support College's expansion;
- Band on the Wall Loan - loan to support the development of the venue;
- Biomedical Investment - loan to support the development of health innovation; and
- Housing Investment Fund – *note, as detailed above, that elements of this project will transfer to the Combined Authority in the near future, with some retained by the City Council.*

There may be other projects which become capital investments, such as strategic acquisitions or land acquisitions under the Eastern and Northern Gateways but which are intended to ultimately be used for regeneration purposes.

20.11 As stated above all investments are scrutinised via the capital approval process with independent advice sought to assess risk where required. They are also reported to Executive for approval where appropriate ll proposed investments are scrutinised through the Council's Capital Approval Process and where appropriate reported to Executive for approval. To assess the risk the Council may seek independent external advice including on any legal issues.

20.12 Where investments provide a return either through interest or dividends this can be used to support the revenue budget. In 2018/19 it is forecast that c. £53.3m of dividends will be used within the revenue budget. Where investments have been funded by borrowing the income received is used to fund the capital financing costs, for example the Airport Strategic Loan.

20.13 All investments are monitored regularly with the frequency based on risk, and at a minimum all investments will be reviewed once a year. Any material changes to the status of any investment will be reported to the Treasurer at the earliest opportunity.

Commercial Investments

20.14 The Council does not make commercial investments, to the extent that it does not make investments purely to make a financial return. Where the Council has and does make capital investments, it is for strategic or regeneration purposes.

21 Treasury Management

21.1 The nature and scale of the Council's capital programme means that it is a key factor in the Council's treasury management, including the need to borrow to fund capital works. The treasury management strategy for the Council is the subject of a separate report on the agenda.

21.2 There is a clear link between capital investment activities and treasury management activities, particularly with regard to how the Council will repay debt and the impact on the revenue budget. The principles of this are described in more detail below.

Long Term Planning (inc. MRP)

21.3 The treasury management strategy provides the framework within which treasury management decisions will be made during the financial year, but the consequences of those decisions will be longer lasting. In particular with regard to debt planning, treasury management decisions are made with the impact on future treasury management decisions in mind.

21.4 Under the Prudential Code, the Council must make an annual revenue provision for the repayment of debt, called the minimum revenue provision (MRP). This provision spreads the cost of repaying the debt for an asset over the useful economic life of that asset. It is important to consider MRP when making capital investment decisions as it is a real cost and will impact the revenue position.

21.5 The Council has regard to MHCLG's guidance on the application of MRP, and applies the principles. The Council applies the following asset lives when calculating MRP, unless there are asset-specific reasons for deviating from them – such deviation will be guided by qualified valuers recommendations on maximum useful lives:

- Land: 50 years
- Property: 50 years
- Highways: 25 years
- ICT: 5 years

21.6 When making debt decisions the Council takes into consideration the forecast MRP in each future financial year, and in the current market environment will seek to match debt repayments to MRP in each of those years as this is the most prudent approach.

21.7 The current long term forecast for external debt compared to the Capital Financing Requirement, and therefore the level of forecast internal borrowing, is shown at appendix 4. The external debt peaks as the forecast capital programme period ends, although this will change as further projects are brought forward in the future. A table showing the forecast profile for the Capital Financing Requirement is shown below:

£'m	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Opening CFR	1,237.1	1,488.5	1,630.0	1,776.3	1,911.1	1,947.1
Borrowing	259.9	153.2	179.7	174.5	79.6	30.7
Additional long term liabilities	12.4	16.4	1.1	0.8	0.9	0.8

MRP	-20.9	-28.1	-34.5	-40.5	-44.5	-48.9
Closing CFR	**1,488.5**	**1,630.0**	**1,776.3**	**1,911.1**	**1,947.1**	**1,929.7**

21.8 Based on the revenue and capital budget forecasts, it is anticipated that the current level of internal borrowing (being the difference between the CFR and external debt) will begin to reduce. This is because both revenue and capital budgets assume the use of reserves, reducing the cash available to use instead of external borrowing.

21.9 The principles which the Council will follow when taking new debt, and how the debt portfolio will be managed, is set out in the Treasury Management Strategy Statement. This Treasury Management Strategy Statement also includes the authorised limit and operational boundary for external debt, based on the forecast debt requirement.

Risk appetite, key risks and sensitivities

21.10 For treasury management investments and debt the Council's risk appetite is extremely low with security of funds the primary concern. The Council seeks to invest surplus cash in instruments with high credit quality and for relatively short periods and to have debt options available at all times.

21.11 The role of the treasury management teams is to balance the risks associated with the management of cash, acknowledging that they cannot all be mitigated, and within that balance seek optimum performance in terms of liquidity and return.

21.12 The key sensitivities for the Council are changes in market conditions and the availability of debt. The team responsible for the treasury management function are in regular contact with brokers in the market and liaise regularly with the Council's treasury management advisors to review market conditions and debt opportunities to explore whether the Council could make use of them.

21.13 The Council's treasury management position and activities will be reported to Audit Committee throughout the financial year with any changes in market conditions or the Strategy highlighted to members.

22 Skills and Knowledge

22.1 The approval process and the requirements of the business case needed provides the framework for the knowledge needed to pursue a capital project. Information, advice and training on the requirements of the process is available for officers and Members. The Council has experience of delivering capital projects through the Capital Programme team and uses this experience to evaluate new proposals. All proposals are reviewed by the Senior Management Team, including the City Treasurer.

22.2 Capital investments are reviewed under the same approval process and receive input from appropriately qualified and skilled Finance professionals.

22.3 Since January 2018 the Markets in Financial Instruments Directive II (MiFID II) regulations is in force. For the Council to continue to invest as before it is required to opt up to become a “Professional Status” counterparty. To achieve this status those with responsibility for the delivery of the treasury management function must be able to demonstrate that they have significant skills and experience of working in a market environment, and the existing team fulfils this requirement. The Council currently holds “Professional Status” with the market investments it uses.

23 Conclusions

23.1 This capital strategy provides an overview of how capital expenditure, capital financing and treasury management activity support service delivery, and should be taken in context with the capital budget and the treasury management strategy statement.

23.2 The proposed capital programme described within the report is affordable within the existing revenue budget based on the estimated capital financing costs associated with delivering the programme.

23.3 There are risks associated with the delivery of the capital strategy, specifically regarding delays to the programme or treasury management risks. Measures are in place to mitigate these risks through both the Strategic Capital Board and the treasury management strategy. Reports will be provided throughout the year to Council, Executive and other relevant committees providing updates on the progress of the capital programme and the risks associated with its delivery and funding.

24 Key Policies and Considerations

(a) Equal Opportunities

24.1 The proposals have been drawn up in awareness of Council policy on equality.

(b) Risk Management

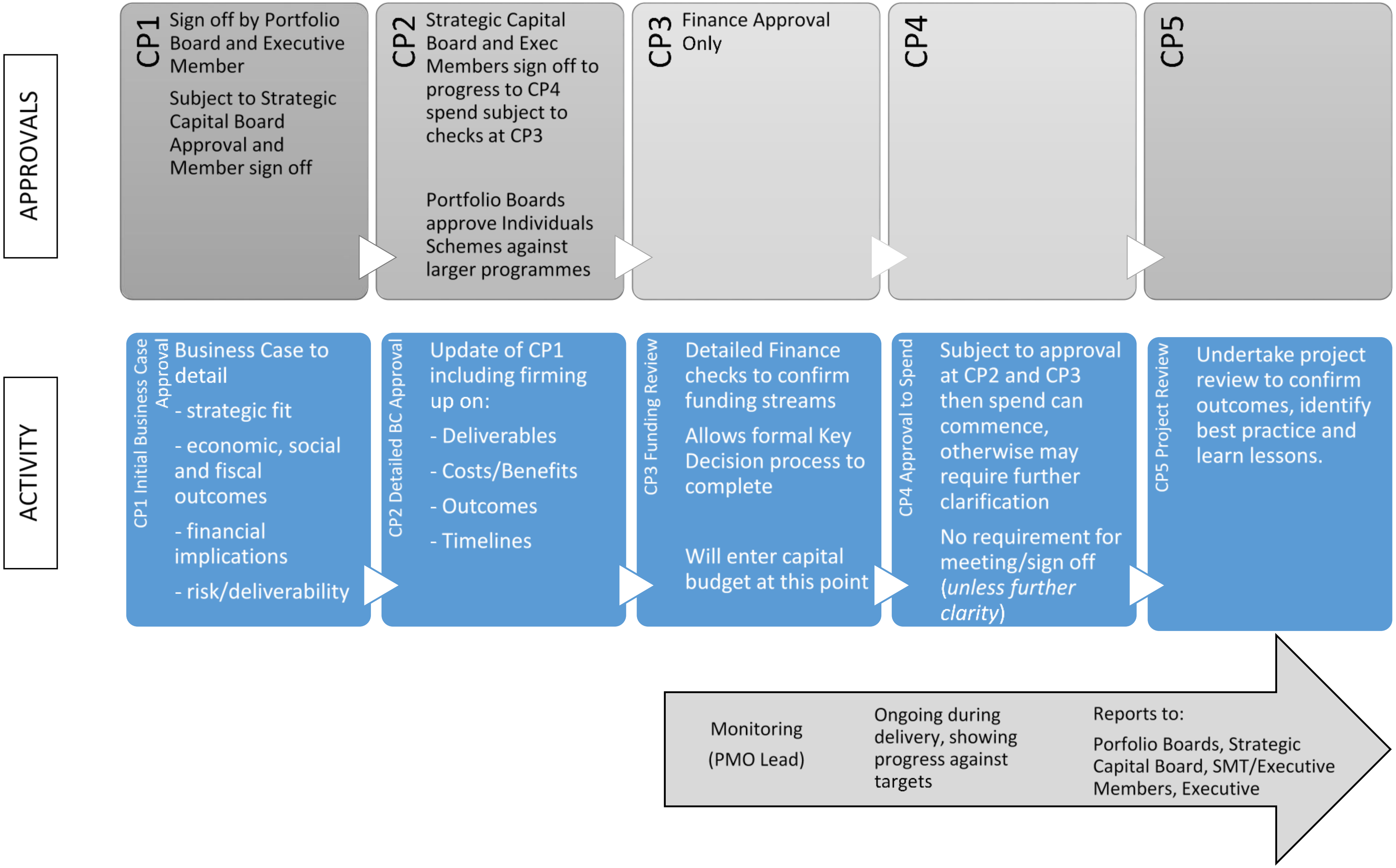
24.2 The capital programme is based on forecast costs and funding, and as such there are risks to achieving the programme from external factors such as shortage of labour or materials, alongside market risks such as price fluctuations and interest rate changes. The Strategic Capital Board, and associated Portfolio Boards for each part of the programme, are tasked with regular monitoring of costs, delivery, quality, and affordability, to help manage and mitigate these risks.

(c) Legal Considerations

24.3 None in this report.

Capital Approval Process and Governance

Appendix 1



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Appendix 2 – amendments to the capital budget introduced as part of this report

Amendments introduced to the capital budget 6 February 2019					
Department	**Scheme**	**Funding**	**2018/19**	**2019/20**	**Total**
			£'000	**£'000**	**£'000**
Highways	Sunbank Lane	External Contribution	21	30	51
Highways	Sharston Roundabouts SCOOT	External Contribution	34	6	40
Neighbourhoods	Contact Theatre loan	Borrowing	200		200
Neighbourhoods	Booth St Car Park	External Contribution	16		16
Neighbourhoods	Booth St Car Park	Borrowing	132		132
Neighbourhoods	GM Archives web portal	External Contribution	10	118	128
Private Sector Housing	Disabled Facilities Grant	Grant	878		878
Total Budget Increase Requests			**1,291**	**154**	**1,445**

Please note that the additional budgets for 2017/18 are not included in the Capital Monitoring report for quarter 3, as they are new approvals.

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Appendix 3 – the proposed Capital Programme Budget

Project Name	2018/19 Proposed Budget	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
Highway Programme						
Highways Planned Maintenance Programme						
Planned Highways Maintenance Programme	221	432	75	0	0	0
Drainage	344	970	1,312	0	0	0
Large Patching repairs	2,000	1,088	1,281	1,313	0	0
Carriageway Resurfacing	5,400	5,287	7,190	7,535	0	0
Footway schemes	1,498	2,200	2,893	2,957	0	0
Carriageway Preventative	4,500	4,139	8,282	9,044	0	0
Bridge Maintenance	0	1,200	2,982	3,018	0	0
Other Improvement works	86	1,983	4,769	4,833	0	0
Project Delivery Procurement	0	757	1,681	1,703	0	0
Highways Stand Alone Projects Programme						
Ardwick Grove Village Parking	0	0	20	0	0	0
Didsbury Village Tram Stop Traffic Mitigation	0	0	18	0	0	0
Section 106 Highways work around Metrolink	0	0	47	0	0	0
Barlow Moor Road	0	27	0	0	0	0
Etihad Expansion - Public Realm	0	59	0	0	0	0
Velocity	155	567	0	0	0	0
Cycle City Phase 2	230	4,291	0	0	0	0
Safe Routes to Loreto High School	28	22	0	0	0	0
Safe Routes to Schools	22	58	0	0	0	0
Congestion Target Performance	20	215	0	0	0	0
Piccadilly Undercroft Gating	1	7	0	0	0	0

