Public Document Pack

MANCHESTER
CITY COUNCIL

Joanne Roney OBE
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PO Box 532, Town Hall
Extension, Manchester
M60 2LA

Thursday, 27 February 2020

Dear Councillor / Honorary Alderman,

Meeting of the Council – Friday, 6th March, 2020

You are summoned to attend a meeting of the Council which will be held at 10.00 am on Friday, 6th March, 2020, in The Council Chamber, Level 2, Town Hall Extension.

1. The Lord Mayor's Announcements and Special Business

2. Interests
To allow members an opportunity to declare any personal, prejudicial or disclosable pecuniary interest they might have in any items which appear on this agenda; and record any items from which they are precluded from voting as a result of Council Tax or Council rent arrears. Members with a personal interest should declare that at the start of the item under consideration. If members also have a prejudicial or disclosable pecuniary interest they must withdraw from the meeting during the consideration of the item

3. Minutes — 5 - 16
To submit for approval and signature the minutes of the meeting of Council held on 29 January 2020.

4. The Council's Revenue and Capital Budget 2020/21

4a. Proceedings of the Art Galleries Committee on 12 February 2020 — 17 - 18
To approve the proceedings of the Art Galleries Committee on 12 February 2020 in relation to the Art Galleries budget for 2020/21.

4b. Part of the proceedings of Executive on 12 February 2020 - relating to the budget for 2020/21 — 19 - 44
To approve the part proceedings of the Executive on 12 February 2020 which contain details of the following:

- The Councils Budget 2020/21 – Covering Report;
- Medium Term Financial Plan 2020/21 - 2022/23;
- Capital Strategy and Budget 2019/20;
- Council Business Plan 2020/21;
- Children and Education Budget 2020/21;

- Adult Social Care and Population Health Budget 2020/21;
- Manchester Health and Care Commissioning Budget 2020/21;
- Homelessness Budget 2020/21;
- Neighbourhoods Directorate Budget 2020/21;
- Growth and Development Budget 2020/21;
- Corporate Core Budget 2020/21;
- Dedicated Schools Grant 2020/21;
- Housing Revenue Account 2020/21 to 2022/23;
- Treasury Management Strategy Statement and Borrowing Limits and Annual Investment Strategy 2020/21;
- Budget 2020/21 Public Consultation Outcomes; and
- Budget 2020/21 Equality Impact Assessment.

(Members of the Council need to take account of the above reports which were considered by the Executive on 12 February 2020. The Council Budget Paper pack is available on the Council's website (link address below) and paper copy – on request)

Website link address: https://democracy.manchester.gov.uk/ieListDocuments.aspx?CId=147&MId=624&Ver=4

To note the minutes of the Resources and Governance Scrutiny Committee held on 24 February 2020, in relation to the overall budget proposals. In doing so, to also note the consideration that the other five scrutiny Committees have given to the budget as reported to the Resources and Governance Scrutiny on 24 February 2020.

4d. To approve proposals to ensure that the Housing Revenue Account for 2020/2021 does not show a debit balance

4e. To determine affordable borrowing limits, prudential indicators, proposals in respect of treasury management,annual investment strategy and minimum revenue budget strategy.

4f. To calculate the Council Tax requirement in accordance with Section 31A of the Local Government Finance Act 1992, as amended

4g. To calculate a basic amount of Council Tax and an amount for each valuation band (the City Council element) in accordance with Sections 31B and 36 of the Local Government Finance Act, 1992, as amended

4h. **To set an amount of Council Tax for each valuation band in accordance with Section 30 of the Local Government Finance Act, 1992**

In considering the above items, to consider:

4i. **Capital Strategy and Budget 2019/20** 51 - 106
Report of the Chief Executive and Deputy Chief Executive & City Treasurer is enclosed

4j. **Treasury Management Strategy Statement 2020/21, including Borrowing Limits and Annual Investment Strategy** 107 - 154
Report of the Deputy Chief Executive and City Treasurer is enclosed.

4k. **Council Tax Resolution 2020/21**
Report of the Chief Executive and the Deputy Chief Executive & City Treasurer and the City Solicitor to follow.

Yours faithfully,

Joanne Roney OBE
Chief Executive

Information about the Council

The Council is composed of 96 councillors with one third elected three years in four. Councillors are democratically accountable to residents of their ward. Their overriding duty is to the whole community, but they have a special duty to their constituents, including those who did not vote for them.

Seven individuals with previous long service as councillors of the city have been appointed Honorary Aldermen of the City of Manchester and are entitled to attend every Council meeting. They do not however have a vote.

All councillors meet together as the Council under the chairship of the Lord Mayor of Manchester. There are seven meetings of the Council in each municipal year and they are open to the public. Here councillors decide the Council's overall strategic policies and set the budget each year.

Agenda, reports and minutes of all Council meetings can be found on the Council's website www.manchester.gov.uk

Members of the Council

Councillors:-

Hitchen, Abdullatif, Akbar, Ahmed Ali, Azra Ali, Nasrin Ali, Sameem Ali, Shaukat Ali, Alijah, Andrews, Appleby, Battle, Bridges, Butt, Chambers, Chohan (Chair), Clay, Collins, Cooley, Craig, Curley, M Dar, Y Dar, Davies, Doswell, Douglas, Evans, Farrell, Flanagan, Green, Grimshaw, Hacking, Hassan, Hewitson, Holt, Hughes, Igbon, Ilyas, Jeavons, Johns, S Judge, T Judge (Deputy Chair), Kamal, Karney, Kilpatrick, Kirkpatrick, Lanchbury, Leech, Leese, J Lovecy, Ludford, Lynch, Lyons, McHale, Midgley, Madeleine Monaghan, Mary Monaghan, Moore, N Murphy, S Murphy, Newman, Noor, O'Neil, Ollerhead, B Priest, H Priest, Rahman, Raikes, Rawlins, Rawson, Razaq, Reeves, Reid, Riasat, Richards, Rowles, Russell, Sadler, M Sharif Mahamed, Sheikh, Shilton Godwin, A Simcock, K Simcock, Stanton, Stogia, Stone, Strong, Taylor, Watson, Wheeler, Whiston, White, Wills, Wilson and Wright

Honorary Aldermen of the City of Manchester –
Gordon Conquest, William Egerton JP, Andrew Fender, Audrey Jones JP, Paul Murphy OBE, Nilofar Siddiqi and Keith Whitmore.

Further Information

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

Donald Connolly
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Email: d.connolly@manchetser.gov.uk

This agenda was issued on **Thursday, 27 February 2020** by the Governance and Scrutiny Support Unit, Manchester City Council, Level 3, Town Hall Extension (Lloyd Street Elevation), Manchester M60 2LA

Council

Minutes of the meeting held on Wednesday, 29 January 2020

Present:

The Right Worshipful, the Lord Mayor Councillor Chohan - in the Chair

Councillors:

Abdullatif, Akbar, Ahmed Ali, Azra, Ali N, Ali, Shaukat Ali, Alijah, Andrews, Appleby, Battle, Bridges, Butt, Chambers, Clay, Collins, Cooley, Craig, Curley, M Dar, Y Dar, Davies, Doswell, Douglas, Evans, Farrell, Flanagan, Grimshaw, Hacking, Hassan, Hewitson, Hitchen, Holt, Hughes, Igbon, Ilyas, Jeavons, Johns, S Judge,T Judge, Kamal, Karney, Kilpatrick, Kirkpatrick, Lanchbury, Leech, Leese, Lovecy, Lynch, Lyons, Ludford, McHale, Midgley, Madeleine Monaghan, Mary Monaghan, N. Murphy, Newman, Noor, Ollerhead, H. Priest, B Priest, Rahman, Raikes, Rawlins, Rawson, Razaq, Reeves, Reid, Richards, Riasat, Rowles, Russell, Sadler, Sharif Mahamed, Sheikh, Shilton-Godwin, A Simcock, K Simcock, Stanton Stogia, Stone, Taylor, Watson, White, Whiston, Wills, Wilson and Wright

Honorary Alderman of the City of Manchester –
Mrs Nilofar Siddiqi

CC/20/01 Lord Mayor’s Special Business – Death of Former Councillor Andy Harland

The Lord Mayor invited those present at the meeting to observe a minute’s silence in memory of Councillor Andy Harland. Councillor Harland was elected in 2018 to serve the Clayton and Openshaw Ward and had represented Beswick and Clayton Ward. Between 1998 and 2001.