Project Name	**2018/19 Proposed Budget**	**2019/20 Proposed Budget**	**2020/21 Proposed Budget**	**2021/22 Proposed Budget**	**2022/23 Proposed Budget**	**2023/24 Proposed Budget**
	£'000's					
20mph Zones (Phase 3)	20	80	370	0	0	0
ITB Minor Works	10	93	0	0	0	0
Flood Risk Management - Hidden Watercourses	0	49	0	0	0	0
Flood Risk Management - Higher Blackley Flood Risk	0	41	0	0	0	0
Hyde Road (A57) Pinch Point Widening	106	1,766	2,123	0	0	0
Manchester/Salford Inner Relief Road (MSIRR)	6,032	5,553	100	0	0	0
Great Ancoats Improvement Scheme	453	3,065	5,015	0	0	0
Mancunian Way and Princess Parkway NPIF	438	4,479	3,197	0	0	0
Cycle Parking	19	10	0	0	0	0
Shadowmoss Rd / Mossnook Rd	10	16	0	0	0	0
Birley Fields Campus improvements	0	0	34	0	0	0
GMCRP Multi Sites	13	0	0	0	0	0
Princess Rd Safety Review	100	477	0	0	0	0
School Crossings	286	1,403	924	0	0	0
Kingsway Speed Cameras	13	11	0	0	0	0
Green Bridge at Airport City	425	1,341	1,216	0	0	0
Public Realm	833	1,426	400	400	0	0
Street Lighting PFI	11,050	12,000	1,731	0	0	0
Didsbury West S106	53	10	0	0	0	0
S106 Whalley Grove	50	25	0	0	0	0
A56 Liverpool Road	10	70	0	0	0	0
A56 Chester Road	16	35	0	0	0	0
M56	0	148	0	0	0	0
Pay and Display Machines	0	924	0	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
North Manchester Hospital Residents Parking	0	9	0	0	0	0
Parking Schemes	0	558	120	0	0	0
Sunbank Lane S278	21	30	0	0	0	0
Sharston Roundabout SCOOT	34	6	0	0	0	0
SEMMMS PROGRAMME						
Ringway Road Highway Imp Scheme	0	0	0	0	0	0
Local Roads (temp SEMMMS A6 Stockport)	2,962	0	0	0	0	0
SEMMMs A6 to Manchester Airport	78	0	0	0	0	0
Bus Priority Package Programme						
Bus Priority Package - Oxford Road	215	137	0	0	0	0
Bus Priority Package - Princess Street/Brook Street	50	103	0	0	0	0
Total Highways Programme	**37,802**	**57,167**	**45,780**	**30,803**	**0**	**0**
Environment Programme						
Waste Reduction Measures	320	1,471	0	0	0	0
Waste Contract	523	5,910	0	0	0	0
Blackley Crematorium Heat Exchanger	107	0	0	0	0	0
Christmas Market Electrical Equipment	137	0	0	0	0	0
Smart Litter Bins	258	0	0	0	0	0
Leisure Services Programme						
Parks Programme						
Hollyhedge Park Drainage IMPS	9	0	0	0	0	0
Heaton Park Pay & Display	464	0	0	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
PIP - Park Events Infrastructure	274	52	0	0	0	0
PIP - Unallocated	97	2,566	4,045	5,699	5,699	2,462
Smedley Lane Playing Fields S106	19	0	0	0	0	0
Somme 100 Year Memorial	130	0	0	0	0	0
Painswick Park Improvement	30	0	0	0	0	0
Heaton Park Southern Play Area	360	120	0	0	0	0
Didsbury Park Play Area S106	50	0	0	0	0	0
Wythenshawe Park Sport Facilities S106	152	0	0	0	0	0
Northenden Riverside Park	50	25	0	0	0	0
Age Friendly Benches	18	0	0	0	0	0
King George V Park	93	0	0	0	0	0
Leisure & Sports Facilities						
Arcadia (Levenshulme) Leisure Centre	10	0	0	0	0	0
National Taekwondo Centre	7	0	0	0	0	0
Indoor Leisure - Abraham Moss	675	1,709	9,076	3,107	0	0
Indoor Leisure - Moss Side	5,597	25	0	0	0	0
FA Hubs	0	13,000	0	0	0	0
Boggart Hole Clough - Visitors Centre	535	0	0	0	0	0
Mount Road S106	12	0	0	0	0	0
Event Seating Basketball	18	0	0	0	0	0
Velodrome Track	713	0	0	0	0	0
Contact Theatre loan	200	0	0	0	0	0
MAC - Booth St Car Park	148	0	0	0	0	0
Libraries and Info Services Programme						

Project Name	**2018/19 Proposed Budget**	**2019/20 Proposed Budget**	**2020/21 Proposed Budget**	**2021/22 Proposed Budget**	**2022/23 Proposed Budget**	**2023/24 Proposed Budget**
	£'000's					
Relocation of Manchester Visitor Info Centre (MVIC)	5	54	0	0	0	0
GM Archives Web Portal	10	118	0	0	0	0
Central Library Wolfson Award	37	0	0	0	0	0
Library Refresh	4	0	0	0	0	0
Roll Out of Central Library ICT	220	0	0	0	0	0
Refresh of Radio Frequency Identifier Equipment	12	0	0	0	0	0
Newton Heath Library	168	0	0	0	0	0
Withington Library Refurbishment	200	0	0	0	0	0
Open Libraries	42	450	0	0	0	0
Total Neighbourhoods Programme	**11,704**	**25,500**	**13,121**	**8,806**	**5,699**	**2,462**
Cultural Programme						
First Street Cultural Facility	12	0	0	0	0	0
The Factory (Build)	24,365	55,253	38,078	4,725	0	0
The Factory (Public Realm)	2,344	0	2,106	0	0	0
Corporate Estates Programme						
Asset Management Programme	9,026	11,840	9,551	7,385	0	0
Strategic Acquisitions Programme	8,731	4,331	3,000	3,000	0	0
Town Hall Complex Transformation Programme	67	0	0	0	0	0
Hammerstone Road Depot	932	7,083	6,940	7	0	0
Heron House	14,380	0	0	0	0	0
Registrars	1,400	0	0	0	0	0
Carbon Reduction Programme	100	8,500	1,290	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
Civic Quarter Heat Network	6,500	11,500	4,000	4,000	0	0
Lincoln Square	0	0	1,200	0	0	0
Brazennose House	678	0	0	0	0	0
Estates Transformation	0	215	0	585	0	0
Estates Transformation - Hulme District Office	4,680	234	0	0	0	0
Estates Transformation - Alexandra House	559	6,961	3,848	632	0	0
The Gallery Café	0	0	0	0	0	0
Ross Place Refurbishment	2,120	0	0	0	0	0
Development Programme						
Development Programme - East Manchester						
The Space Project - Phase 2	1,085	0	0	0	0	0
The Sharp Project	0	600	0	0	0	0
Digital Asset Base - One Central Park	9,443	620	0	0	0	0
Sustaining Key Initiatives	0	0	5,000	8,600	0	0
New Smithfield Market	32	468	0	0	0	0
Beswick Community Hub - Highway and Public Realm	2	0	0	0	0	0
Eastern Gateway - Central Retail Park	1,312	2,000	0	0	0	0
Eastern Gateway - New Islington Marina	1,800	3,332	0	0	0	0
Hall and Rogers	346	0	0	0	0	0
Development Programme - North Manchester						
Collyhurst Police Station liabilities	844	0	0	0	0	0
Northern Gateway	3,875	2,300	6,675	7,275	4,875	0
Development Programme - City Centre						
Hulme Hall Rd Lighting	39	0	0	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
ST Peters Square	602	400	0	0	0	0
Medieval Quarter Public Realm	488	1,500	0	0	0	0
City Labs 2	3,675	0	0	0	0	0
Manchester College	17,600	10,000	0	0	0	0
Development Programme - Enterprise Zone						
Airport City Power Infrastructure (EZ)	2,440	0	0	0	0	0
Development Programme - Stand Alone Projects						
Digital Business Incubators	3,500	0	0	0	0	0
Total Strategic Development Programme	**122,977**	**127,137**	**81,688**	**36,209**	**4,875**	**0**
Town Hall Refurbishment Programme						
Our Town Hall refurbishment	11,060	24,386	67,743	103,251	65,914	29,039
Total Town Hall Refurbishment Programme	**11,060**	**24,386**	**67,743**	**103,251**	**65,914**	**29,039**
Private Sector Housing Programme						
Brunswick PFI (PSH)						
Brunswick PFI Land Assembly	2,460	1,726	737	0	0	0
Collyhurst (PSH)						
Collyhurst Regeneration	10	173	3,700	0	0	0
Collyhurst Environmentals	65	62	0	0	0	0
Collyhurst Acquisition & Demolition (Overbrook & Needwood Close)	0	0	505	565	0	0
Collyhurst Land Assembly Ph1	20	63	0	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
Collyhurst Land Acquisitions Ph2	0	210	799	0	0	0
Eccleshall Street - 3 Sites	0	500		0	0	0
Housing Investment Model		0				
Site Investigation and Early Works HIF Pilot Sites	286	141	155	0	0	0
Miles Platting PFI (PSH)						
Miles Platting PFI Land Assembly	255	632	0	0	0	0
Private Housing Asist Citywide Programme						
Disabled Facilities Grant	8,062	7,929	6,200	6,200	0	0
Toxteth St CPO & environmental works	73	141	0	0	0	0
Bell Crescent CPO	0	482	0	0	0	0
Private Sect Housing Standalone Projects						
HCA Empty Homes Cluster Phase 2	90	801	891	0	0	0
Empty Homes Scheme (s22 properties)	0	2,000	0	0	0	0
Redrow Development Programme						
Redrow Development Phase 2 onward	300	0	0	0	0	0
West Gorton (PSH)						
West Gorton Compensation	0	4	0	0	0	0
West Gorton Ph 2A Demolition & Commercial Acquisitions	10	490	904	0	0	0
Armitage Nursery & Community Facility	1,215	2,160	0	0	0	0
Private Sector Housing - Stand Alone Projects						
HMRF	56	50	40	0	0	0
Collyhurst Acquisition & Demolition (Overbrook & Needwood Close)	5	0	661	0	0	0
Extra Care	3,555	2,445	0	0	0	0
Moston Lane Acquisitions	0	0	0	0	0	7,500

Project Name	2018/19 Proposed Budget	2019/20 Propose d Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
Equity Loans	0	0	397	0	0	0
West Gorton Community Park	514	1,336	0	0	0	0
Ben St. Regeneration	5,574	556	6,877	0	0	0
Homelessness	5,000	0	0	0	0	0
Marginal Viability Fund - New Victoria	0	1,827	6,263	1,984	0	0
Marginal Viability Fund - Bowes Street	0	929	2,385	0	0	0
Rent to Purchase	203	0	0	0	0	0
Total Private Sector Housing Programme	**27,753**	**24,657**	**30,514**	**8,749**	**0**	**7,500**
Public Sector Housing						
Northwards - External Work						
Charlestown - Victoria Ave multistorey window replacement and ECW - Phase 1	0	8,000	7,190	0	0	0
External cyclical works phase 3a	10	0	22	0	0	0
Collyhurst Environmental programme	312	0	0	0	0	0
Ancoats Anita St and George Leigh external cyclical works ph 3b	28	0	0	0	0	0
Harpurhey Lathbury & 200 Estates external cyclical works ph 3b	-25	0	38	0	0	0
Environmental works	113	0	0	0	0	0
Harpurhey Shiredale Estate externals	0	0	15	0	0	0
Moston Miners Low Rise externals	16	0	4	0	0	0
Newton Heath Limeston Drive externals	0	0	6	0	0	0
Renewal of 4 automatic pedestrian gates at Victoria Square	0	45	0	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
External cyclical works ph 3b Harpurhey - Jolly Miller Estate ph 3b	54	0	32	0	0	0
External cyclical works ph 3b Moston Estates (Chauncy/Edith Cliff/Kenyon/Thorveton Sq)	7	0	2	0	0	0
External cyclical works ph 3b Ancoats Smithfields estate	262	10	0	0	0	0
External cyclical works ph 4b Charlestown Chain Bar low rise	178	0	36	0	0	0
External cyclical works ph 4b Charlestown Chain Bar Hillingdon Drive maisonettes	1	0	4	0	0	0
External cyclical works ph 4b Crumpsall Blackley Village	131	0	0	0	0	0
External cyclical works ph 4b Higher Blackley South	281	0	31	0	0	0
External cyclical works ph 4b Newton Heath Assheton estate	93	0	16	0	0	0
External cyclical works Ph 4b Newton Heath Troydale Estate	792	0	74	0	0	0
External cyclical works Ph 5 New Moston (excl corrolites)	66	0	31	0	0	0
Environmental improvements Moston corrolites	267	0	0	0	0	0
Charlestown - Victoria Ave multistorey replacement door entry systems	0	0	18	0	0	0
ENW distribution network phase 4 (various)	0	219	0	0	0	0
Dam Head - Walk up flates communal door renewal	212	172	0	0	0	0
Delivery Costs	955	909	827	0	0	0
Northwards - Internal Work						
2/4 Blocks Heating replacement with Individual Boilers	24	0	122	0	0	0
Lift replacement / refurbishment programme	75	0	0	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
Fire precaution works - installation of fire seal box to electric cupboards on communal corridors in retirement blocks	6	0	0	0	0	0
Decent Homes mop ups ph 9 and decent homes work required to voids	212	0	0	0	0	0
One offs such as rewires, boilers, doors, insulation	377	0	0	0	0	0
Whitemoss Road and Cheetham Hill Road Local Offices - Improvements	202	0	0	0	0	0
Ancoats - Victoria Square lift replacement	0	265	0	0	0	0
Aldbourne Court/George Halstead Court/Duncan Edwards Court works	274	81	0	0	0	0
Boiler replacement programme	786	25	261	0	0	0
Kitchen and Bathrooms programme	0	1,788	94	0	0	0
Harpurhey - Monsall Multis Internal Works	0	2,385	85	0	0	0
Various - Bradford/Clifford Lamb/Kingsbridge/Sandyhill Court Internal Works	0	2,471	108	0	0	0
Collyhurst - Mossbrook/Roach/Vauxhall/Humphries Court Internal Works	0	2,791	106	0	0	0
Decent Homes mop ups phase 10 and voids	583	500	219	0	0	0
One off work - rewires, boilers, doors	100	200	0	0	0	0
Fire precautions multi storey blocks	0	1,078	1,000	0	0	0
Installations of sprinkler systems - multi storey blocks	0	2,380	221	0	0	0
Replacement of Prepayment Meters in High Rise Blocks	0	0	20	0	0	0
Delivery Costs	1,352	1,502	246	0	0	0
Northwards - Off Debits/Conversions						
Bringing Studio Apartments back in use	40	0	0	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
Delivery Costs	13	0	0	0	0	0
Homeless Accommodation						
Improvements to Homeless accommodation city wide	54	0	201	0	0	0
Plymouth Grove Women's Direct Access Centre	22	0	0	0	0	0
Improvements to Homeless Accommodation Phase 2	280	723	210	0	0	0
Delivery Costs	136	78	45	0	0	0
Northwards - Acquisitions						
Northwards Acquisitions	134	0	0	0	0	0
Stock Acquisitions	32	0	0	0	0	0
Delivery Costs	29	0	0	0	0	0
Northwards - Adaptations						
Adaptations	1,000	720	0	0	0	0
Northwards - Unallocated						
Northwards Housing Programme unallocated	0	1,033	17,697	21,988	0	0
Retained Housing Programme						
Collyhurst Maisonette Compensation & Dem	0	89	0	0	935	0
West Gorton Regeneration Programme						
West Gorton PH2A Low & High Rise Demolition	10	16	0	0	0	0
Future Years Housing Programme						
Collyhurst Estate Regeneration	0	700	8,695	10,235	1,841	0
Collyhurst Regen - Highways Phase 1	-97	0	190	97	1,394	0
Collyhurst Regen - Churnett Street	0	0	0	0	790	0
Collyhurst Regen - Needwood & Overbrook acquisition / demolition	3	0	124	0	0	0
Willert Street Park Improvements	36	0	0	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Propose d Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
North Manchester New Builds	6,358	163	0	0	0	0
North Manchester New Builds 2	75	500	10,700	0	0	0
North Manchester New Builds 3	250	0	0	0	0	0
Parkhill Land Assembly	0	0	0	4,270	0	0
Fire precautions multi storey blocks	0	1,200	0	0	0	0
Brunswick PFI HRA	30	0	0	0	0	0
Total Public Sector Housing (HRA) Programme	**16,149**	**30,043**	**48,690**	**36,590**	**4,960**	**0**
Children's Services Programme						
Basic Need Programme						
Cheetham Academy	-14	0	0	0	0	0
Briscoe Lane Academy	127	0	0	0	0	0
Stanley Grove - contribution to PFI	13	0	0	0	0	0
Dean Trust Ardwick	15	0	0	0	0	0
Ardwick PRU	40	0	0	0	0	0
ULT William Hulme	47	0	0	0	0	0
Lytham Rd	0	200	0	0	0	0
Manchester Health Academy expansion	3,242	0	0	0	0	0
Co-op Academy expansion	3,741	0	0	0	0	0
St Margaret's C of E	54	0	0	0	0	0
St Matthews RC	20	0	0	0	0	0
Plymouth Grove Refurbishment	4,574	427	0	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
Beaver Rd Primary Expansion	4,547	115	0	0	0	0
Lily Lane Primary	3,331	136	0	0	0	0
St. James Primary Academy	2,848	112	0	0	0	0
Crossacres Primary School	1,902	111	0	0	0	0
Ringway Primary School	1,337	60	0	0	0	0
Webster Primary Schools	1,859	111	0	0	0	0
St. Chrysostom's	160	0	0	0	0	0
Camberwell Park Specialist School	65	0	0	0	0	0
Piper Hill Special School	224	0	0	0	0	0
SEND Programme	101	8,264	15,150	0	0	0
Basic need - unallocated funds	235	20,032	44,007	1,138	0	0
Universal Infant Free School Meals (UIFSM) - Unallocated	335	0	0	0	0	0
Schools Maintenance Programme						
Abraham Moss - Hall Heating	-4	0	0	0	0	0
Chorlton CofE Primary Rewire	16	0	0	0	0	0
Moston Lane Primary	8	0	0	0	0	0
Wilbraham Primary Roof	59	0	0	0	0	0
Abbott Primary School Fencing	94	0	0	0	0	0
Crowcroft Park PS-Rewire	531	0	0	0	0	0
Pike Fold Community Primary - Ground Stabilisation - Survey artificial play area	17	0	0	0	0	0
Charlestown Primary Defects	31	0	0	0	0	0
All Saints PS	-1	0	0	0	0	0
Collyhurst Nursery School	2	0	0	0	0	0
Armitage CE Primary	135	0	0	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
Higher Openshaw Comm School - Renew Boiler	101	0	0	0	0	0
Crowcroft Park PS - Roof Repairs	53	0	0	0	0	0
Northenden Primary School - Part Reroof	42	0	0	0	0	0
Abbot Community Primary - Ext Joinery Repair	248	0	0	0	0	0
St Mary's PS - Joinery Repairs	98	0	0	0	0	0
Sandilands PS - Joinery Repairs	181	0	0	0	0	0
Lancasterian ID Secure Lobby	38	0	0	0	0	0
Cheetwood PS - Rewire	499	0	0	0	0	0
Pike Fold Community Sch - Repairs to air handling units	53	0	0	0	0	0
Button Lane PS - Boiler Installation	60	0	0	0	0	0
Schools Capital Maintenance -unallocated	0	5,338	3,000	3,000	0	0
Education Standalone Projects						
Paintpots	31	0	0	0	0	0
Community Minded Ltd	28	0	0	0	0	0
Tiny Tigers Ltd-Cheetham Children Centre	79	0	0	0	0	0
Early Education for Two Year Olds - Unallocated	57	0	0	0	0	0
Gorton Youth Zone	538	962	0	0	0	0
Greenheys Toilets	67	0	0	0	0	0
Healthy Pupil Capital Funding	0	263	0	0	0	0
Special Educational Needs grant	38	2,871	164	0	0	0
Total Children's Services Programme	**31,902**	**39,002**	**62,321**	**4,138**	**0**	**0**
ICT Capital Programme						

Project Name	2018/19 Proposed Budget	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
ICT						
Solaris	11	0	0	0	0	0
ICT Infrastructure & Mobile Working Programme						
Citrix 7.6 Migration	3	0	0	0	0	0
Mobile Device Refresh	52	0	0	0	0	0
PSN Windows 2003	88	26	0	0	0	0
Data Centre UPS Installation	0	10	0	0	0	0
Core Switch Firmware	28	0	0	0	0	0
New Social Care System	2,039	509	0	0	0	0
End User Computing	796	90	0	0	0	0
Core Infrastructure Refresh	533	0	0	0	0	0
Income Management	1	0	0	0	0	0
Customer & Bus. Relationship Management System	1	0	0	0	0	0
Corporate Reporting Tool (Business Objects)	14	0	0	0	0	0
Internet Resilience	104	50	0	0	0	0
New Rent Collection System	70	14	0	0	0	0
Communications Room Replacement Phase 2	100	500	3,929	500	0	0
Care Leavers Service	91	0	0	0	0	0
Microsoft Enterprise Agreement Licensing renewal	227	0	0	0	0	0
Data Centre Network Design and Implementation	1,949	1,289	0	0	0	0
ICT Investment Plan	0	8,836	10,673	9,600	5,482	0
Infrastructure						
Wider Area Network Redesign	26	0	0	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Propose d Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
Total ICT Programme	**6,133**	**11,324**	**14,602**	**10,100**	**5,482**	**0**
Corporate Capital Programme						
ONE System Developments	23	25	0	0	0	0
Phase 1 Implementation - Locality Plan Programme Office	602	272	0	0	0	0
Integrated Working - Gorton Health Hub	1,400	10,150	8,627	2,619	0	0
Airport Strategic Investment	125,000	0	0	0	0	0
BioMedical Investment	7,000	5,500	6,100	2,700	0	0
Band on the Wall	0	200	0	0	0	0
Manchester Airport Car Park Investment	0	3,700	1,900	0	0	0
Total Corporate Capital Programme	**134,025**	**19,847**	**16,627**	**5,319**	**0**	**0**
Total Manchester City Council Capital Programme	**399,505**	**359,063**	**381,086**	**243,965**	**86,930**	**39,001**
Projects carried out on behalf of Greater Manchester						
Housing Investment Fund	95,805	146,522	37,951	0	0	0
Total GM projects	**95,805**	**146,522**	**37,951**	**0**	**0**	**0**
Total CAPITAL PROGRAMME	**495,310**	**505,585**	**419,037**	**243,965**	**86,930**	**39,001**

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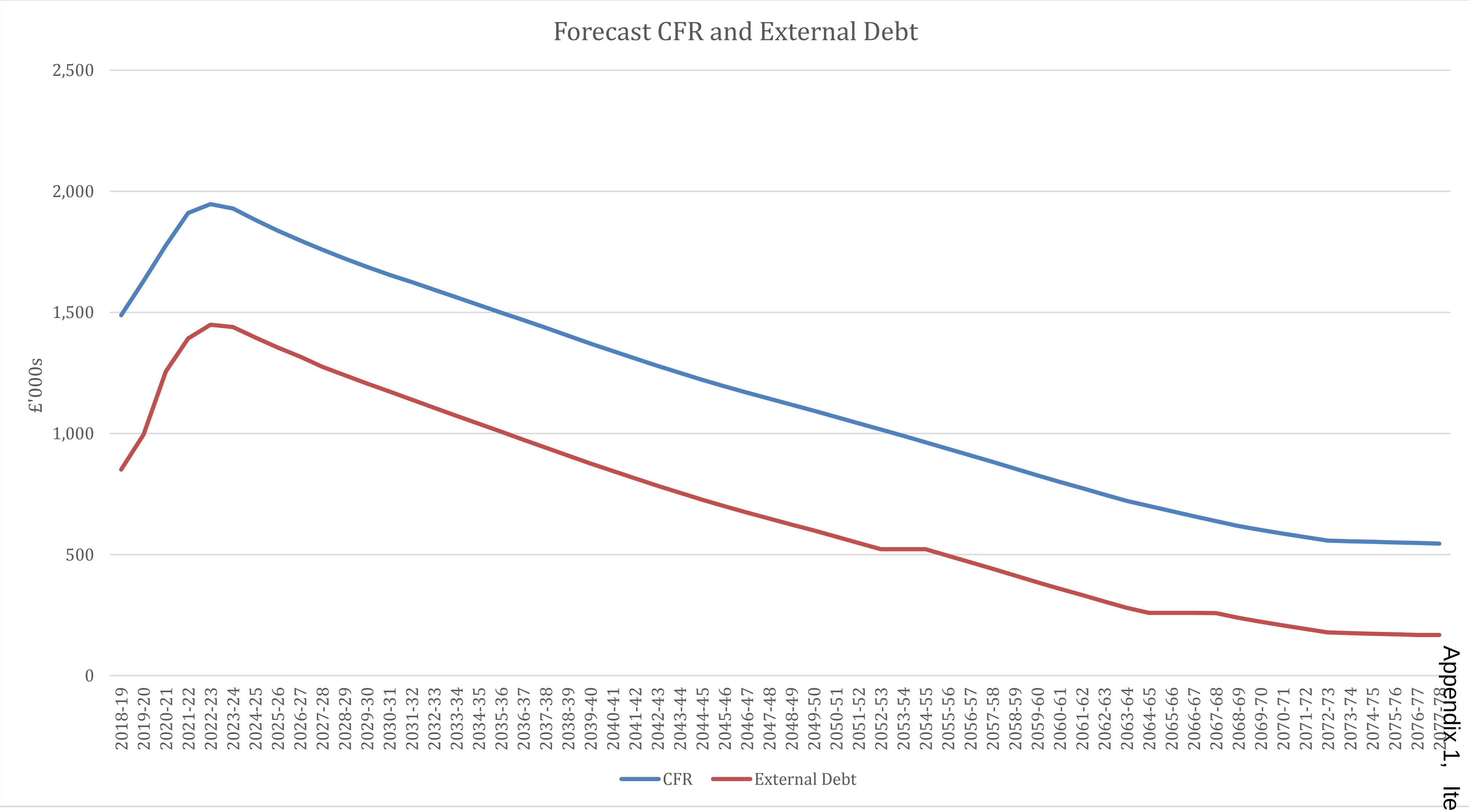
Appendix 4 – Capital Financing Requirement and Forecast External Debt



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Manchester City Council
Report for Resolution

Report to:	Executive – 13 February 2019 Resource and Governance Scrutiny Committee – 25 February 2019 Council – 8 March 2019
Subject:	Treasury Management Strategy Statement and Borrowing Limits and Annual Investment Strategy 2019/20
Report of:	City Treasurer

Summary

To set out the proposed Treasury Management Strategy Statement and Borrowing Limits for 2019/20 and Prudential Indicators for 2019/20 to 2021/22.

Recommendations

The Executive is requested to:

1. commend the report to Council.
2. Delegate authority to the City Treasurer, in consultation with the Executive Member for Finance, to:
   - approve changes to the borrowing figures as a result of changes to the Council's Capital or Revenue budget; and
   - submit these changes to Council.

The Resource and Governance Scrutiny Committee is requested to:

1. commend the report to Council.

The Council is requested to:

1. Approve the proposed Treasury Management Strategy Statement, in particular the:
   - Prudential and Treasury Indicators listed in Appendix A of this report
   - MRP Strategy outlined in Appendix B
   - Treasury Management Policy Statement at Appendix C
   - Treasury Management Scheme of Delegation at Appendix D
   - Borrowing Requirement listed in Section 6
   - Borrowing Strategy outlined in Section 9
   - Annual Investment Strategy detailed in Section 10

2. Delegate to the City Treasurer, in consultation with the Executive Member for Finance & Human Resources, the power to pursue any restructuring, rescheduling or redemption opportunities available, including amendments to the

Treasury Management Strategy if the changes require it. Any changes required to the Strategy will be reported to members at the earliest opportunity.

Wards Affected: All

Contact Officers:

Carol Culley	City Treasurer	Tel. 0161 234 3406 c.culley@manchester.gov.uk
Janice Gotts	Deputy City Treasurer	Tel. 0161 234 3590 j.gotts@manchester.gov.uk
Tim Seagrave	Group Finance Lead – Capital & Treasury Management	Tel. 0161 234 3445 t.seagrave@manchester.gov.uk
David Williams	Treasury Manager	Tel. 0161 234 8493 d.williams8@manchester.gov.uk

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 officers noted above.