CC/20/02 Lord Mayor’s Special Business – New Year’s Honours List

The Lord Mayor informed the Council that he had written to the following people, who are either Mancunians or live or work in the city, to recognize and congratulate them on the honour they have received, as stated in the New Year’s Honours list:

Warren Smith, JP	KCVO
Professor Jacqueline Kay,	CBE
Peter Saville	CBE
Carl Austin-Behan	OBE
Duncan Craig	OBE
Gerard Donnellan	OBE
Elaine Griffiths	OBE
Professor David Hulme	OBE
Jade Jones	OBE
Mohamed Ashraf Ali	OBE
Professor Adisa Azapagic	OBE

Nicholas Buckley	OBE
Michelle Proudman	OBE
Jill Louise Scott	OBE
Mike Walmsley	OBE
Pamela Corry	BEM
Gisela Feldman	BEM
Sonja Sternberg	BEM

CC/20/03 Lord Mayor's Special Business – Greater Manchester Mayor's Independent Review of the effectiveness of multi-agency responses to child exploitation in Greater Manchester

The Lord Mayor invited the Leader of the Councillor to address the meeting regarding the Greater Manchester Mayor's Independent Review of the effectiveness of multi-agency responses to child exploitation in Greater Manchester. The Lord Mayor also invited Councillors Bridges, Craig, Karney, Cooley, Curley, Lovecy and Kilpatrick to speak on the matter.

CC/20/04 Motion without notice

Councillor Lovecy moved a motion without notice (Council Procedure Rule 19 (k)) to Suspend Council Procedure Rule(s) 14 – 14.12, in order for a motion to be proposed for the adoption by the Council of **'Our pledge to Manchester's children and young people and to their families'.**

Councillor Stone seconded the motion without notice.

(More than half of Councillors were present at the meeting when the notice without motion was moved (Council Procedure Rule 2.1))

Resolution

The motion was put to Council and voted on, and the Lord Mayor declared that it was carried.

Decision

That Council Procedure Rule(s) 14 to 14.12 be suspended to allow the submission of a motion without notice concerning the adoption by Council of **'Our pledge to Manchester's children and young people and to their families':**

CC/20/05 Motion Without Notice - Our pledge to Manchester's children and young people and to their families

Motion proposed and seconded:

This Council adopts the following pledge:

Our pledge to Manchester's children and young people and to their families

Keeping children and young people safe is one of the most important things we do as a Council.
Today, following the publication of the Greater Manchester Report into Operation Augusta, we publicly affirm our commitment, as Councillors, to do all we can to keep vulnerable children safe.

We therefore solemnly and collectively make the following pledge, which all councillors will individually sign:

1. We will support the victims and survivors of child sexual exploitation and abuse and make sure that our Council’s services give them the help and protection they need and deserve.

2. We will ensure that our Council’s services work closely with the Police so that offenders are prosecuted wherever possible, and so that the justice that was denied 15 years ago can now be fully sought

3. We will always put children’s welfare first. We will take our duties as Councillors and Corporate Parents seriously and be persistent in scrutinising, challenging and supporting our Children’s Services, to make sure they are the best they can be. We will act through Children and Young Persons Scrutiny, through our Corporate Parenting Panel, through Regulation 44 visits and we will share any information or intelligence as soon as possible.

4. We will undertake safeguarding training, so that we understand our statutory responsibilities as Councillors and know how to ask the right questions.

5. We recognise that the sexual exploitation and abuse of children is not something we can ever claim to have stamped out. It will keep coming back in different forms. We will therefore work to counter it within our communities and with our council officers and partner agencies so that changing forms of child sexual exploitation are identified, investigated, disrupted and prosecuted.

By signing this pledge, we are committing ourselves as Councillor to fulfil our safeguarding and corporate parenting responsibilities and we are committing our Council to fully support victims, seek prosecution of offenders and constantly challenge itself to improve the quality of the support services it provides for vulnerable children and young people.

Resolution

The motion was put to Council and voted on and the Lord Mayor declared that is was carried unanimously.

Decision

This Council adopts the following pledge:

Our pledge to Manchester’s children and young people and to their families

Keeping children and young people safe is one of the most important things we do as a Council.

Today, following the publication of the Greater Manchester Report into Operation Augusta, we publicly affirm our commitment, as Councillors, to do all we can to keep vulnerable children safe.

We therefore solemnly and collectively make the following pledge, which all councillors will individually sign:

1. We will support the victims and survivors of child sexual exploitation and abuse and make sure that our Council's services give them the help and protection they need and deserve.

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3. We will always put children's welfare first. We will take our duties as Councillors and Corporate Parents seriously and be persistent in scrutinising, challenging and supporting our Children's Services, to make sure they are the best they can be. We will act through Children and Young Persons Scrutiny, through our Corporate Parenting Panel, through Regulation 44 visits and we will share any information or intelligence as soon as possible.

4. We will undertake safeguarding training, so that we understand our statutory responsibilities as Councillors and know how to ask the right questions.

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By signing this pledge, we are committing ourselves as Councillor to fulfil our safeguarding and corporate parenting responsibilities and we are committing our Council to fully support victims, seek prosecution of offenders and constantly challenge itself to improve the quality of the support services it provides for vulnerable children and young people.

(The Lord Mayor adjourned the meeting at this point for ten minutes and resumed the meeting at 11:00am)

CC/20/06 Minutes

The Minutes of the ordinary meeting and of the special meeting held on 27 November 2019 were approved as a correct record and signed by the Chair.

CC/20/07 Notice of Motion – Fireworks

Motion proposed and seconded:

This Council notes:

- Fireworks are used by people throughout the year to mark different events. While they can bring much enjoyment to some people, they can cause significant problems and fear for other people and animals.

This Council resolves:

- to seek to require all public firework displays within the local authority boundaries to be advertised in advance of the event, allowing residents to take precautions for their animals and vulnerable people;
- to request that the City Solicitor investigate powers available to do so and report options back to Council at a future meeting;
- to ask the Chief Executive to write to the relevant Secretary of State urging them to introduce legislation to limit the maximum noise level of fireworks to 90dB for those sold to the public for private displays;
- to recommend to the Executive a public awareness campaign about the impact of fireworks on animal welfare and vulnerable people – including the precautions that can be taken to mitigate risks;
- to encourage local suppliers of fireworks to stock 'quieter' fireworks for public display.

Resolution

The motion was put to Council and voted on and the Lord Mayor declared that is was carried unanimously.

Decision

This Council notes:

- Fireworks are used by people throughout the year to mark different events. While they can bring much enjoyment to some people, they can cause significant problems and fear for other people and animals.

This Council resolves:

- to seek to require all public firework displays within the local authority boundaries to be advertised in advance of the event, allowing residents to take precautions for their animals and vulnerable people;
- to request that the City Solicitor investigate powers available to do so and report options back to Council at a future meeting;
- to ask the Chief Executive to write to the relevant Secretary of State urging them to introduce legislation to limit the maximum noise level of fireworks to 90dB for those sold to the public for private displays;

- to recommend to the Executive a public awareness campaign about the impact of fireworks on animal welfare and vulnerable people – including the precautions that can be taken to mitigate risks;
- to encourage local suppliers of fireworks to stock 'quieter' fireworks for public display.

CC/20/08 Notice of Motion – No Vehicle Idling Zones

Motion proposed and seconded:

This Council Notes:

1. Poor air quality is the largest environmental risk to public health in the UK with air pollution estimated to contribute to the equivalent of 181 deaths in Manchester every year.
2. Manchester is fully committed to improving the air we all breathe as quickly as possible and fully committed to taking action against catastrophic climate change.
3. In accordance to the ministerial direction Manchester City Council has developed and submitted collectively with the other 9 Greater Manchester local authorities and the GMCA, coordinated by TfGM and in line with government direction and guidance, proposals for a Greater Manchester wide Clean Air Zone in April 2019. The proposal includes a comprehensive package of measures to tackle poor air quality in the city, together with a multi-million clean air fund package to support people and local businesses to upgrade to a cleaner vehicle in order to support tackle poor air quality at the 'shortest possible time'.
4. Government has yet to commit to Greater Manchester's proposals for clean vehicle funds and implementation of the Clean Air Zone is some years away.