- Treasury Management Strategy Report framework provided by Link Asset Services (Treasury Advisors)

1. Introduction

1.1 The Treasury Management Strategy Statement sets out the risk framework under which the Council's treasury management function will operate. By detailing the investment and debt instruments to be used during the year the Strategy highlights the risk appetite of the Authority and how those risks will be managed.

1.2. The Treasury Management Strategy Statement is linked to the Capital Strategy, in that both documents detail the risks that the Council face, but critically the Treasury Management Strategy Statement is focussed on the risks associated with the management of the Council's cash flow and debt, whereas the Capital Strategy looks at capital investment and expenditure decisions.

1.3. The capital budget contains significant priorities for the Council, such as the refurbishment of the Town Hall, which are to be funded from borrowing. This strategy details how decisions will be taken regarding new borrowing and that the over-arching principle is that the borrowing provides value for money for the Council in whatever form it takes. Capital investment decisions are made in line with the economic and regeneration objectives for the city and to support delivery of the agreed capital strategy.

1.4 For treasury management investments the Council holds security and liquidity as paramount. This strategy proposes the use of investment types aimed at ensuring that funds are kept secure and that the Council has access to funds when they are required.

1.5 The work of the Council's treasury management function is impacted by market conditions and there are significant economic changes, such as Britain leaving the European Union, which create uncertainty in the market. The strategy has been drafted to provide flexibility to manage the risks associated with uncertainties such as interest rate or liquidity challenges.

2. Statutory and other requirements

2.1. Background

Treasury management is defined by CIPFA as:

'The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

2.2. Statutory requirements

The Local Government Act 2003 (the Act) and supporting regulations require the Council to 'have regard to' the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code and the CIPFA Treasury

Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as section 10 of this report); the Strategy sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Department for Housing, Communities and Local Government (DHCLG) issued revised investment guidance which came into effect from the 1 April 2010. In 2017 the Department, now the Ministry of Housing Communities and Local Government (MHCLG) further updated its guidance on local government investments. CIPFA responded to these revisions by issuing an updated Code of Practice on Treasury Management and the Prudential Code in 2017. CIPFA have also issued Public Services Guidance Notes in 2018 to support the changes made to the Codes.

2.3. **CIPFA requirements**

The CIPFA Code of Practice on Treasury Management (Revised November 2009) was originally adopted by the Council on the 3 March 2010, having been approved by Executive on the 10 February 2010. The Code was revised in November 2011 and in December 2017. The revisions followed consultation with the public sector and were made in response to development of the localism agenda and a sustained period of public spending. This strategy has been prepared in accordance with the revised December 2017 Code.

The primary requirements of the Code are as follows:

a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;

b) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;

c) Receipt by the full Council of an annual Treasury Management Strategy Statement, including the Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead, a Mid-year Review Report and an Annual Report covering activities during the previous year;

d) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions;

e) Delegation by the Council of the role of responsible body for treasury management strategy and practices, budget consideration and approval, monitoring and selection of external service providers to a specific named body. For this Council the delegated body is the Audit Committee.

f) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Resource and Governance Scrutiny Committee.

The Council's adherence to the Prudential Code is monitored through the series of Prudential Indicators defined by CIPFA. These have recently been subject to revision following a consultation, and this strategy adheres to those revisions. Adherence to the CIPFA Prudential Code is a factor which informs the Council's investment policy. The legal status of the Treasury Management Code is derived in England and Wales from regulations issued under the Local Government Act 2003. This includes statutory guidance on Local Government investments issued under section 15(1) (a) of the Act.

2.4. **Treasury Management Strategy for 2019/20**

The suggested strategy for 2019/20 is based upon the treasury officers' views on interest rates, supplemented with market forecasts provided by the Council's treasury advisor, Link Asset Services.

The strategy covers:
Section 1: Introduction
Section 2: Statutory and other Requirements
Section 3: Treasury Limits and Prudential Indicators
Section 4: Impact of 2012 HRA reform
Section 5: Current Portfolio Position
Section 6: Borrowing Requirement
Section 7: Treasury Limits and Prudential Indicators for 2019/20 to 2021/22
Section 8: Prospects for Interest Rates
Section 9: Borrowing Strategy
Section 10: Annual Investment Strategy
Section 11: Scheme of Delegation
Section 12: Role of the Section 151 Officer
Section 13: Minimum Revenue Provision (MRP) Strategy
Section 14: Recommendations
Appendix A: Treasury Limits and Prudential Indicators for approval
Appendix B: MRP Strategy
Appendix C: Treasury Management Policy Statement
Appendix D: Treasury Management Scheme of Delegation
Appendix E: The Treasury Management Role of the Section 151 Officer
Appendix F: Economic Background – Link Asset Services
Appendix G: Prospects for Interest Rates
Appendix H: Glossary of Terms
Appendix I: Treasury Management Implications of HRA Reform

2.5. **Balanced Budget Requirement**

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, revised under Section 31 of the Localism Bill 2011, for the Council to produce a balanced budget. In particular, Section 31 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges caused by increased borrowing to finance additional to capital expenditure; and
- any increases in running costs from new capital projects

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

3. Treasury Limits and Prudential Indicators

3.1. The Council must comply with appropriate legislation and have regard to the Prudential Code when setting its Treasury Management Policy and Strategy. Following the issue in 2017 of MHCLG revised guidance on local government investments CIPFA consulted with the public sector and revised the Prudential Code. The changes included:

- the opportunity for an Authority to identify its own prudential indicators to reflect local circumstances.
- cancellation of the requirement for an Authority to formally note that it has adopted the Code.
- extension of the responsibilities of the Treasurer in respect of the Capital Strategy and the investment of non-financial assets. See Appendix E.
- deletion of the Council Tax indicator. This indicator could be fundamentally misleading as it struggled to reflect how borrowing might be taken, or the impact of changes in market conditions.
- clarification that the Code covers all investments held primarily for financial returns. This implies there is no differentiation between investments held for treasury purposes and investments held for commercial purposes.
- withdrawal of the requirement to analyse interest rate exposure or credit risk.

Three existing Indicators were confirmed as being key:

the Authorised Limit (Affordable Borrowing Limit)
the Operational Boundary, and
Actual External Debt from the preceding year

3.2. It is a statutory duty under Section 3 of the Act and supporting regulations that the Council determines and keeps under review how much it can afford to borrow. This amount is termed the ‘Affordable Borrowing Limit’.
In England this Authorised Limit represents the legislative limit specified in the Act and is one of the key Prudential Indicators identified by the CIPFA Code.

3.3. The Council must have regard to the Prudential Code when setting the Authorised Limit which requires it to ensure that total capital investment remains within sustainable limits.

3.4. Whilst termed an Affordable Borrowing Limit, the capital plans incorporate financing by both external borrowing and other forms of liability such as credit arrangements. The Authorised Limit is to be set on a rolling basis for the forthcoming financial year and two successive financial years.

3.5. The full set of Treasury limits and Prudential Indicators recommended by the Code and used by the Council, together with their suggested levels for 2019/20 is noted in Appendix A of this report below.

3.6. It should be noted that the Treasury limits and Prudential Indicators in this report may be subject to change dependent on decisions taken on the Capital and Revenue budgets which are reported elsewhere on this agenda.

4. The Housing Revenue Account - Impact of 2012 HRA reform

4.1 The Local Government Finance and Housing Act 1989 requires Councils who own housing they rent out to tenants to separate all of the financial activities relating to the Council acting as landlord into a ring-fenced account known as the Housing Revenue Account (HRA). Due to the ring-fence it is illegal for the Council to subsidise any General Fund (GF) activity from its HRA and vice versa.

4.2 The Treasury Management Strategy for 2013/14 was the first to incorporate the split of the Council's debt portfolio following the HRA debt settlement of March 2012 which ended the subsidy arrangement. Details of how the split was calculated and the corresponding effect on treasury management activities are at Appendix I.

4.3. The treasury position of the Council will continue to be monitored at a Council level alongside the separate positions for the GF and the HRA. The HRA is also limited in terms of the treasury activity it can undertake as any temporary borrowing or investing it requires or long-term borrowing will be through the GF. This ensures that the overall Council position is managed as effectively and efficiently as possible.

4.4. To reflect the fact that the HRA now has its own treasury position this report will mention where the HRA treasury strategy may be different to that of the GF. Where the Council strategy is mentioned this applies to both the GF and the HRA.

5. Current Portfolio Position

5.1. The forecast portfolio position for the end of the current financial year is shown below and assumes the novation of the loans relating to the Greater Manchester Housing Investment Fund provided by MHCLG to the Greater Manchester Combined Authority (GMCA) will complete before the end of the 2018/19 financial year. The City Council will retain some elements of the investments which were already committed at the time of the transfer and these loans will be retained until the investments end. The GMCA will support the cashflow of the Council to ensure that the arrangement is cash neutral for the Council. This is reflected in the short term borrowing position shown.

5.2 The forecast portfolio position below assumes that the related MHCLG loan no longer forms part of the Council's debt position and GMCA will provide short term borrowing to cover existing commitments under the Housing Investment Fund. It also reflects £150m of PWLB borrowing has been taken this financial year to support the Council's cash flow.

5.3 The Council's forecast treasury portfolio position at 31 March 2019 is:

Table 1		**Principal**			**Av Rate**
		GF £'m	HRA £'m	**Total £'m**	%
Long Term Borrowing					
	PWLB	150.0	0	**150.0**	2.45
	Market	338.0	62.2	**400.2**	4.50
	Stock	0.9	0	**0.9**	4.00
SALIX	Government	11.4	0	**11.4**	0.00
HCA	debt	8.4	0	**8.4**	0.00
		508.7	62.2	**570.9**	3.80
Short Term Borrowing		113.0	0	**113.0**	0.01
		113.0	0	**113.0**	
Gross debt		**621.7**	**62.2**	**683.9**	3.17
External Investments		0	0	**0**	0.00
Internal balances (GF/HRA)		34.5	(34.5)	**0**	0.00
Net debt		**656.2**	**27.7**	**683.9**	
Capital Financing Requirement				**1,488.5**	
Gross Debt				**683.9**	
Internal Borrowing				**804.6**	

5.3. The Capital Financing Requirement measures an Authority's underlying need to borrow or finance by other long-term liabilities for a capital purpose. It represents the amount of capital expenditure that has not yet been resourced absolutely, whether at the point of spend (by capital receipts, capital grants/contributions or from revenue income), or over the longer term by prudent Minimum Revenue Provision (MRP) or voluntary application of capital receipts for debt repayment etc. Alternatively it means capital expenditure incurred but not yet paid for.

5.4. The Capital Financing Requirement of the City Council excluding credit arrangements as at 31 March 2019 is forecast to be c.£1,488.5m. The difference between this and the actual gross debt of the Council is c.£804.6m which is the amount of funding that the Council has internally borrowed. This is a reflection of the treasury strategy where internal cash has been utilised to reduce the amount of borrowing required rather than holding this cash as investments. In the current environment where the rate of interest on investments is significantly lower than that on borrowing and there are substantial counterparty risks, this has been a prudent approach and has provided value for money for the Council. Internal cash refers to cash surpluses which arise from the timing of receipts and payments.

5.5. As part of the reform of the HRA, on the 28th March 2012 the then DHCLG repaid all of the Council's Public Works Loan Board (PWLB) debt which had been gradually reduced over recent years by various housing stock transfers. Subsequently the HRA debt portfolio consists almost exclusively of market debt, the majority of which are Lender Option Borrower Option (LOBO) loans which have long-term maturity dates. Whilst this provides some stability for the Council as LOBOs are unlikely to be called in the near future due to the current and forecast market environment, it does mean that when seeking to take new debt the Council should consider diversifying the portfolio, not least to ensure a wider range of maturity dates.

5.6. The portfolio at 31 March 2019 includes Council Stock with a value of £0.86m. This Stock debt is attributable to the irredeemable class of stock where stockholders have not taken up the Council's redemption offer made in 2017/18.

5.7. The portfolio above includes the funding from the GMCA for previous investments made by the City Council for the Housing Investment Fund. During the year repayments from the investments may be received and the Council will reduce the short term funding from the GMCA accordingly. Similarly if these loans require further advances the funding from the GMCA will increase.

6. Borrowing Requirement

6.1. The potential long-term borrowing requirements over the next three years are:

Table 2	**2019/20**	**2020/21**	**2021/22**
	£'m estimate	**£'m estimate**	**£'m estimate**
Planned Capital Expenditure funded by Borrowing	153.1	179.7	174.5
Change in Grants & Contributions	-5.1	48.8	2.6
Change in Capital Receipts	3.3	28.8	-0.7
Change in Reserves	16.1	32.7	19.6
MRP Provision	-24.8	-31.3	-37.0
Refinancing of maturing debt (GF)	2.8	2.2	4.7
Refinancing of maturing debt (HRA)	0.2	0	0.5
Estimated Borrowing Requirement	145.6	260.9	164.2
Funded by:			
GF	145.4	260.9	163.7
HRA	0.2	0	0.5

6.2. The borrowing detailed in Table 2 maintains the Council within the revised Government Debt Deal limit. The current Debt Deal expires in 2019/20 and it is not clear what will happen for the next Spending Review Period.

7. Prudential and Treasury Indicators for 2019/20 to 2021/22

7.1. Prudential and Treasury Indicators (as set out in Appendix A to this report) are relevant for the purposes of setting an integrated treasury management strategy.

8. Prospects for Interest Rates

8.1 The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Appendix G draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following gives Link's central view:

Link Asset Services Bank Rate forecast for financial year ends (March)

- 2019: 0.75%
- 2020: 1.25%
- 2021: 1.50%

8.2 There is no certainty to these forecasts. The Bank of England increased Base Rate from 0.50% to 0.75% on 2nd August 2018. Base Rate had previously remained static at 0.50% since March 2009, albeit for a reduction in August 2016 to 0.25%. This was later reversed in November 2017 when the rate was reinstated to 0.50%. In November 2018 the Governor of the Bank of England predicted that future rate rises will remain "gradual", but indicated that there will be a need to raise the Rate to 1.5% over the next three years to keep inflation under control. In addition there was a suggestion that the next Rate change could be either up or down dependent on the outcome of the Brexit arrangements. A detailed view of the current economic background prepared by Link is at Appendix F to this report.

8.3 The Council seeks to maintain a portfolio of debt and investments that is a mix of fixed and variable interest rates. Whilst fixed interest rates give the Council certainty, there is also a risk that prevailing market rates change and there are then opportunities to either increase the rate of return on investments or reduce the rate of interest on debt which could not be taken if the whole portfolio was fixed.

8.4 The Council's treasury management investments are classed as variable as the Council invests short term to enable the cash flow to be managed. In terms of debt, the Council has a significant portfolio of fixed rate debt, but as noted above a significant element of this is LOBO debt which means that there are risks that the interest rate on that debt could change. The Council monitors this position, including the likely use of the Lender Options, and will make future borrowing decisions with a view to keeping the debt portfolio balanced between fixed and variable debt.

9. Borrowing Strategy

General Fund

9.1. The proposed Capital Budget, submitted to Executive in February and Council in March contains significant capital investment across the city. The scale of the investment means the Council will need to undertake external borrowing in the future and will not be able on to rely on internal borrowing alone. The first tranche of external borrowing was taken from the PWLB in quarter 4 of 2018/19. Where possible, internal borrowing will remain the first option due to the interest savings generated.

9.2. The Council's borrowing strategy must utilise the annual provision it is required to make to reduce debt, in the form of its Minimum Revenue Provision (MRP). If MRP is not used to reduce external debt it is held as cash so the most efficient arrangement is for MRP to be used to reduce the new long term debt expected to be required. This ensures that MRP is utilised and does not accumulate as cash on the Balance Sheet. Alternatively MRP could be used to repay existing debt but this would be at considerable cost in the current interest rate environment.

9.3. In previous years this has not been an issue as the Council has had significant borrowing requirements year on year which have allowed it to utilise the MRP. However the borrowing requirement may fall in the long term so a prudent strategy is to seek to borrow in the medium term with maturities to match the estimated MRP that is generated in that period. This avoids an accumulation of cash on the Balance Sheet that would need to be invested at a potential net cost and investment risk to the Council.

9.4 Following the HRA debt settlement the Council's debt position is one of significant internal borrowing meaning cash backed reserves and provisions in the HRA are being used in lieu of external debt. The external debt held is predominantly long term in nature.

9.5 The Council will continue to use its reserves and provisions to maximise internal borrowing whilst seeking to rebalance the portfolio with more medium term debt when there is a need to externally borrow. This must be done with a strong focus on achieving value for money on interest costs and balancing the risks to the overall debt portfolio.

HRA

9.6 The Council's proposed capital budget for 2019/20 and beyond does not contain any requirement for the HRA to borrow. It is expected that proposals will be brought forward to build new homes that require funding via borrowing so it is likely the HRA will have a borrowing requirement in 2019/20. Further details can be found in the HRA Business Plan report elsewhere on the agenda. The level of borrowing affordable is restrained by the statutory requirement for the HRA Business Plan to avoid going into a deficit.

9.7 The impact of any required further long term borrowing on the Business Plan will be reviewed which will inform the borrowing options pursued. Any temporary borrowing required will be sought from the General Fund. This is discussed further in Appendix I.

9.8 Note, in the event that some of the current debt is required to be repaid, for example if one of the LOBO loans was called, the refinancing arrangements would need to be considered.

Borrowing Options

9.9 As stated above the Council's borrowing strategy will firstly utilise internal borrowing. However as the overall forecast is for long term borrowing rates to increase the short term advantage of internal and short term borrowing will be weighed against the potential cost if long term borrowing is delayed as rates for longer term loans are expected to increase.

9.10 New borrowing will be considered in the forms noted below. All options will be evaluated alongside their availability and which provides best value for money. The options below are not presented in a hierarchical order.

i Public Works Loan Board (PWLB)

PWLB borrowing is available for between 1 and 50 year maturities on various bases. This offers a range of options for new borrowing which could spread debt maturities away from a concentration in longer dated debt and allow the Council to align maturities to MRP.

In the March 2012 Budget the Chancellor announced the availability of a PWLB 'Certainty Rate' for local authorities which could be accessed upon the submission of data around annual borrowing plans for individual authorities. The Council submitted its return in April 2018. The Certainty Rate allows a local authority to borrow from the PWLB at 0.20% below their published rates.

The Government has also introduced a PWLB Infrastructure Rate to be borrowed at 0.40% below their published standard rates. There is a bidding process to access this rate and preference given to projects displaying high value for money. There are two bidding rounds each year, one runs from 1st May to 31st July 2018 and the second is from 1st January to 31st March 2019.

These reductions, alongside the flexibility the PWLB provides in terms of loan structures and maturity dates together with the current lack of availability of market debt options, suggest that should long term borrowing be required PWLB borrowing might provide the best value for money.
The Link forecast for the PWLB Certainty Rate is as follows:

Table 3	Mar 19	Jun 19	Sep 19	Dec 19	Mar 20	Mar 21
Bank Rate	0.75%	1.00%	1.00%	1.00%	1.25%	1.50%
5 yr PWLB rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.60%
10 yr PWLB rate	2.50%	2.60%	2.60%	2.70%	2.80%	3.00%
25 yr PWLB rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.40%
50 yr PWLB rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.20%

A more detailed Link forecast is included in Appendix G to this report.

ii European Investment Bank (EIB)

The EIB's rates for borrowing are generally favourable compared to PWLB although the margin of benefit has now reduced. Rates can be forward fixed for borrowing from the EIB and this option will be considered if the conditions can be met and it offers better value for money.
The EIB appraises its funding plans against individual schemes, particularly around growth and employment and energy efficiency, and any monies borrowed are part of the Council's overall pooled borrowing.

iii Third Party Loans

These are loans from third parties that are offered at lower than market rates, for example Salix Finance Ltd is offering loans to the public sector at 0% to be used specifically to improve their energy efficiency and reduce carbon emissions.

iv Housing Investment Funding and the Homes and Communities Agency

Both HIF and HCA are MHCLG funding and only used in specific circumstances, see paragraphs 9.12-16 for further details.

v Inter-Local Authority advances

Both short and medium term loans are often available in the inter Local Authority market.

vi Market Loans

There are usually various offers available from the general market including LOBOs or forward starting loans. The Council will give consideration to forward fixing debt, whereby it agrees to borrow at a point in the future at a rate based on current implied market interest rate forecasts.

vii Local Authority Bond Agency

The UK Municipal Bonds Agency was established in June 2014 with the primary purpose of reducing local authority financing costs by:

- Issuing bonds in the capital markets and on-lending to councils.

- Lending between councils.
- Sourcing funding from 3rd party sources, and on-lending to councils.

Although the Agency's aim is to raise finance for Local Authorities by issuing municipal bonds to capital markets, at the time of writing the first bond has yet to be issued. The Council will continue to monitor the Agency's development and whether it can offer a competitive option for future borrowing.

9.11 These types of borrowing will need to be evaluated alongside their availability, particularly whilst there is a very limited availability of traditional market loans. The traditional market loans available tend to be Lender Option Borrower Option (LOBO) loans and they are not currently offered at competitive rates of interest. LOBOs provide the lender with future options to increase the interest rate whilst the local authority has the option to repay if the increase in the rate is unacceptable to them.

9.12 Following HRA reform the vast majority of the Council's existing debt portfolio consists of LOBOs and the Authority needs to consider diversifying its loan book to reduce the impact of any volatility that may cause these loans to be called. It should be noted that the Council's current LOBO loans are unlikely to be called in the medium term at current interest rates.

Homes and Communities Agency Funding

9.13 The Homes and Communities Agency (HCA) has made £31.8m funding available to the City Council and this was received during the three years 2015/16 to 2017/18. The funding is, in effect, a 'loan' of the HCA's receipts from the disposal of its land and property within Greater Manchester (GM) as agreed in the GM City Deal. The funds can be used to invest in any project which supports GM City Deal objectives. Some of the funds are passed on to other GM authorities for projects within their areas.

9.14 The funding from the HCA is held as an interest free loan until an investment approval is made. At this point the approved element of the loan becomes risk-based with the return to the HCA based on the performance of that investment. The location of the project depends on where the receipts originate from and whether the receipt is due to the sale of residential or commercial property. Proceeds from commercial property are not borough-specific, whereas proceeds from residential property are.

9.15 The funds received are to be repaid to the HCA in March 2022. No interest will be charged to MCC for the receipt of the funds. Should an investment made not be recovered, the loss is deducted from the amount due to the HCA. Conversely, should any profit be made by an investment these will be added to the amount due to the HCA.

Housing Investment Funding (HIF)

9.16 The Council has arranged with the Homes and Communities Agency to receive housing investment funding on behalf of Greater Manchester. The funds are treated as a loan to the Council in a similar manner to HCA funds as detailed in paragraphs 9.12-14. These monies are then be invested in housing related projects with any losses met by Government (up to 20%) or by guarantee from the ten Greater Manchester Local Authorities (including Manchester). All the Housing Investment Fund schemes are approved by the GMCA and the Council's role is to act as a host for the financial arrangements.

9.17 Total HIF funding of £300m has been agreed with the MHCLG of which £197.7m has been received to date. The majority of HCA and HIF funds are expected to transfer to the GMCA in quarter 4 2018/19 following the Authority being granted the statutory borrowing powers required. The element of the investment which was already committed at the time of the transfer is being retained by the Council until the investment completes.

Sensitivity of the forecast

9.18 In normal circumstances the main sensitivities are likely to be the two scenarios noted below. Council officers in conjunction with the treasury advisors will continually monitor the prevailing interest rates and the market forecast, adopting the following responses to a change of sentiment:

- ***If it were felt that there was a significant risk of a sharp FALL in long and short term rates****,* e.g. due to a marked increase of risks around relapse into recession or of risks of deflation then long term borrowings will be postponed.
- ***If it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that current forecast****,* perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, the portfolio position will be re-appraised. The likely action will be that fixed rate funding will be drawn whilst interest rates remain relatively cheap.

External v. Internal borrowing

9.19 The current borrowing position reflects the historic strong Balance Sheet of the Council as highlighted in Section 5. The policy remains to keep cash as low as possible and minimise temporary investments.

9.20 The next financial year is again expected to be one of historically low Bank Rate. This provides a continuation of the opportunity for local authorities to review their strategy of undertaking new external borrowing. At Appendix F there is an in depth analysis of economic conditions provided by Link Asset Services, the Council's independent treasury advisors.

9.21 Over the next three years, investment rates are expected to be significantly below long term borrowing rates. This would indicate that value could best be obtained by limiting new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt.

9.22 This will be weighed against the potential for incurring additional long term costs by delaying new external borrowing until later years when longer term rates are forecast to be significantly higher. Consideration will also be given to forward fixing rates whilst rates are favourable.

9.23 Against this background caution will be adopted within 2019/20 treasury operations. The City Treasurer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision making body at the next available opportunity.

Policy on borrowing in advance of need

9.24 From a statutory point of view a Local Authority has the power to invest for 'any purpose relevant to its functions under any enactment, or for the purposes of the prudent management of its financial affairs.' The MHCLG takes an informal view that local authorities should not borrow purely to invest at a profit. This does not prevent the Council temporarily investing funds borrowed for the purpose of expenditure in the reasonable near future.

9.25 This Council will not borrow in advance of need to on lend. Any decision to borrow in advance in support of strategic and service delivery objectives will be in the context of achieving the best overall value for money, for example to minimise the risk of borrowing costs increasing in the future and that the Council can ensure the security of such funds. In determining whether borrowing is undertaken in advance of need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt profile which supports the need to take funding in advance of need;
- ensure the ongoing revenue liabilities created and implications for future plans and budget have been considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the merits and demerits of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use; and
- consider the impact of borrowing in advance temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

Forward Fixing

9.26 The Council will give consideration to forward fixing debt, whereby the Council agrees to borrow at a point in the future at a rate based on current implied market interest rate forecasts. There is a risk that the interest rates proposed would be higher than current rates it can be beneficial as it avoids the need to borrow in advance of need and suffer cost of carry. It may also represent a saving if rates were to rise in the future. Any decision to forward fix will be reviewed for value for money and will be reported to Members as part of the standard treasury management reporting.

Debt Rescheduling

9.27 It is likely that opportunities to reschedule debt in the 2019/20 financial year will be limited particularly as the Council has no existing PWLB loans other than those expected to be taken in the last quarter of 2018/19.

9.28 As short term borrowing rates will be considerably cheaper than longer term rates, there may be some opportunity to generate savings by switching from long term debt to short term debt. These savings will need to be considered in the light of the premiums incurred and the likely cost of refinancing those short term loans once they mature compared to the current rates of longer term debt in the existing portfolio.

9.29 The debt portfolio following HRA reform consists mainly of LOBOs, and the premia for rescheduling these make it unlikely there will be a cost effective opportunity to reschedule. The premia relates to the future interest payments associated with the loan and compensation for the lender for the buy-back of the interest rate options the loan has embedded in it.

9.30 The Council will continue to monitor the LOBO market and opportunities to reschedule, redeem or alter the profile of existing LOBO debt. The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the strategy outlined above in this section;
- enhancing the balance of the portfolio (amending the maturity profile and/or the balance of volatility)

9.31 Any restructuring of LOBOs will only be progressed if it provides value for money and reduces the overall treasury risk the Council faces. The Council's Constitution delegates to the City Treasurer the authority to pursue any restructuring, rescheduling or redemption opportunities available.

9.32 Consideration will also be given to the potential for making savings by running down investment balances to repay debt prematurely. It is likely short term rates on investments will be lower than rates paid on current debt.

9.33 All rescheduling will be reported to the Executive as part of the normal treasury management activity. If rescheduling requires amendments to the Treasury Management Strategy the City Treasurer will be asked to approve them in accordance with her delegated powers and the changes will be reported to Members.