This Council resolves to:

1. Ask the Executive to consult with schools to look to Introduce enforceable "no vehicle idling" zones outside every school in the city - with at least four pilot zones in place by spring 2020.
2. Ask the Executive and Health and Wellbeing Board Work with our NHS partners, to look at extending "no vehicle idling" zones outside medical buildings, in hospital pick-up areas, and outside care homes.
3. Pilot, before spring 2020, the use of enforcement powers available to local authorities to tackle drivers who leave their engines running while stationary
4. Call on the government to take urgent action to launch a public consultation on proposals to impose tougher penalties on idling drivers; and
5. Call on the government to respond as a matter of urgency to GMCA's Clean Air plan proposals for clean vehicle funds and clarify the legal criteria which Greater Manchester's Clean Air Plan will be assessed.

Amendment moved and seconded / -

After Resolution 3 and before Resolution 4 add the following:

- Explore the feasibility of an ultra-low emission zone inside the Manchester/Salford Inner Ring Road.

- Investigate the potential for the prohibition of through-traffic inside the Inner Ring Road.
- Audit the signage and enforceability of the existing 20mph city centre zone.

Resolution

The amended motion was put to Council and voted on and the Lord Mayor declared that is was carried unanimously.

Decision

This Council Notes:

1. Poor air quality is the largest environmental risk to public health in the UK with air pollution estimated to contribute to the equivalent of 181 deaths in Manchester every year.
2. Manchester is fully committed to improving the air we all breathe as quickly as possible and fully committed to taking action against catastrophic climate change
3. In accordance to the ministerial direction Manchester City Council has developed and submitted collectively with the other 9 Greater Manchester local authorities and the GMCA, coordinated by TfGM and in line with government direction and guidance, proposals for a Greater Manchester wide Clean Air Zone in April 2019. The proposal includes a comprehensive package of measures to tackle poor air quality in the city, together with a multi-million clean air fund package to support people and local businesses to upgrade to a cleaner vehicle in order to support tackle poor air quality at the 'shortest possible time'.
4. Government has yet to commit to Greater Manchester's proposals for clean vehicle funds and implementation of the Clean Air Zone is some years away.

This Council resolves to:

1. Ask the Executive to consult with schools to look to Introduce enforceable "no vehicle idling" zones outside every school in the city - with at least four pilot zones in place by spring 2020.
2. Ask the Executive and Health and Wellbeing Board Work with our NHS partners, to look at extending "no vehicle idling" zones outside medical buildings, in hospital pick-up areas, and outside care homes.
3. Pilot, before spring 2020, the use of enforcement powers available to local authorities to tackle drivers who leave their engines running while stationary, and:
    a) Explore feasibility of an ultra-low emission zone inside the Manchester/Salford Inner Ring Road;
    b) Investigate the potential for the prohibition of through-traffic inside the Inner Ring Road; and
    c) Audit the signage and enforceability of the existing 20 mph city centre zone.
4. Call on the government to take urgent action to launch a public consultation on proposals to impose tougher penalties on idling drivers and
5. Call on the government to respond as a matter of urgency to GMCA's Clean Air plan proposals for clean vehicle funds and clarify the legal criteria which Greater Manchester's Clean Air Plan will be assessed.

CC/20/09 Proceedings of the Executive

The proceedings of the Executive on 19 December and 15 January 2020 were submitted. The Council was asked to give particular consideration to the following recommendations:

Exe/19/105 Capital Programme

That the Council approve the following change to Manchester City Council's capital programme:

Public Sector Housing – Northwards – Harpurhey 200 Estate Internal Works. A capital budget virement of £0.936m is requested, funded by a transfer from Northwards Housing Programme budget.

Exe/20/08 Capital Programme Update

That the Council approve the following three changes to Manchester City Council's capital programme:

a) Children's Services – Special educational needs and disability (SEND) Expansions. A capital virement of £0.866m is requested from Education Basic Need Unallocated, funded by Government Grant.

b) Neighbourhoods – Abraham Moss Leisure Centre. A capital budget increase of £7.249m in 2021/22 is requested funded by borrowing, and revenue budget increase of £0.210m, funded by Capital Fund.

c) Children's Services – Acquisition of Land at Hyde Road. A capital budget increase of £13.169m is requested, initially funded by borrowing.

Decisions

1. To receive the minutes of the Executive held on 19 December 2019 and 15 January 2020.

2. To approve the following changes to the Manchester City Council's Capital Programme:

Public Sector Housing – Northwards – Harpurhey 200 Estate Internal Works. A capital budget virement of £0.936m is requested, funded by a transfer from Northwards Housing Programme budget.

Children's Services – Special educational needs and disability (SEND) Expansions. A capital virement of £0.866m is requested from Education Basic Need Unallocated, funded by Government Grant.

Neighbourhoods – Abraham Moss Leisure Centre. A capital budget increase of £7.249m in 2021/22 is requested funded by borrowing, and revenue budget increase of £0.210m, funded by Capital Fund.

Children’s Services – Acquisition of Land at Hyde Road. A capital budget increase of £13.169m is requested, initially funded by borrowing.

CC/20/10 Questions to Executive Members under Procedural Rule 23

Councillor Craig responded to a question from Councillor Hitchen regarding NHS audiology provision arrangements in Miles Platting and Newton Heath.

Councillor Craig responded to a question from Councillor Reid regarding the Dell Care Home.

Councillor Craig responded to a question from Councillor Wills regarding the potential closure of a care home in Withington.

Councillor Rahman provided a response to a question from Councillor Stanton budget arrangements for post-16 education provision.

Councillor Stogia responded to a question from Councillor Kilpatrick regarding the Council’s proposals on particulate matter PM10 and PM2.5 and NO2.

Councillor Stogia responded to a question from Councillor Kilpatrick regarding resident only parking zones.

Councillor Stogia responded to a question from Councillor Kilpatrick concerning the climate emergency and the progress of the Council’s programme of ward engagement.

Councillor Stogia responded to a question from Councillor Kilpatrick regarding the loss of trees in the city over the last two decades.

Councillor Stogia responded to a question from Councillor Shilton-Godwin regarding progress on the introduction of clean air zones.

Councillor Craig responded to a question from Councillor Leech regardingblue badge applications.

Councillor Stogia responded to a question from Councillor Leech regarding the Government allocation of pothole funding.

Councillor Stogia replied to a question from Councillor Leech regarding the advertisement of the Great Ancoats Street improvement scheme.

Councillor Craig responded to a question from Councillor Leech regarding the number of residential beds in Manchester and Greater Manchester.

CC/20/11 Scrutiny Minutes

The minutes of the following Scrutiny Committee meetings were submitted:

Resources and Governance – 3 December 2019 and 7 January 2020
Health – 3 December 2019 and 7 January 2020
Children and Young People – 4 December 2019 and 8 January 2020
Neighbourhoods and Environment – 4 December 2019 and 8 January 2020
Economy – 5 December 2019 and 9 January 2020
Communities and Equalities – 5 December and 9 January 2020

Decision

To receive those minutes.

CC/20/12 Proceedings of Committees

The minutes of the following meetings were submitted:

Licensing and Appeals Committee – 2 December 2019 and 20 January 2020
Licensing Committee – 20 January 2020
Personnel Committee – 5 December and 19 December 2019
Health and Wellbeing Board – 22 January 2020
Standards Committee – 16 January 2020
Planning and Highways Committee – 14 November and 19 December 2019
Constitutional and Nomination Committee – 29 January 2020

Audit Committee – 10 December 2019

The Council was asked to give particular consideration to the following recommendation:

AC/19/64 Draft Code of Governance

To recommend to Council that the revised Code of Corporate Governance be incorporated into the Council's Constitution, subject to the comments received.

(The Code of Corporate Governance report was considered, see minute number CC/20/10.)