10. Annual Investment Strategy

General Fund

Introduction

10.1. The Council will have regard to the MHCLG's Guidance on Local Government Investments (the Guidance) and the 2011 and 2017 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (the CIPFA TM Code). The Council's investment priorities are:
- the security of capital; and
- the liquidity of its investments.

10.2. The risk appetite of the Council is low in order to give priority to the security of its investments. The Council will also aim to achieve the optimum return on its investments commensurate with desired levels of security and liquidity.

10.3. The borrowing of monies by an Authority purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity. However the Council may provide loan finance funded from borrowing if this supports the achievement of the Council's strategies and service objectives.

10.4. The Icelandic banks crisis and the financial difficulties faced by UK and international banks that followed have placed security of investments at the forefront of Treasury Management investment policy. Similarly the move in the local authority sector to commercial investment had led to a reinforcement of these principles under the revised Prudential Code.

10.5 The Council's TMSS focusses solely on treasury management investments. CIPFA has revised the Prudential Code to strengthen disclosure requirements for investments which are commercial in nature, in that they are neither treasury or strategic capital investments. The Council does not hold any commercial investments and details of strategic capital investments can be found in the Capital Strategy and Budget Report to the Executive.

Changes to Credit Rating Methodology

10.6. Through much of the financial crisis the main rating agencies provided some institutions with a ratings 'uplift' due to implied levels of government backing should an institution fail. In response to the evolving regulatory regime and the declining probability of government support the rating agencies are removing these 'uplifts'.

10.7. The changes do not reflect any changes in the underlying status of the institution or credit environment, merely the removal of the implied levels of sovereign support built into ratings during the financial crisis. The regulatory and economic environments now mean that financial institutions are much stronger and less prone to failure in a financial crisis.

10.8. The key change to the regulatory framework in respect of banks was introduction of the European Union's Banking Recovery and Resolution Directive (BRRD). In response to the banking crisis some governments used taxpayer funds to support banks. BRRD now requires 'bail-in' to be applied in such a scenario. In the UK this requires that after shareholders' equity, depositors' funds over c.£85k (linked to the Euro) will be used to support a bank at risk. The £85k threshold is not available to local authorities and all bank deposits are at risk of bail-in. This increases the risk to the Council of holding unsecured cash deposits with banks and building societies.

Investment Policy

10.9. As previously, the Council will not just utilise ratings as the sole determinant of the quality of an institution. It is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. The Council will engage with its advisors to maintain a monitor on market pricing such as 'credit default swaps'[1] and overlay that information on top of the credit ratings.

10.10. Investment in banks and building societies are now exposed to bail-in risk as described above and lower operational limits for these investments were adopted in 2016/17. This is apart from the limit with Barclays bank; Barclays is the Council's main banker and is the investment destination of last resort for the close of daily trading. These revised limits are operational changes and to preserve flexibility should circumstances change the overall investment limits approved for banks and building societies for 2018/19 will be maintained in 2019/20.

10.11. The investment constraint brought by bail-in risk means the Council has sought to identify ways that it can broaden and diversify its basis for lending. During 2018/19 the Council decided to reduce its exposure by maintaining a lower level of bank deposits. This strategy saw a significant proportion of the Council's investments placed with the Government (via the DMO) or with other Local Authorities.

10.12 From October 2018, in line with the 2018/19 TMS, the Council has started to deposit in Money Market Funds (MMFs) to further diversify the basis for lending, using four MMFs which meet the Council's TMSS criteria. Although MMFs are not directly exposed to bail-in risk there could be a secondary exposure related to the extent that the individual Fund includes bank deposits within its portfolio of investments. Application of bail-in in this scenario would impact on the overall status of the Fund and it is likely that the Council would be able to withdraw from participation in the Fund in such a situation.

10.13 To December 2018 the majority of the investment portfolio was with the DMO and other Local Authorities. For liquidity purposes an average of £15m has been held in Bank Deposits and from October 2018 Money Market Funds deposits have averaged £20m. This highlights the relatively low credit risk that the Council takes when investing.

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[1] A credit default swap is a financial instrument that effectively provides the holder insurance against a loan defaulting. The CDS spread is the difference between the price at which providers are willing to sell the swap, and the price at which buyers are willing to buy. A relatively high spread may suggest that the loan is more likely to default.

10.14. For 2019/20 investment the Council will continue to consider trading in Treasury Bills, Certificates of Deposit and Covered Bonds. In addition to diversification each of these options offer the Council benefits which are noted in paragraphs 10.32-36 below. Treasury Bills, Certificates of Deposit and Covered Bonds require the Council to have specific custodian and broker facilities which have been opened. Officers are working to monitor these markets to prompt participation in the instruments when rates are favourable. Work is continuing to open further access points to markets and to identify opportunities for benefit which are new to the Council.

10.15. It should be noted that, whilst seeking to broaden the investment base officers will seek to limit the level of risk taken. It is not expected that the measures considered above will have a significant impact on the rates of return the Council currently achieves.

HRA

10.16. In order to maintain efficient, effective and economic treasury management for the Council as a whole, the HRA will only be able to invest with the General Fund. This is discussed further in Appendix I.

Specified and Non-Specified Investments

10.17. Investment instruments identified for use in the financial year are listed below and are all specified investments. Any proposals to use other non-specified investments will be reported to Members for approval.

10.18. Specified investments are sterling denominated, with maturities up to a maximum of one year and meet the minimum ‘high’ rating criteria where applicable. Further details about some of the specified investments below can be found in later paragraphs in this Section.

Table 4	**Minimum ‘High’ Credit Criteria**	**Use**
Term deposits – banks and building societies*	See Para 10.9.	In-house
Term deposits – other Local Authorities	High security. Only one or two local authorities credit-rated	In-house
Debt Management Agency Deposit Facility	UK Government backed	In-house
Certificates of deposit issued by banks and building societies covered by UK Government guarantees	UK Government explicit guarantee	In-house
Money Market Funds (MMFs)	AAA_M	In-house
Treasury Bills	UK Government backed	In-house
Covered Bonds	AAA	In-house

* Banks & Building Societies
The Council will keep the investment balance below or at the maximum limit based on the institutions credit rating as detailed in paragraph 10.23. If this limit is breached, for example due to significant late receipts, the City Treasurer will be notified as soon as possible after the breach, along with the reasons for it. Please note this relates to specific investments

and not balances held within the Council's bank accounts, including the general bank account.

Creditworthiness policy

10.19. The Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies; Fitch, Moody's and Standard & Poor's. Link supplement the credit ratings of counterparties with the following overlays:

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swap spreads to provide early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

10.20. The above are combined in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. This classification is called durational banding.

10.21. The Council has regard to Link's approach to assessing creditworthiness when selecting counterparties as it uses a wider array of information than just primary ratings and by using a risk weighted scoring system does not give undue preponderance to just one agency's ratings.

10.22. In summary the Council will approach assessment of creditworthiness by using the Link counterparty list and then applying its own counterparty limits and durations. All credit ratings will be monitored on a daily basis and re-assessed weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of Credit Ratings, the Council will be advised of information in Credit Default Swap against the iTraxx benchmark[2] and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or removal from the Council's lending list.

10.23. Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

Investment Limits

[2] The Markit iTraxx Senior Financials Index is a composite of the 25 most liquid financial entities in Europe. The index is calculated through an averaging process by the Markit Group and is used as the benchmark level of CDS spreads on Capita Asset Services' Credit List.

10.24. In applying the creditworthiness policy the Council holds the security of investments as the key consideration and will only seek to make treasury investments with counterparties of high credit quality.

The financial investment limits of financial institutions will be linked to their short and long-term ratings (Fitch or equivalent) as follows:

Long Term	Amount
Fitch AA+ and above	£20 million
Fitch AA/AA-	£15 million
Fitch A+/A	£15 million
Fitch A-	£10 million
Fitch BBB+	£10 million

The Council will only utilise those institutions that have a short term rating of F2 or higher, (Fitch or equivalent).

UK Government (including the Debt Management Office)	£200 million
Greater Manchester Combined Authority	£200 million
Other Local Authorities	£20 million

In seeking to diversify he Council will utilise other investment types which are described in more detail below and ensure that the investment portfolio is mixed to help mitigate credit risk. The following limits will apply to each asset type:

Total Deposit	**Amount**
Local Authorities	£250 million
UK Government - Debt Management Office - Treasury Bills	£200 million
Money Market Funds	£60 million
Certificates of Deposit	£25 million
Covered Bonds	£25 million

10.25. It may be prudent to temporarily increase the limits shown above, as in the current economic environment it is increasingly difficult for officers to place funds. If this is the case officers will seek approval from the City Treasurer and any increase in the limits will be reported to Members through the normal treasury management reporting process. Any HCA funds invested with other local authorities will form part of the £20m limit noted above.

Country Limits

10.26. The introduction of bail-in arrangements means that the Council’s exposure to bank and building society deposits should be limited and these deposits will only form part of a diversified investment portfolio to help mitigate the risk.

10.27. Previously the Council’s treasury management strategies included investment limits to specific countries, such as those rated AAA. The introduction of bail-in arrangements suggests that less reliance can be placed on sovereign support for individual institutions and the country limits have been removed. The focus of credit rating evaluations will be on the individual banks, building societies and organisations.

Money Market Funds

10.28. The removal of the implied levels of sovereign support that were built into ratings throughout the financial crisis has impacted on bank and building society ratings across the world. Rating downgrades can limit the number of counterparties available and to provide flexibility the Council will use MMFs when appropriate as an alternative specified investment.

10.29. MMFs are investment instruments that invest in a variety of institutions therefore diversifying the investment risk. The funds are managed by a fund manager and have objectives to preserve capital, provide daily liquidity and a competitive yield. The majority of money market funds invest both inside and outside the UK. MMFs also provide flexibility as investments and withdrawals can be made on a daily basis.

10.30. MMFs are rated through a separate process to bank deposits. This looks at the average maturity of the underlying investments in the Fund as well as the credit quality of those investments. The Council will only use MMFs where the institutions hold the highest AAA credit rating and those which are UK based.

10.31. As with all investments there is some risk with MMFs in terms of the capital value of the investment. European legislation has required existing and new MMFs to convert to a Low Volatility Net Asset Value (LVNAV) basis by January 2019. This basis allows movements in capital value, but there is a restriction that the deviation cannot be more than 20 basis points, e.g. on a deposit of £100 the Fund must ensure withdrawal proceeds are no greater than +/- 20p.

10.32. For international investments the Council requires that the countries concerned must possess AAA status if there is a direct investment in a sovereign state. This is not applicable to MMFs. Whilst MMFs invest outside the UK their investment risk is identified on the basis of the total Fund rather than the ratings of the individual components within it. Should a country (or institution) become a higher risk in a MMF portfolio the Fund's management will seek to realign the investment portfolio to maintain the MMF's overall credit rating.

Treasury Bills

10.33. Treasury Bills are marketable securities issued by the UK Government and counterparty and liquidity risk is relatively low although there is potential risk to value arising from an adverse movement in interest rates unless they are held to maturity.

10.34. Weekly tenders are held for Treasury Bills so the Council could invest funds on a regular basis. This would provide a spread of maturity dates and reduce the volume of investments maturing at the same time.

10.35. There is a large secondary market for Treasury Bills so it is possible to trade them in earlier than the maturity date if required and to purchase them in the secondary market. In the majority of cases the Council will hold to maturity to avoid any potential capital loss from selling before maturity and will only sell the Treasury Bills early if it can demonstrate value for money in doing so.

Certificates of Deposit

10.36. Certificates of Deposit are short dated marketable securities issued by financial institutions so the counterparty risk is low. The instruments have flexible maturity dates so it is possible to trade them in early although there is a potential risk to capital if they are traded ahead of maturity and there is an adverse movement in interest rates. Certificates of Deposit are subject to bail-in risk as they are given the same priority as fixed deposits if a bank was to default. The Council will only deal with Certificates of Deposit that are issued by banks and meet the credit criteria.

Covered Bonds

10.37. Covered Bonds are debt instruments secured by assets such as mortgage loans. They are issued by banks and other non-financial institutions. The loans remain on the issuing institutions' Balance Sheet and investors have a preferential claim in the event of the issuing institution defaulting. All issuing institutions are required to hold sufficient assets to cover the claims of all covered bondholders. The Council would only deal with bonds that are issued by banks which meet the credit criteria, or AAA rated institutions, (e.g. insurance companies).

Liquidity

10.38. Based on cash flow forecasts, the level of cash balances in 2019/20 is estimated to range between £0m and £230m. The higher level can arise where for instance large Government grants are received or long term borrowing has recently been undertaken.

Investment Strategy to be followed in-house

10.39 Link's view of forecast Bank Rate is noted at Section 8. The current economic outlook is that the structure of market interest rates and government debt yields have several key treasury management implications:

- The Bank of England has adopted a more aggressive tone in its provision of guidance to financial markets. The Bank has indicated there will be a need to gradually raise the Bank Rate to 1.5% over the next three years to keep inflation under control.

- Link's view is that Bank Rate will continue at its current rate of 0.75% until June 2019 when a rise to 1.00% is predicted. Thereafter rises to 1.25% in

March 2020, 1.50% in December 2020 and to 1.75% in June 2021 are forecast.

- Forecasting as far ahead as 2021 is difficult as there are many potential economic factors which could impact on the UK economy. There are also political developments in the UK, (especially over the terms of Brexit), EU, US and beyond which could have a major impact on forecasts;

- Investment returns are likely to remain relatively low during 2019/20 and beyond;

- Growth in the Eurozone after several years of depression following the financial crisis started to improve from 2016 and now has substantial strength. However the European Central Bank is struggling to achieve its 2% inflation target and therefore rates will possibly not start to rise until 2019.

There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

10.40. The Council will avoid locking into longer term deals while investment rates are at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within the risk parameters set by the Council.

10.41. For 2019/20 it is suggested the Council should target an investment return of 0.50% on investments placed during the financial year. For cash flow generated balances the Council will seek to utilise its business reserve accounts and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

End of year Investment Report

10.42. At the end of the financial year, the Council will receive a report on investment activity as part of the Annual Treasury Report.