Decisions

1. To receive those minutes.

2. To make the following changes in appointments to Committees and Joint Committees of the Council, and to the membership of GM bodies and committees:

COMMITTEE	MEMBER APPOINTED	MEMBER REMOVED
Economy Scrutiny		Councillor Douglas
Licensing Committee		Councillor Stone
Licensing Policy Committee	Councillor Taylor Councillor Leech	

Joint Bodies / GM Bodies and Committees		
COMMITTEE	**MEMBER APPOINTED**	**MEMBER REMOVED**
Joint Manchester-Trafford Health Scrutiny Committee		Councillor Wilson

3. To appoint Councillor Craig as the Deputy Chair of the Health and Wellbeing Board.

CC/20/13 Code of Corporate Governance

The Council considered the report of the Deputy Chief Executive and City Treasurer regarding the revised draft Code of Corporate Governance which is accordance with published guidance.

The Audit Committee had previously considered the revised draft Code of Corporate Governance on 10 December 2019 and had recommended Council to incorporate the Code into the Council Constitution.

Decisions

1. To approve the Revised Code of Corporate Governance.

2. To incorporate the revised Code of Corporate Governance within the Council Constitution.

CC/20/14 Urgent Key Decisions

The Council considered the report of the City Solicitor on key decisions that had been exempted from call-in.

Decision

To note the report.

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Art Galleries Committee

Minutes of a meeting held on 12 February 2020

Present:
Councillor Rahman– In the Chair
Councillors Akbar, Bridges, Craig, Leech, N Murphy, Ollerhead, Richards, Stogia

AG/20/01 Minutes

Decision

To approve as a correct record the minutes of the meeting held on 13 February 2019.

AG/20/02 Manchester City Galleries' report and Revenue Budget 2020/21

The Committee considered a joint report of the Director of Manchester City Galleries and the Deputy Chief Executive and City Treasurer that detailed Manchester City Galleries' performance during 2019; outlined the plan to deliver our vision in 2020/21 within the context of our strategic plan, and presented a draft revenue budget for 2020/21 for the approval of the Art Galleries Committee.

Decisions

The Committee:

1. Approve the contents of the report, including the draft gross budget for 2020/21 of £3.55m, with cash limit budget contribution from Manchester City Council of £2.21m.

2. Recommend the budget to Executive for approval as part of the Council's budget setting process.

3. Delegate authority to the Director of Manchester Art Gallery in consultation with the Executive Member for Skills, Culture and Leisure, to approve a new Collection Development Policy.

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Executive

First Part Proceedings of the meeting held on Wednesday, 12 February 2020

Present: Councillor Leese (Chair)

Councillors: Akbar, Bridges, Craig, N Murphy, Ollerhead, Rahman, Stogia and Richards

Also present as Members of the Standing Consultative Panel:
Councillors: Karney, M Sharif Mahamed, Sheikh, Midgley, Ilyas, Taylor and S Judge

Apologies: Councillor S Murphy and Leech

Also present: Councillor Stanton

Exe/20/9 Minutes

Decision

To confirm the minutes of the meeting on 15 January 2020 as a correct record.

Exe/20/10 Revenue Budget Monitoring 2019/20

A report was submitted to provide a summary of the position of the 2019/20 revenue budget as at the end of December 2019. The report gave details of the projected variances to budgets and the state of the Council’s contingency funds. Projecting forward from the position at the end of December 2019 it was forecast that by the year-end in March 2020 the revenue budget would be overspent by £2.790m, an improved position on the £4.169m overspend that had been predicted at the meeting in December 2019 (Minute Exe/19/106). The report explained that the overspend was still mainly arising from service pressures on the adult social care budgets and Children’s Services.

It was explained at the meeting that the budget position being reported in this report had been the basis for the formulation of the 2020/21 budget proposal set out in the other agenda items being considered at the meeting.

Budgets to be Allocated

When setting the 2019/20 budget the Council has agreed to hold some funds for contingencies, and other money that was to be allocated throughout the year. The report proposed the use of some of these budgets to be allocated. These were agreed:

- £499k to Children's Services for supported accommodation for young people leaving care, allowing for price increases for up to 99 placements.

- £805k for waste management to enable the Council to meet the contractual inflationary cost increase of the new Waste Collection and Street Cleaning Contract delivered by 'Biffa Municipal Limited'.

Use of Reserves in 2019/20

The report also addressed the use of the Council's reserves. A new draw-down from reserves had been requested. This was approved.
- All £443K of the New Smithfield Market reserve to help maintain a safe environment due to the deterioration of the buildings, with a phased approach to make the site safe.

Use of an Additional Grant

The report also explained that notification had been received in relation to a specific external grant, the use of which had not confirmed as part of the 2019/20 budget setting process. Approval was given to the use of these funds.
- £48K from a successful Innovate UK bid to support the Urbix Demand Analysis tool, for a fixed-term senior research role to work with external partner (Urbix) on this project.

Decisions

1. To note the report.

2. To approve the use of budgets to be allocated as set out above.

3. To approve the use of reserves as set out above.

4. To approve the use of an additional grant as set out above.

Exe/20/11 Capital Programme Monitoring 2019/20

The Deputy Chief Executive and City Treasurer's report informed us of the revised capital budget 2019/20 to 2024/25 taking account of agreed and proposed additions to the programme, profiling changes, and the latest estimates of forecast spend and resources for the 2019/20 capital programme. The report explained the major variations to forecast spend, and any impact that variations had on the five-year Capital Programme.

The forecast of expenditure for 2019/20 for the Manchester City Council capital programme was £248.9m, compared to a proposed revised budget of £248.0m. Spend up to the end of December 2019 was £130.1m. The forecast for the capital programme on behalf of Greater Manchester was £70.0m. The Greater Manchester spend to the end of December had been £49.5m.

Appended to the report was a schedule of projects within the overall capital programme where the allocations needed to be revised and funding allocations vired between projects. The appendix showed the virement needed for each scheme and each project. We agreed to recommend to the Council the proposed virements greater than £500,000, as set out in Appendix A to these minutes. The virements of less than £500,000 we approved.

Decisions

1. To recommend that the Council 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 of these minutes.

2. To approve virements under £0.5m within the capital programme as outlined in Appendix A of these minutes.

3. To note that approvals of movements and transfers to the Manchester City Council capital programme, will reflect a revised total budget of £248.0m and a latest full year forecast of £248.9m. Expenditure to the end of December 2019 is £130.1m.

4. To note that approvals of movements and transfers to Capital Programme on behalf of Greater Manchester, will reflect a revised total budget of £70.0m and a latest full year forecast of £70.0m. Expenditure to the end of December 2019 is £49.5m.

5 To note the budgets approved in February 2020 by Deputy Chief Executive and City Treasurer under delegated powers, as set out in Appendix B of these minutes.

Exe/20/12 Budget Overview - The Council's Financial Strategy

A 2020/21 budget overview had been considered in January (Minute Exe/20/7). A report was presented to this meeting by the Chief Executive and the Deputy Chief Executive and City Treasurer to show how the various components of the proposed 2020/21 budget (including the Medium Term Financial Plan, the Capital Strategy, the Housing Revenue Account) would jointly continue to reflect the priorities identified in the three-year budget strategy 2017-20, and in the Council’s Corporate Plan that had been updated to include action required to address the climate emergency declared by the Council. This report explained the progress with implementing the strategy. It also provided a summary of the financial position and the required assessment of the robustness of the proposed budget.

The summary of the proposed budget was:

	2019/20 Original £000	2019/20 Revised £000	2020/21 Proposed £000
Resources Available			
Business Rates Related Funding	314,653	314,653	339,547
Council Tax	166,507	166,507	174,465
Other non-ring fenced Grants	54,426	65,752	66,717

Dividends and Use of Airport Reserve	62,390	62,390	62,890
Use of other Reserves	12,859	12,859	21,481
Total Resources Available	**610,835**	**622,161**	**665,100**
Resources Required			
Corporate Costs			
Levies / Statutory Charge	69,990	69,990	71,327
Contingency	1,600	850	860
Capital Financing	44,507	44,507	44,507
Transfer to Reserves	7,067	18,393	18,338
Subtotal Corporate Costs	**123,164**	**133,740**	**135,032**
Directorate Costs			
Additional Allowances and other pension costs	10,030	10,030	9,580
Insurance Costs	2,004	2,004	2,004
Inflationary Pressures and budgets to be allocated	9,945	1,764	10,271
Directorate Budgets	465,692	474,623	508,213
Subtotal Directorate Costs	**487,671**	**488,421**	**530,068**
Total Resources Required	**610,835**	**622,161**	**665,100**
Shortfall / (surplus)	**0**	**0**	**0**

The proposals continued to show the ways that the Council was seeking to mitigate the funding gaps that had arisen over the previous years. The Council was continuing to invest more money into adult social care and children's services, both areas that continued to show the most significant budget pressures as demonstrated by the report on the 2019/20 budget (Minute Exe/20/10 above).

The report examined the future funding uncertainties facing the Council. The City Treasurer had examined the major assumptions used within the budget calculations and had 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, were identified in the report as being:

Risk	**Mitigation**
Non Delivery of Savings	A detailed review of social care related savings which were not delivered in 2019/20 and the impact for 2020/21 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 2019/20 has successfully reduced the overspend position.
Increasing demand for social care, impact welfare reforms and rising homelessness is higher than budget assumptions	Additional government funding of c£13m in 2020/21 for Social Care and Council resources have been used to provide more funding in these areas based on a reassessment of demand. Funding received in 2019/20 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 closely reviewed each month and reported to the Senior Management Team and Executive Members.
Delivery of a balanced budget beyond 2020/21	Longer term scenario planning has started to address the uncertainty beyond 2020/21. In addition, the 2019/20 budget 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. It is expected that changes to the financial settlement will be supported through transition funding to avoid significant annual reductions.
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. 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 are 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 receives 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.

It was the opinion of the City Treasurer that any significant budget risks to the General Fund and the Housing Revenue Account had been identified and that suitable proposals were being put in place to mitigate against those risks where possible. The Council's Budget Monitoring procedures would continue to monitor high level risks and volatile budgets. An assessment of anticipated business rates income had been carried out and provision had been made for outstanding appeals. There was considered to be a prudent provision.

The City Treasurer also considered that the assumptions on which the budget had been proposed, whilst challenging, were manageable within the flexibility allowed by the General Fund balance. That balance, and other reserves that the Council holds could be called on if necessary. The City Treasurer was therefore confident that overall the budget position of the Council could be sustained within the overall level of resources available. However, there would be a need for further savings to be identified if the planned budget savings were not achieved in a timely manner, and reserves were called on to achieve a balanced position.

The General Fund balance was held to meet costs arising from any unplanned event. It also acted as a financial buffer to help mitigate against financial risks and could be used to smooth-out expenditure across years. It was estimated that the balance on 1 April 2020 would be £21.4m. That was considered to be prudent given the level of volatility in Council funding as business rates and general uncertainty over the future levels of funding available. The expected level of the General Reserve was therefore considered to be the minimum level required to be held to protect the Council from the financial risks inherent within the proposed budget strategy.

Decision

To note the report.

Exe/20/13 Medium Term Financial Plan

The report of the Chief Executive and City Treasurer set out the revenue budget proposals for 2020/210 based on the outcome of the Provisional Local Government Finance Settlement and the issues which needed to be taken into account prior to the Council finalising the budget and setting the Council Tax for 2020/21.

In March 2019, as part of setting the 2019/20 budget, it had been anticipated that there would be a government spending review in 2019/20 and that the local government finance would then return to a three-year budget cycle starting in 2020/21. That had not happened, and the announcements for 2020/21 funding levels had again been for one year only, therefore the proposed budget was for 2020/21 only. The report outlined the key changes in funding that had been part of the government's funding announcements. New budget pressures had arisen, revised savings and cost recovery proposals had been developed, and further sources of money had been identified or grants provided. The total saving and efficiencies target being proposed for 2020/21 was £7.5m. The 2020/21 budget now being put forward had a total funding requirement of £665.1m, compared to the original 2019/20 budget requirement of £610.835m. The comparison of the two proposals being:

Table 1 - Comparison of Budgets	**2019/20 Original £0000**	**2019/20 Revised £000**	**2020/21 Proposed £000**
Resources Available:			
Business Rates Related Funding	314,653	314,653	339,547
Council Tax	166,507	166,507	174,465
Other non ring fenced Grants	54,426	65,752	66,717
Dividends and Use of Airport Reserve	62,390	62,390	62,890
Use of Other Reserves	12,859	12,859	21,481
Total Resources Available	**610,835**	**622,161**	**665,100**
Resources Required:			
Corporate Costs:			
Levies and Statutory Charge	69,990	69,990	71,327
Contingency	1,600	850	860
Capital Financing	44,507	44,507	44,507
Transfer to Reserves	7,067	18,393	18,338
Sub-Total Corporate Costs	**123,164**	**133,740**	**135,032**
Directorate Costs:			
Additional Allowances and other pension costs	10,030	10,030	9,580
Insurance Costs	2,004	2,004	2,004
Inflationary Pressures and budgets to be allocated	9,945	1,764	10,271
Directorate Budgets	465,692	474,623	508,213
Sub - Total Directorate Costs	**487,671**	**488,421**	**530,068**
Total Resources Required	**610,835**	**622,161**	**665,100**
Shortfall / (surplus)	**0**	**0**	**0**

This budget was based on the assumption that the Council’s element of Council Tax would increase by 1.99% along with a further 2% specifically for adult social care. When the Greater Manchester Council Tax precept increases were added to the Council’s own the total increase for Manchester’s Council Tax Payers was anticipated as being 4.78%.

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

The report explained that the Government issued a written ministerial statement detailing new business rates reliefs for 2020/21. That had increased retail relief from 33% to 50% and included an extension of the relief to music venues and cinemas, as well as the continuation of pub and local newspaper relief. The additional relief was forecast to be £3.02m and would be reimbursed by Section 31 grant from the government.

The report provided a breakdown of the other non-ringfenced grants and contributions included in the budget and the issues around the most significant grants and contributions were described.

Table 2 - Other Non-Ringfenced Grants and Contributions	**2020/21 £000**
Better Care Fund (Improved)	30,815
Children's and Adult's Social Care Grant	17,564
New Homes Bonus	8,864
Contribution from MHCC	4,000
Education Services Grant	1,260
Housing Benefit Admin Subsidy	2,514
Council Tax Support Admin Subsidy	863
Care Act Grants	162
Business Rates Returned Levy	675
Total Non Ring-Fenced Grants	**66,717**

The report then considered the expenditure proposals. The forecast of levy payments the Council would have to make to other authorities in 2020/21 was:

Table 3 - Levies	**2020/21 £000**
Transport Levy	37,476
GMCA Waste Services	30,051
Environment Agency	224
Probation (Residual Debt)	15
Magistrates Court (Residual Debt)	9
Port Health Authority	71
Net Cost of Levies	**67,846**
Potential Payment to GMCA	3,481
Total	**71,327**

Although included within the table of levies, the Waste Levy was administered by the Neighbourhoods Directorate and would be included within the Directorate’s budget.

It was explained that the potential payment to GMCA related to the bus reform proposals that were under consideration at this time (Minute Exe/19/101). The financial case for the bus reform proposals included a full assessment of how the GMCA could afford to make and operate the proposed scheme. The Council’s potential share of the local authority element of the overall support package had been assessed as £3.481m.

A proposed contingency provision of £0.86m included £0.26m in relation to risks around the waste levy and collection and £0.6m as an unallocated contingency to meet future unforeseen expenses.

The proposed Insurance costs of £2.004m related to the cost of external insurance policies as well as contributions to the insurance fund reserve for self-insured risks.

The capital financing budget of £44.507m would support 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 £25.114m would be funded by interest received on loans made by the Council to Manchester Airport Group and other partner organisations.

Specific transfers to reserves of £18.338m in 2020/21 were being proposed, and those were listed in the report.

Allowances of £9.58m had also been made for retired staff and teachers' pensions to meet the cost of added-years payments awarded to former employees.