Policy on the use of External Service Providers

10.43. The Council uses Link Asset Services as external treasury management advisors and has access to another provider who is an approved supplier should a second opinion or additional work be required. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon its external service providers.

10.44. The Council recognises there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. It will ensure the terms of the Advisor’s appointment and the methods by which their value is assessed are properly agreed and documented, and subjected to regular review.

11. Scheme of Delegation

11.1 Appendix D describes the responsibilities of Member groups and officers in relation to treasury management.

12. Role of the Section 151 Officer

12.1 Appendix E notes the definition of the role of the City Treasurer in relation to treasury management.

13. Minimum Revenue Provision (MRP) Strategy

13.1 Appendix B contains the Council’s policy for spreading capital expenditure charges to revenue through the annual MRP charge.

14. Recommendations

14.1 Please see page 1 of the report for the list of recommendations.

Appendix A

Treasury Limits and Prudential Indicators for approval

Please note last years approved figures are shown in brackets.

Treasury Management Indicators	**2019-20**		**2020-21**		**2021-22**
	£m		£m		£m
Authorised Limit - external debt					
Borrowing	1,351.4	(1,672.7)	1,412.7	(1,684.5)	1,412.9
Other long term liabilities	170.0	(216.0)	170.0	(216.0)	170.0
TOTAL	1,521.4	(1,888.7)	1,582.7	(1,900.5)	1,582.9
Operational Boundary - external debt					
Borrowing	940.8	(1,381.4)	1,151.7	(1,435.0)	1,275.0
Other long term liabilities	170.0	(216.0)	170.0	(216.0)	170.0
TOTAL	1,110.8	(1,597.4)	1,321.7	(1,651.0)	1,445.0
Actual external debt	716.5	(1,192.0)	977.4	(1,259.6)	1,141.5
Upper limit for total principal sums invested for over 364 days	0	(0)	0	(0)	0
Capital Expenditure					
Non - HRA	475.5	(455.5)	370.3	(160.1)	207.4
HRA	30.1	(41.9)	48.7	(44.3)	36.6
TOTAL	505.6	(497.4)	419.0	(204.4)	244.0
Capital Financing Requirement (as at 31 March)					
Non – HRA	1,331.9	(1,664.4)	1,477.1	(1,730.5)	1,611.1
HRA	298.1	(298.1)	299.2	(299.3)	300.0
TOTAL	1,630.0	(1,962.5)	1,776.3	(2,029.8)	1,911.1

Maturity structure of borrowing during 2019-20	Upper Limit		Lower limit	
under 12 months	80%	(70%)	0%	(0%)
12 months and within 24 months	70%	(100%)	0%	(0%)
24 months and within 5 years	50%	(80%)	0%	(0%)
5 years and within 10 years	50%	(70%)	0%	(0%)
10 years and above	80%	(80%)	40%	(0%)
Has the Authority adopted the CIPFA Treasury Management Code?				Yes

The status of the indicators will be included in Treasury Management reporting during 2019/20. They will also be included in the Council's Global Revenue Budget monitoring.

Definitions and Purpose of the Treasury Management Indicators noted above (Indicators are as recommended by the CIPFA Prudential Code last revised in 2017)

Authorised Limit - external debt

The local authority will set for the forthcoming financial year and the following two financial years an authorised limit for its total external debt, excluding investments, separately identifying borrowing from other long-term liabilities. This prudential indicator is referred to as the Authorised Limit.

Operational Boundary - external debt

The local authority will also set for the forthcoming financial year and the following two financial years an operational boundary for its total external debt, excluding investments, separately identifying borrowing from other long-term liabilities. This prudential indicator is referred to as the Operational Boundary.

Both the Authorised Limit and the Operational Boundary need to be consistent with the authority's plans for capital expenditure and financing; and with its treasury management policy statement and practices. The Operational Boundary should be based on the authority's estimate of most likely, i.e. prudent, but not worst case scenario. Risk analysis and risk management strategies should be taken into account.

The Operational Boundary should equate to the maximum level of external debt projected by this estimate. Thus, the Operational Boundary links directly to the Authority's plans for capital expenditure; its estimates of capital financing requirement; and its estimate of cash flow requirements for the year for all purposes. The Operational Boundary is a key management tool for in-year monitoring.

It will probably not be significant if the Operational Boundary is breached temporarily on occasions due to variations in cash flow. However, a sustained or regular trend above the Operational Boundary would be significant and should lead to further investigation and action as appropriate. Thus, both the Operational Boundary and the Authorised Limit will be based on the authority's plans. The authority will need to assure itself that these plans are affordable and prudent. The Authorised Limit will in addition need to provide headroom over and above the Operational Boundary sufficient for example for unusual cash movements.

Actual external debt

After the year end, the closing balance for actual gross borrowing plus (separately), other long-term liabilities is obtained directly from the local authority's Balance Sheet.

The prudential indicator for Actual External Debt considers a single point in time and hence is only directly comparable to the Authorised Limit and Operational Boundary at that point in time. Actual debt during the year can be compared.

Upper limit for total principal sums invested for over 364 days

The authority will set an upper limit for each forward financial year period for the maturing of investments made for a period longer than 364 days. This indicator is referred to as the prudential limit for Principal Sums Invested for periods longer than 364 days.

The purpose of this indicator is so the authority can contain its exposure to the possibility of loss that might arise as a result of its having to seek early repayment or redemption of principal sums invested.

Maturity structure of new borrowing

The authority will set for the forthcoming financial year both upper and lower limits with respect to the maturity structure of its borrowing. These indicators are referred to as the Upper and Lower limits respectively for the Maturity Structure of Borrowing.

Local Prudential Indicators

The Council has not yet introduced Local Prudential Indicators to reflect local circumstances, but will review on a regular basis the need for these in the future.

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Appendix B

Minimum Revenue Provision Strategy

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2011/12 and has assessed its MRP for 2019/20 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

The Council is required to make provision for repayment of an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP).

MHCLG Regulations require full Council to approve an MRP Statement, in advance of each year. If the Council wishes to amend its policy during the year this would need to be approved by full Council. A variety of options are available to councils to replace the previous Regulations, so long as there is a prudent provision. The options are:

- ***Option 1:*** Regulatory Method – can only be applied to capital expenditure incurred prior to April 2008 or Supported Capital Expenditure. This is calculated as 4% of the non-housing CFR at the end of the preceding financial year, less some transitional factors relating to the movement to the new Prudential Code in 2003.

- ***Option 2:*** CFR Method – a provision equal to 4% of the non-housing CFR at the end of the preceding financial year.

- ***Option 3:*** Asset Life Method – MRP is calculated based on the life of the asset, on either an equal instalment or an annuity basis.

- ***Option 4:*** Depreciation Method – MRP is calculated in accordance with the depreciation accounting required for the asset.

Options 1 and 2 may be used only for supported expenditure, which is capital expenditure for which the Council has been notified by Government that the costs of that expenditure will be taken into account in the calculation of Government funding due to the Council.

It is important to note that the Council can deviate from these options provided that the approach taken ensures that there is a prudent provision. The Council has historically followed option 1 for supported expenditure based on the level of support provided by Government through Revenue Support Grant (RSG).

The assets created or acquired under Supported Capital Expenditure predominantly had long asset lives of c. 50 years, such as land or buildings, and an MRP of 4% suggests a significantly shorter asset life. As the level of notional RSG the Council receives has reduced in recent years, it was considered prudent to review the approach to MRP on supported borrowing to reflect the Government support received.

It was therefore agreed that from 2017/18 a provision of 2% of the non-housing CFR as at the end of the preceding financial year is to be made. This is in line with many other local authorities who have reviewed the basis for their MRP and have applied similarly revised policies.

It is the Council's policy that MRP relating to an asset will start to be incurred in the year after the capital expenditure on the asset is incurred or, in the case of new assets, in the year following the asset coming into use, in accordance with MHCLG's guidance.

The Council recognises that there are different categories of capital expenditure, for which it will incur MRP as follows:

- For non HRA Supported Capital Expenditure: MRP policy will be charged at a rate of 2% on a similar basis to option 1 of the guidance (the regulatory method) but at a lower rate, better reflecting the asset lives of the assets funded through Supported Borrowing.

- For non HRA unsupported capital expenditure incurred the MRP policy will be:

- Asset Life Method – MRP will be based on a straight line basis or annuity method so linking the MRP to the future flow of benefits from the asset, dependant on the nature of the capital expenditure, in accordance with option 3 of the guidance.

- If the expenditure is capital by virtue of a Ministerial direction, has been capitalised under a Capitalisation Directive, or does not create a council asset, MRP will be provided in accordance with option 3 of the guidance with asset lives calculated as per the table below:

Expenditure type	**Maximum period over which MRP to be made**
Expenditure capitalised by virtue of a direction under s16 (2) (b).	20 years.
Regulation 25(1) (a). Expenditure on computer programs.	Same period as for computer hardware.
Regulation 25(1) (b). Loans and grants towards capital expenditure by third parties.	The estimated life of the assets in relation to which the third party expenditure is incurred.
Regulation 25(1) (c). Repayment of grants and loans for capital expenditure.	25 years or the period of the loan if longer.
Regulation 25(1) (d). Acquisition of share or loan capital.	20 years, or the estimated life of the asset acquired.
Regulation 25(1) (e). Expenditure on works to assets not owned by the authority.	The estimated life of the assets.
Regulation 25(1) (ea). Expenditure on assets for use by others.	The estimated life of the assets.

Regulation 25(1) (f). Payment of levy on Large Scale Voluntary Transfers (LSVTs) of dwellings.	25 years.

- For PFI service concessions and some lessee interests: Following the move to International Accounting Standards arrangements under private finance initiatives (PFIs) service concessions and some lessee interests (including embedded leases) are accounted for on the Council's Balance Sheet. Where this occurs, a part of the contract charge or rent payable will be taken to reduce the Balance Sheet liability rather than being charged as revenue expenditure. The MRP element of these schemes will be the amount of contract charge or rental payment charged against the Balance Sheet liability. This approach will produce an MRP charge comparable to that under option 3 in that it will run over the life of the lease or PFI scheme.

In some exceptional cases, the Council will deviate from the policy laid out above provided such exceptions remain prudent. Any exceptions are listed below:

- Where capital expenditure is incurred through providing loans to organisations, and where those loans are indemnified or have financial guarantees protecting against loss, no MRP will be charged in relation to the capital expenditure. Similarly, loans given by the Council where any losses incurred on the investment will impact solely on a third party, such as those provided under the City Deal arrangement with the HCA, will not require an MRP charge.

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Appendix C

Treasury Management Policy Statement

1. This organisation defines its treasury management activities as:
   The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The Council will invest its monies prudently, considering security first, liquidity second, and yield last, carefully considering its investment counterparties. It will similarly borrow monies prudently and consistent with the Council's service objectives.

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Appendix D

Treasury Management Scheme of Delegation

i **Full Council**

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy

ii **Responsible body – Audit Committee**

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment

iii **Body with responsibility for scrutiny** - Resource and Governance Scrutiny

Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body

iv **City Treasurer**

- delivery of the function

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Appendix E

The Treasury Management role of the Section 151 Officer

The S151 (responsible) Officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers

The points noted above reflect the specific responsibilities of the S151 Officer prior to the 2017 CIPFA Treasury Management Code revisions. The CIPFA Prudential Code revision which followed the MHCLG revised guidance on local government investments represents a major extension of the functions of the S151 Officer role, especially in respect of non-financial investments which CIPFA define as being part of treasury management.
The additional functions of the S151 Officer role are:

- preparation of a capital strategy with a long term timeframe to include capital expenditure, capital financing, non-financial investments and treasury management

- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money

- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority

- ensuring that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing

- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources

- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities

- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees

- ensuring that members are adequately informed and understand the risk exposures taken on by an authority

- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above

- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following:

  - Risk management including investment and risk management criteria for any material non-treasury investment portfolios;

  - Performance measurement and management including methodology and criteria for assessing the performance and success of non-treasury investments;

  - Decision making, governance and organisation including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

  - Reporting and management information including where and how often monitoring reports are taken;

  - Training and qualifications including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

Appendix F

Economic Background as at January 2019 – Link Asset Services

GLOBAL OUTLOOK

World growth has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China and the Eurozone, overall world growth is likely to weaken.

Inflation has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to a marked acceleration of wage inflation. The US Fed has therefore increased rates nine times and the Bank of England twice. However, the ECB is unlikely to start raising rates until late in 2019 at the earliest.

KEY RISKS - central bank monetary policy measures

Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as quantitative easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period is well advanced in the US, and started more recently in the UK, of reversing those measures i.e. by raising central rates and, (for the US), reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of a reduction in spare capacity in the economy and of unemployment falling to such low levels, that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets.

In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This meant that both asset categories were exposed to the risk of a sharp downward correction and we have indeed, seen a sharp fall in equity values in the last quarter of 2018. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets.

It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, or, conversely, let inflation run away by taking action that was too slow and/or too weak.

The potential for central banks to get this timing and strength of action wrong are now key risks. At the time of writing, (early January 2019), financial markets are very concerned that the Fed is being too aggressive with its policy for raising interest rates and was likely to cause a recession in the US economy.
The world economy also needs to adjust to a sharp change in liquidity creation over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt, (currently about $50bn per month). In addition, the European Central Bank ended its QE purchases in December 2018.

UK

The flow of positive economic statistics since the end of the first quarter of 2018 has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2 and by a strong performance in quarter 3 of +0.6%. However, growth in quarter 4 is expected to weaken significantly.

At their November quarterly Inflation Report meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years time, but declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit.

While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also raise Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could potentially provide fiscal stimulus to support economic growth, though at the cost of increasing the budget deficit above currently projected levels.

It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring 2019. However, in view of the hawkish stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019, (on the assumption that a Brexit deal is agreed by both the UK and the EU). The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

Inflation. The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.3% in November. In the November Bank of England quarterly Inflation Report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate. This inflation forecast is likely to be amended upwards due to the Bank's report being produced prior to the Chancellor's announcement of a significant fiscal stimulus in the Budget; this is likely to add 0.3% to GDP growth at a time when there is little spare capacity left in the economy, particularly of labour.

As for the labour market figures in October, unemployment at 4.1% was marginally above a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.3%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 1.0%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA

President Trump's massive easing of fiscal policy is fuelling a, (temporary), boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. The strong growth in employment numbers and the reduction in the unemployment rate to 3.9%, near to a recent 49 year low, has fed through to an upturn in wage inflation which hit 3.1% in November, however, CPI inflation overall fell to 2.2% in November and looks to be on a falling trend to drop below the Fed's target of 2% during 2019.

The Fed has continued on its series of increases in interest rates with another 0.25% increase in December to between 2.25% and 2.50%, this being the fifth increase in 2018 and the ninth in this cycle. However, they did also reduce their forecast for further increases from three to two. This latest increase compounded investor fears that the Fed is over doing the rate and level of increases in rates and that it is going to cause a US recession as a result. There is also much evidence in previous monetary policy cycles, of the Fed's series of increases doing exactly that. Consequently, we have seen stock markets around the world plunging under the weight of fears around the Fed's actions, the trade war between the US and China, an expectation that world growth will slow, Brexit etc.

The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation if an agreement is not reached soon between the US and China.

Eurozone

Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this was probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank ended all further purchases in December 2018. The ECB is forecasting inflation to be a little below its 2% top limit through the next three years so it may find it difficult to warrant a start on raising rates by the end of 2019 if the growth rate of the EU economy is on a weakening trend.

China

Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.

Japan

Has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.

Emerging Countries

Argentina and Turkey are currently experiencing major headwinds and are facing challenges in external financing requirements well in excess of their reserves of foreign exchange. However, these countries are small in terms of the overall world economy, (around 1% each), so the fallout from the expected recessions in these countries will be minimal.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.

- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for ten years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Brexit – if it were to cause significant economic disruption and a major downturn in the rate of growth.

- Bank of England monetary policy takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- A resurgence of the Eurozone sovereign debt crisis, possibly in Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. The EU rejected the initial proposed Italian budget and demanded cuts in government spending which the Italian government initially refused. However, a fudge was subsequently agreed, but only by delaying the planned increases in expenditure to a later year. This can has therefore only been kicked down the road to a later time. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold it. Unsurprisingly, investors are becoming increasingly concerned by the words and actions of the Italian government and consequently, Italian bond yields have risen at a time when the government faces having to refinance large amounts of debt maturing in 2019.

- Weak capitalisation of some European banks. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.

- German minority government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018, (a new party leader has now been elected). However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.

- Other minority Eurozone governments. Spain, Portugal, Ireland, the Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition with. The Belgian coalition collapsed in December 2018 but a minority caretaker government has been appointed until the May EU wide general elections.

- Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU while Italy, in 2018, also elected a strongly anti-immigration government. Elections to the EU parliament are due in May/June 2019.

- Further increases in interest rates in the US could spark a sudden flight of investment funds from more risky assets e.g. shares, into bonds yielding a much improved yield. Throughout the last quarter of 2018, we saw sharp falls in equity markets interspersed with occasional partial rallies. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.

- There are concerns around the level of US corporate debt which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.

- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- Brexit – if both sides were to agree a compromise that removed all threats of economic and political disruption.

- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Brexit timetable and process

- March 2017: UK government notified the European Council of its intention to leave under the Treaty on European Union Article 50 on 29 March 2019.
- 25.11.18 EU27 leaders endorsed the withdrawal agreement
- Dec 2018 vote in the UK Parliament on the agreement was postponed
- 21.12.18 – 8.1.19 UK parliamentary recess
- 14.1.19 vote in Parliament on a ‘no deal’ scenario
- By 29.3.19 second vote in UK parliament if first vote rejects the deal
- By 29.3.19 if the UK Parliament approves a deal, then ratification by the EU Parliament requires a simple majority
- By 29.3.19 if the UK and EU parliaments agree the deal, the EU Council needs to approve the deal; 20 countries representing 65% of the EU population must agree
- 29.3.19 UK leaves the EU, (or asks the EU for agreement to an extension of the Article 50 period if the UK Parliament rejects the deal and no deal departure?)
- 29.3.19: if an agreement is reached with the EU on the terms of Brexit, then this will be followed by a proposed transitional period ending around December 2020.
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy may leave the single market and tariff free trade at different times during the transitional period.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.

- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.

On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.

Prospects for Interest Rates

The data below shows a variety of forecasts published by a number of institutions. They include those of Link and Capital Economics (an independent forecasting consultancy). The forecast within this strategy statement has been drawn from these diverse sources and officers' own views. Please Note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Link Asset Services Interest Rate View	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
Bank Rate													
Link Asset Services	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
Capital Economics	0.75%	1.00%	1.25%	1.50%	1.70%	1.75%	2.00%	2.00%					
5yr PWLB rate													
Link Asset Services	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
Capital Economics	2.03%	2.15%	2.40%	2.65%	2.70%	2.75%	2.80%	2.85%					
10yr PWLB rate													
Link Asset Services	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
Capital Economics	2.43%	2.55%	2.80%	3.05%	3.05%	3.05%	3.05%	3.05%					
25yr PWLB rate													
Link Asset Services	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.96%	3.08%	3.33%	3.58%	3.53%	348.00%	3.43%	3.38%					
50yr PWLB rate													
Link Asset Services	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.78%	2.90%	3.15%	3.40%	3.40%	3.40%	3.40%	3.40%					

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Appendix H

Glossary of Terms

Authorised Limit - This Prudential Indicator represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, with some headroom for unexpected movements.

Bank Rate - the rate at which the Bank of England offers loans to the wholesale banks, thereby controlling general interest rates in the economy.

Counterparty - one of the opposing parties involved in a borrowing or investment transaction.

Covered Bonds - Debt instruments secured by assets such as mortgage loans. These loans remain on the issuer's balance sheet and investors have a preferential claim in the event of the issuing institution defaulting.

Credit Rating - A qualified assessment and formal evaluation of an institution's (bank or building society) credit history and capability of repaying obligations. It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time.

Discount - Where the prevailing interest rate is higher than the fixed rate of a long-term loan, which is being repaid early, the lender can refund the borrower a discount, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.

Fixed Rate Funding - A fixed rate of interest throughout the time of the loan. The rate is fixed at the start of the loan and therefore does not affect the volatility of the portfolio, until the debt matures and requires replacing at the interest rates relevant at that time.

Gilts - The loan instruments by which the Government borrows. Interest rates will reflect the level of demand shown by investors when the Government auctions Gilts.

High/Low Coupon - High/Low interest rate

LIBID (London Interbank Bid Rate) - This is an average rate, calculated from the rates at which individual major banks in London are willing to borrow from other banks for a particular time period. For example, 6 month LIBID is the average rate at which banks are willing to pay to borrow for 6 months.

LIBOR (London Interbank Offer Rate) - This is an average rate, calculated from the rates which major banks in London estimate they would be charged if they borrowed from other banks for a particular time period. For example, 6 month LIBOR is the average rate which banks believe they will be charged for borrowing for 6 months.

Liquidity - The ability of an asset to be converted into cash quickly and without any price discount. The more liquid a business is, the better able it is to meet short-term financial obligations.

LOBO (Lender Option Borrower Option) - This is a type of loan where, at various periods known as call dates, the lender has the option to alter the interest rate on the loan. Should the lender exercise this option, the borrower has a corresponding option to repay the loan in full without penalty.

Market -The private sector institutions - Banks, Building Societies etc.

Maturity Profile/Structure - an illustration of when debts are due to mature, and either have to be renewed or money found to pay off the debt. A high concentration in one year will make the Council vulnerable to current interest rates in that year.

Monetary Policy Committee - the independent body that determines Bank Rate.

Money Market Funds - Investment instruments that invest in a variety of institutions, therefore diversifying the investment risk.

Operational Boundary – This Prudential Indicator is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the Authorised Limit is not breached.

Premium - Where the prevailing current interest rate is lower than the fixed rate of a long-term loan, which is being repaid early, the lender can charge the borrower a premium, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender may charge the premium, as their investment will now earn less than when the original loan was taken out.

Prudential Code - The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

PWLB - Public Works Loan Board. Part of the Government's Debt Management Office, which provides loans to public bodies at rates reflecting those at which the Government is able to sell Gilts.

Specified Investments - Sterling investments of not more then one-year maturity. These are considered low risk assets, where the possibility of loss of principal or investment income is very low.

Non-specified investments - Investments not in the above, specified category, e.g., foreign currency, exceeding one year or outside our minimum credit rating criteria.

Treasury Bills - These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low.

Variable Rate Funding - The rate of interest either continually moves reflecting interest rates of the day, or can be tied to specific dates during the loan period. Rates may be updated on a monthly, quarterly or annual basis.

Volatility - The degree to which the debt portfolio is affected by current interest rate movements. The more debt maturing within the coming year and needing replacement, and the more debt subject to variable interest rates, the greater the volatility.

Yield Curve - A graph of the relationship of interest rates to the length of the loan.
A normal yield curve will show interest rates relatively low for short-term loans compared to long-term loans. An inverted Yield Curve is the opposite of this.

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Appendix I

Treasury Management Implications of HRA Reform

As discussed in Section 3 of the report, the reform of the HRA finance system has consequences for the treasury management of the Council. As part of the reform, the HRA's debt portfolio needs to be separately identifiable to that of the General Fund, and the HRA will hold some autonomy over the management of its debt portfolio. However, in order to ensure that the treasury management function of the Council remains effective and provides value for money, and given that the Section 151 officer for both the General Fund and the HRA is the Treasurer, the HRA's treasury portfolio must be run in the context of the overall Council portfolio.

This appendix seeks to explain how the debt portfolio of the Council has been split between the General Fund and the HRA, and how the HRA treasury position will be managed going forward.

The Portfolio Split

One of the principles behind the reform of HRA finance was to provide some level of treasury autonomy for the HRA, separating its debt from the Council's so that its treasury position could be managed separately. To achieve this, the debt portfolio was to be split at the point that the debt settlement was made.

On the 28 March 2012, the Council received c. £294m which was to be used to reduce the debt held by the Council. The table below shows the Council's treasury portfolio before and after the settlement:

	Pre reform		Post reform
	£'000		*£'000*
PWLB	199,966		0
Market	549,640		480,215
Stock	8,159		8,159
Gross Debt	**757,765**		**488,374**
Deposits	-17,954		-42,839
Net Debt	**739,811**		**445,535**

At this point, the debt was to be split according to the relative capital financing requirements (CFRs) of both the General Fund and the HRA. The cash remainder of the settlement could not be used to redeem further market debt so, to ensure that the HRA CFR fell by the full level of the settlement, a notional transaction took place. An amount of debt equivalent to the cash remainder was transferred from the HRA to the General Fund, alongside the cash. This had a neutral effect on the General Fund's net debt.

The table below shows the CFRs before and after the debt settlement, with the HRA CFR falling by the settlement:

CFRs	Pre reform		Post reform	% of total
	£'000		*£'000*	
General Fund	675,454		675,454	84.47%
HRA	418,463		124,187	15.53%
Total	**1,093,917**		**799,641**	**100.00%**
		Of which financed:	*488,374*	
		Of which unfinanced:	*311,267*	

As can be seen from the tables below, the debt was to split in a ratio of 84.47:15.53 between the General Fund and the HRA, including the unfinanced CFR element. This is the level of internal borrowing undertaken in lieu of external borrowing, through the use of cash balances to fund expenditure rather than external borrowing. It was decided, for administrative reasons, that all of the Council's remaining stock debt should be held by the General Fund, which increased the relative level of unfinanced CFR held by the HRA.

The final split of the debt portfolio is shown in the table below:

	General Fund	HRA	Total
	£'000	*£'000*	*£'000*
Market	405,636	74,579	480,215
% of total market	*84.47%*	*15.53%*	
Stock	8,159	0	8,159
% of stock	*100.00%*	*0.00%*	
Total Loans	**413,795**	**74,579**	**488,374**
% of total loans	*84.73%*	*15.27%*	
Unfinanced CFR	261,659	49,608	311,267
% of unfinanced CFR	*84.06%*	*15.94%*	
Total CFR	**675,454**	**124,187**	**799,641**
% of total CFR	*84.47%*	*15.53%*	

Future HRA borrowing

Following the split of the portfolio, the HRA can make borrowing decisions according to the needs of their business plan, provided those decisions are aligned with their treasury strategy and are agreed by the Section 151 officer. The amounts and maturity periods of any future loans will be determined by the HRA, in conjunction with the Treasury Management team and the City Treasurer. Any future borrowing made by the Council will be for either the General Fund or the HRA and not for the Council in general.

Use of Temporary Cash Balances and Temporary Borrowing

Although the HRA's treasury position is now independent of the General Fund, both are managed in the name of the Council as a whole. As such, the day to day treasury position of the Council, whilst having regard to the impact on the HRA and the General Fund, will be run on a Council basis – this simplifies the risk management of the treasury position, and should help to ensure that the treasury function is providing value for money.

To achieve this, the General Fund will deposit and temporarily borrow externally, but the HRA will only be able to deposit with the General Fund and, should it be required, will only be able to access temporary borrowing through the General Fund. In order to ensure that this is fair, interest rates will be applied to any such internal transfers, as summarised below:

- If the General Fund has temporary investments, HRA investments with the General Fund will earn – ***average portfolio temporary investment rate***

- If the General Fund does not have temporary investments, HRA investments with the General Fund will earn – ***7-day LIBID***

- If the General Fund has temporary borrowing, HRA temporary borrowing from the General Fund will be charged – ***average portfolio temporary borrowing rate***

- If the General fund does not have temporary borrowing, HRA temporary borrowing from the General Fund will be charged – ***7-day LIBOR***

The market rates to be used (7-day LIBID and LIBOR) are the benchmark rates used by the Council for investments and temporary borrowing.

Future Reporting

The intention is to continue to report to Members the overall treasury position of the Council, including both the General Fund and the HRA. Separate reports will be provided on the General Fund and the HRA, when required.