The report explained the main assumptions that had been made when calculating provision to be made for inflation and other anticipated costs. These could not, at this point in time, be allocated to Directorate or other budgets. They would instead be allocated throughout the coming year. The total provision being proposed was £10.271m, broken down into:

Table 4 - Inflationary pressures and budgets to be allocated	**2020/21 £000**
Non Pay Inflation	2,361
Pay Inflation including national living wage	6,520
Pension Contribution reduction	-800
Apprenticeship Levy 0.5%	900
Capacity for further budget pressures (including domestic violence)	1,000
Digital City work	250
Contribution to Cemeteries Reserve	40
Total	**10,271**

The allocation relating to the pooled budget had been included within Adult Social Care cash-limit budget as follows:

Table 5 - Inflationary pressures and budgets to be allocated in the Pooled Budget	**2020/21 £000**
National Living Wage	4,400
Pay inflation	1,530
Non-pay inflation	2,413

The proposals for the Directorates' cash limit budgets were detailed in the Directorate Budgets 2020/21 reports that were also being considered at the meeting (Minute Exe/20/16 below). The overall position was:

Table 6 – Departmental Cash Limit Budgets	**Gross 2020/21 £000**	**Net 2020/21 £000**
Children's Services	464,099	130,320
MHCC Pooled Budget	267,787	216,864
Adult Social Care - Services out of scope of Pooled Budget	7,243	4,389
Homelessness	36,459	15,285
Corporate Core	310,196	69,960
Neighbourhood Directorate	164,204	63,751

Table 6 – Departmental Cash Limit Budgets	Gross 2020/21 £000	Net 2020/21 £000
Growth and Development	55,314	7,644
Total	**1,305,302**	**508,213**

The figures in the table for the Neighbourhood Directorate do not include the waste levy of £30.051m as that is shown above in Table 3 above.

The report explained that the Council holds a number of reserves, all of which, aside from the General Fund Reserve, had been set aside to meet specific future expenditure or risks. A fundamental review of all the reserves held had been carried out as part of the budget setting process. The reserves include:

- Reserves that have been identified to directly support the proposed budget position
- 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

The report set out the planned use of reserves in 2020/21 to support revenue expenditure. It also explained the statutory requirement to place income generated from on-street parking and bus lane enforcement into separate reserves. These reserves could only be used to fund certain types of highway and environmental improvements, and provided there was no requirement for the Council to provide additional off street parking or for financial support to existing off street parking. The expected balance on these reserves at the 1 April 2020 was £16.965m. It was estimated that £9.951m would be added to these reserves during 2020/21 and £9.579m used. The reserves were to be used in accordance with the requirements to fund spending in the Neighbourhoods Directorate as well as part of the transport levy.

The total planned use of reserves was:

Table 7 - Use of Reserves	2020/21 £'000
Reserves directly supporting the revenue budget:	
Budget smoothing reserve	7,066
Bus Lane (supporting Transport Levy)	3,092
Social Care Investment Reserve	7,135
Adult Social Care	2,150
Anti Social Behaviour Team Reserve	540
Business Rates Reserve	1,165

Table 7 - Use of Reserves	2020/21 £'000
Transformation Reserve	333
Sub Total	**21,481**
Statutory Reserves:	
Bus Lane Enforcement and Parking reserves	6,487
Other Statutory Reserves	436
Balances Held for PFI's	375
Social Care Reserves :	
Adult Social Care Reserve	3,395
Reserves held to smooth risk / assurance:	
Airport Dividend Reserve	47,080
Business Rates Reserve	2,000
Other Reserves held to smooth risk / assurance	3,139
Reserves held to support capital schemes:	
Capital Fund	10,366
Investment Reserve	2,325
Eastlands Reserve	5,682
Other reserves held to support capital schemes	1,061
Reserves held to support growth and reform:	
Better Care Reserve	1,273
Town Hall Reserve	3,185
Our Manchester Reserve	2,556
Other Reserves to support growth and reform	1,332
Grants and Contributions used to meet commitments over more than one year	2,048
Small Specific Reserves	982
Total	**115,203**

The planned uses of the Social Care Investment Reserve and the Adult Social Care were detailed in the report.

The Anti-Social Behaviour Team Reserve had arisen from budget amendments considered and approved by the Council in March 2019 (Minute CC/19/18).

It was explained that to maintain annual funding of £1.5m to support the Factory/Manchester International Festival it was being proposed that £0.5m be retained in the mainstream budget with the remaining requirement being held in a reserve to cover ten years. This reserve would be increased to the required balance using Council Tax surpluses and Business Rates surpluses. Authority was therefore sought and granted for the Chief Executive and the City Solicitor, in consultation with the Executive Members for Finance and Human Resources and Culture, to enter into a 10 year grant agreement with Manchester International Festival that would be subject to on-going confirmation of the corresponding funding from Arts Council England.

The workforce implications of the budget proposals were outlined in the report. The proposals above will require the deletion of 16.4 FTE posts which would be achieved by the deletion of vacant positions. The detailed proposals were set out within the

Corporate Core directorate report that was also being considered at the meeting (Minute Exe/20/16 below).

Decisions

1. To note that the financial position has been based on the Final Local Government Finance Settlement announced on 6 February together with any further announcements at that date.

2. To 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.

3. To note the anticipated financial position for the Authority for the period of 2019/20 to 2020/21 which was based on all proposals being agreed.

4. To note that the Capital Strategy and Budget 2019/20 to 2023/24 was also presented to this meeting (Minute Exe/20/14 below).

5. To note the Deputy Chief Executive and City Treasurer's review of the robustness of the estimates and the adequacy of the reserves as set out in the Budget Overview (Minute Exe/20/12 above).

6. To recommend to Council as part of the budget for 2020/21:

    a) an increase in the basic amount of Council Tax (i.e. the Council's element of Council Tax) by 1.99%. The Council has consulted on the 2% Adult Social Care precept increase. If agreed, it is proposed to prioritise this resource to support adults with learning disabilities to help meet the increased need and complexity of residents;

    b) the contingency sum of £0.860m;

    c) corporate budget requirements to cover levies/charges of £71.327m, capital financing costs of £44.507m, additional allowances and other pension costs of £9.580m and insurance costs of £2.004m;

    d) the inflationary pressures and budgets to be allocated sum of £10.271m; and delegate the final allocations to the Deputy Chief Executive and City Treasurer in consultation with the Executive Member for Finance and Human Resources. The Manchester Health and Care Commissioner (MHCC) elements of these costs have already been included in the Pooled Budget. The use of these budgets will be agreed with the MLCO Partnership Board, which has representation from all key partners, along with identifying whether any more formal approvals are required in line with the Council's key decision thresholds.

e) the estimated utilisation of £9.579m in 2020/21 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 planned use of, and movement in, reserves as identified in the report, subject to the final call on reserves after any changes are required to account for final levies.

7. To recommend that Council approve and adopt the budget for 2020/21.

8. To delegate authority to the Deputy Chief Executive and City Treasurer and Chief Executive to agree the use of the Adult Social Care Reserve in consultation with the Executive Members for Finance and Human Resources and Adult, Health and Wellbeing.

9. To delegate authority to the Deputy Chief Executive and City Treasurer and Chief Executive to agree the use of the Social Care Reserve in consultation with Executive Members for Finance and Human Resources and Children's Services.

10. To authorise the Chief Executive and the City Solicitor, in consultation with the Executive Members for Finance and Human Resources and Culture, to agree the detailed terms of a 10 year grant agreement with Manchester International Festival (MIF), subject to confirmation of funding from Arts Council England (ACE) and having entered into a funding agreement with ACE.

11. To approve the gross and net directorate cash limits as set out in Table 6 above.

12. To approve the in principle contribution to the MHCC Section 75 (S75) Pooled Budget subject to the approval of the S75 Agreement.

13. To delegate authority to the Deputy Chief Executive and 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.

14. To note that there is a requirement on the authority to provide an itemised council tax bill which, on the face of the bill, informs taxpayers 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.

15. To approve implementation of new business rate reliefs in 2020/21 as announced by Government, which will increase the retail relief offering, extending it to music venues and cinemas, as well as, the continuation of pub and local newspaper relief.

Exe/20/14 Capital Strategy and Budget 2019/20 to 2023/24

Consideration was given to the report submitted by the City Treasurer. The report presented the capital budget proposals before their submission to the Council.

The capital programme 2020/21 to 2023/24 comprised the continuation of the existing programme. For continuing schemes, the position was based on that set out in the Capital Programme Monitoring 2019/20 also being considered at this meeting (Minute Exe/20/11 above).

Also included were those future projects which were considered likely to be brought forward, subject to the submission of a successful business case. For any project seeking capital expenditure approval a business case must be drafted, covering:

- how the project links to the City Council's strategic priorities, social value, and any statutory requirements;
- what economic value the project will provide to the City, including social value;
- funding model, with evidence of cost and capital and revenue implications;
- timescale for delivery and identification of risks to the project, including legal issues; and
- what the project will achieve, and the benefits that will be realised.

Details on the projects within the programme were set out in the report and the full list of the proposed projects was appended to the report.

If agreed, then the proposals contained in the report would create a capital programme of £378.4m in 2020/21, £288.8m in 2021/22, and £208.3m in 2022/23. The proposed funding for the programme was:

	2019/20 budget £m	**2020/21 budget £m**	**2021/22 budget £m**	**2022/23 budget £m**	**2023/24 budget £m**	**Total £m**
Grant	46.5	71.4	41.6	43.4	0.0	**202.9**
External Contribution	24.9	25.2	4.6	0.0	0.0	**54.7**
Capital Receipts	18.7	28.8	13.8	3.2	8.0	**72.5**
Revenue Contribution	26.0	52.6	31.0	28.4	0.0	**138.0**
Borrowing	131.9	200.4	197.8	133.3	47.3	**710.7**
Total	**248.0**	**378.4**	**288.8**	**208.3**	**55.3**	**1,178.8**

The revenue budget proposals set out in the report on the Medium Term Financial Plan 2020/21 included provision to finance this level of borrowing.

The report explained that a number of schemes which had been developed and were ready for inclusion in the capital programme. The funding and planned expenditure of each was set out in the report's appendix. Such schemes that were within the powers of the Executive to approve being

Department	**Project**	**Source of funding**	**Budget £000**
Highway Services	Maintenance Challenge Fund	Government Grant	1,075

Department	Project	Source of funding	Budget £000
Highway Services	Deansgate Streets for All Development Costs	Borrowing	275
Highway Services	Highways Investment Programme	Borrowing	-275
Highway Services	Auto Bollard Replacement and Improvement	Parking Reserve	608
Children's	Basic Need Unallocated	Government Grant	4,408
Corporate Services	VCSE Small Premises Works	Capital Fund	1,000

Decisions

1. To commend the report to the Council

2. To approve the projects for Executive approval as set out above.

3. To note the capital strategy.

4. To delegate authority to the Deputy Chief Executive and City Treasurer in consultation with the Executive Member for Finance and Human Resources to make alterations to the schedules for the capital programme 2019/20 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.

Exe/20/15 Council Business Plan 2020/21

A report from the Chief Executive presented the Council Business Plan for 2020/21. A copy of the plan was appended to the report. This plan was to replace the individual directorate business plans that had been produced in previous years. This plan was structured around the eight priority themes and had been produced following the development of 41 service plans which describe in more detail the achievements, priorities and activities of the 41 services which collectively made up the Council. The eight priority themes were:
- Zero carbon Manchester
- Young People
- Healthy, cared-for people
- Housing
- Neighbourhoods
- Connections
- Growth that benefits everyone
- Well-managed Council

And full details for each of these was set out in the report's appendix.

Decision

To approve the Council Business Plan for 2020/21.

Exe/20/16 Directorate Budgets 2020/21

A suite of reports prepared by the Strategic Directors of the Council presented the details budgets, investment and savings plans for 2020/21 for the seven areas of the Council's services, being:
- Children and Education Services Budget 2020/21
- Adult Social Care and Population Health Budget 2020/21
- Manchester Health and Care Commissioning Budget 2020/21
- Homelessness Budget 2020/21
- Neighbourhoods Directorate Budget 2020/21
- Growth and Development Budget 2020/21
- Corporate Core Budget 2020/21

Each of the reports set out the breakdown of the directorate's cash limited budget into the specific service areas within the directorate. It also described the efficiencies planned for 2020/21 and how the directorate would manage its budget pressures.

Each of these directorate-level financial plans had been scrutinised by the Council's scrutiny committees at their most recent meetings and the views of the committees were considered and noted (Minutes RGSC/20/07, HSC/20/07, CYP/20/11, NESC/20/11, ESC/20/09 and CESC/20/10).

Decision

To note the reports.

Exe/20/17 Dedicated Schools Grant - School Budgets 2020/21

Dedicated School Grant (DSG) is a ring fenced grant of which the majority is used to fund individual schools' budgets in maintained schools and academies in the city, early-years nursery entitlement and provision for pupils with high needs, including those with Education Health & Care Plans (EHCPs) in special schools, special provision and mainstream schools in Manchester and out of city.

A report submitted by the Strategic Director for Children and Education Services explained how the allocated DSG was distributed across the schools and supported establishments in Manchester.

The report explained that for 2020/21 the DSG would be made up of four blocks: schools block, early years block, high needs block and central services schools block. It was reported that Manchester was to receive a total DSG of £560.304m. The overall increase in grant compared to 2019/20 was £29.536m. The biggest change in the grant was due to 1.84% per pupil related increase in part of the grant that supports primary and secondary schools, and the £11.994m uplift in the high needs block.

The breakdown of the DSG in 2020/21, compared to 2019/20 would be:

Block	**2019/20 £m**	**2020/21 £m**	**Change £m**
Schools	409.073	425.944	16.871
Central School Services	3.658	3.661	0.003
High Needs	76.924	88.918	11.994
Early Years	41.113	41.781	0.668
Total	**530.768**	**560.304**	**29.536**

Decision

To note the report.

Exe/20/18 Housing Revenue Account 2020/21 to 2022/23
(Councillor Midgley declared a disclosable pecuniary interest in this item and withdrew from the meeting while it was considered).

A report by the Strategic Director (Development) and City Treasurer presented the proposed budget for the Housing Revenue Account (HRA) for 2020/21 and indicative budgets for 2021/22 and 2022/23.

The report set out the requirements placed on the Council with respect to the HRA budget:
- the Council had to formulate proposals or income and expenditure for the financial year which sought to ensure that the HRA would not show a deficit balance;
- to keep a HRA in accordance with proper practice to ensure that the HRA is in balance taking one year with another; and
- the HRA must, in general, balance on a year-to-year basis so that the costs of running the Housing Service must be met from HRA income.

Under a variety of arrangements, the Council owns and manage just under 16,000 properties within the HRA. The arrangements included three PFI schemes and the stock managed by either Northwards Housing or other Registered Social Landlords. During 2019/20 the Council was anticipating selling around 193 properties under the Right to Buy scheme.

Included in the report was the forecast for the HRA in 2019/20 to have an in-year surplus of £3.029m, compared to a budgeted deficit of £10.147m, and the main reasons for that change were explained in the report.

Following the four years of then annual 1% per cent rent reduction, the Government had agreed that rent policy for five years commencing in 2020/21 was able to revert to the Consumer Prices Index rate of inflation +1%, and that increase had been included within the proposed budget for 2020/21. For the approximately 1,000 properties where formula rent had not yet been achieved, the rent would be increased to formula rent when that property was next re-let.

Gas for the communal heating systems was sourced as part of the City Council's overall gas contract. The existing wholesale gas contract expired shortly, and latest prices indicated that the current wholesale gas price would reduce by 7% with effect from April 2020. Therefore, in order to ensure that the costs of gas used were recovered through the tariffs charged for tenants and residents on a scheme-by-scheme basis, it would be necessary to reduce the current heating charges by between 0% and 36%. Appended to the report was a complete schedule of proposed heating tariffs for pay by rent and pay by prepayment card, showing the percentage change for 2020/21. All bar one of the schemes would see a reduction in fuel costs in 2020/21.

The report proposed that the Northwards management fee for 2020/21 be increased to reflect the costs of pay awards in 2020/21. That would equate to a rise of 1.55% or £315,000 in 2020/21.

In order to ensure that the increase applied to garage rents remained in line with that applied to dwelling rents, it was proposed that 2020/21 garage rents be increased by 2.7%, which would see an increase in the rental of between 5p and 13p per week.

Due to the continued roll out of Universal Credit and the anticipated impact on residents the business plan had made prudent provision for an increased contribution towards the provision for bad debts. Their remained a risk that the further roll out of Universal Credit could impact on rent collection rates in later years. Therefore, the 2020/21 contribution to the bad debt provision was to remain at the 2019/20 actual rate of 1%. It would then be increased annually by 0.5% from 2021/22 until 2023/24 at which point it will peak at 2.5%. It was then planned to reduce by 0.5% per year until staying at 1.5% for the remainder of the plan.

The report also explained the other key changes in the HRA budget for 2020/21, and the full budget was presented as set out below.

	2019/20 (Forecast) £000	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**
Income				
Housing Rents	-59,775	-60,881	-62,030	-63,497
Heating Income	-754	-600	-612	-625
PFI Credit	-23,586	-23,374	-23,374	-23,374
Other Income	-1,164	-1,281	-1,203	-1,069
Funding from General HRA Reserve	3,029	-18,441	-14,016	-14,068
Total Income	**-82,250**	**-104,577**	**-101,235**	**-102,633**
Expenditure				
Northwards R&M & Management Fee	20,379	20,694	20,984	21,455
PFI Contractor Payments	31,824	36,296	32,599	31,639
Communal Heating	858	584	595	607
Supervision and Management	5,020	5,223	5,291	5,360
Contribution to Bad Debts	504	613	937	1,279
Depreciation	17,279	17,378	17,517	17,785

	2019/20 (Forecast) £000	2020/21 £000	2021/22 £000	2022/23 £000
Other Expenditure	1,295	1,169	1,189	1,016
RCCO	2,287	19,841	19,360	20,762
Interest Payable and similar charges	2,804	2,779	2,763	2,730
Total Expenditure	**82,250**	**104,577**	**101,235**	**102,633**
Total Reserves:				
Opening Balance	-107,365	-110,394	-91,953	-77,937
Funding (from)/to Revenue	-3,029	18,441	14,016	14,068
Closing Balance	**-110,394**	**-91,953**	**-77,937**	**-63,869**

Decisions

1. To note the forecast 2019/20 HRA outturn as being a surplus of £3.029m.

2. To approve the 2020/21 HRA budget and to note the indicative budgets for 2021/22 and 2022/23.

3. To approve the proposed 2.7% increase to dwelling rents, and delegate authority for the setting of individual property rents to the Director of Housing and Residential Growth in consultation with the Deputy Chief Executive and City Treasurer and the Executive Member for Housing and Regeneration and the Executive Member for Finance and Human Resources.

4. To approve that where the 2020/21 rent is not yet at the formula rent level, the rent is revised to the formula rent level when the property is re-let.

5. To approve the proposed 2020/21 changes for communal heating charges as outlined above and set out in detail in the report's appendix 2.

6. To approve the proposed increase in the 2020/21 Northwards management fee as set out above.

7. To approve the proposed increase in garage rental charges as described above.

Exe/20/19 Treasury Management Strategy Statement and Borrowing Limits and Annual Investment Strategy 2020/21

The Council's Treasury Management policy complies with the revised CIPFA Code of Practice on Treasury Management. The Council adopted this in March 2010.

The Local Government Act 2003 and supporting regulations require the Council to have regard to the Prudential Code for Capital Finance in Local Authorities and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The proposed strategy for 2020/21 was based upon the views of Treasury officers on interest rates, informed by leading market forecasts. The Strategy covered:

Prudential and Treasury Indicators
Minimum Revenue Provision Strategy
Treasury Management Policy Statement
Treasury Management Scheme of Delegation
Borrowing Requirement
Borrowing Strategy
Annual Investment Strategy

We noted the proposed Annual Investment and Borrowing Strategies set out in the report, and agreed to commend them to the Council.

Decisions

1. To commend the report to Council.

2. To delegate authority to the Deputy Chief Executive and City Treasurer, in consultation with the Executive Member for Finance and Human Resources, to approve changes to the borrowing figures as a result of changes to the Council's Capital or Revenue budget, and submit those changes to Council.

Exe/20/20 Budget 2020/21 Public Consultation Outcomes

A report from the Deputy Chief Executive and City Treasurer and the Head of Strategic Communications provided a summary of the results of the budget consultation on the draft budget proposals for 2020/21, as well as a summary of the responses received. The report described how the consultation had bene undertaken between December 2019 and early February 2020. A questionnaire had been used to gather the views of residents and 200 responses had been received. The report set out in detail the responses to each of the questions asked on the questionnaire.

Decision

To note the report.

Exe/20/21 Budget 2020/21 Equality Impact Assessment

A report from the Deputy Chief Executive and City Treasurer reviewed a selection of the Equality Impact Assessments (EIAs) produced in support of the Council's business planning process for 2019/2020. The report outlined the context of why the Council undertook EIAs and some of the key themes emerging from the business priority-related analyses produced in the last year.

The report also described changes to the Council's approach to business planning for 2020-21, the implications for how equality impacts were to be considered within the plan, and how the process of producing EIAs was to be managed moving forwards.

As the Council’s financial settlement for 2020-21 was, in a the main, a roll-over of the 2019/20 settlement, the report did not relate to any new budget-related consultations with EIAs attached.

Decision

To note the report.

Appendix A - Proposed Capital Virements

Project Name	2019/20 In yr virement proposed	2020/21 In yr virement proposed	2021/22 In yr virement proposed	2022/23 In yr virement proposed
Collyhurst Acquisition & Demolition (Overbrook & Needwood Close)				-1,070
Total Private Sector Housing Programme	0	0	0	-1,070
Charlestown - Victoria Ave multistorey window replacement and ECW			345	
External cyclical works phase 3a	-7	-15		
Renewal of 4 automatic pedestrian gates at Victoria Square	-45			
External cyclical works Harpurhey - Jolly Miller Estate		-82		
External cyclical works Ancoats Smithfields estate	47	25		
External cyclical works Cheetham Appleford estate			2	
External cyclical works Higher Blackley South	-22	-29		
External cyclical works New Moston (excl corrolites)		-29		
Environmental improvements Moston corrolites	8	21		
Charlestown - Victoria Ave multistorey replacement door entry systems		-18		
ENW distribution network phase 4 (various)	-160	5		
Newton Heath - Croyden Drive Security Improvements	-100	-88		
Delivery Costs		-55		
2/4 Blocks Heating replacement with Individual Boilers		-7		
Ancoats - Victoria Square lift replacement	54			
Boiler replacement programme	-13	-6		
Kitchen and Bathrooms programme	-265	-924		
Newton Heath - Multies Internal Works	200	3,153	250	
Various - Bradford/Clifford Lamb/Kingsbridge/Sandyhill Court Internal Works		47		

Project Name	2019/20 In yr virement proposed	2020/21 In yr virement proposed	2021/22 In yr virement proposed	2022/23 In yr virement proposed
Fire precautions multi storey blocks	-341	-885		
Installations of sprinkler systems - multi storey blocks	-458	-623		
Multi Storey blocks door entry system renewal Sandyhill/Bradford Crts	-5	-31		
Fire Risk Assessments	-760			
Delivery Costs	156	367	404	
Bringing Studio Apartments back in use		-8		
Various Locations - bringing bedsits back into use			8	
Delivery Costs		-1		
Delivery Costs		-19		
Northwards Acquisitions		-3		
Stock Acquisitions		-28		
Delivery Costs		-4		
Northwards Housing Programme	1,711	-763	-1,009	
Collyhurst Estate Regeneration	-100		-9,580	
North Manchester New Builds 2		-7,850		
Collyhurst	100	7,850	9,580	1,070
Total Public Sector Housing (HRA) Programme	0	0	0	1,070
Plymouth Grove Refurbishment	-5			
Beaver Rd Primary Expansion	-19			
Lily Lane Primary	-19			
St. James Primary Academy	-26			
Webster Primary Schools	-19			
Basic need - unallocated funds	88			
Universal Infant Free School Meals (UIFSM) - Allocated	266			
Universal Infant Free School Meals (UIFSM) - Unallocated	-266			
Crowcroft Park PS-Rewire	-2			
Broad Oak Primary School Kitchen		146		
All Saints Prim Rewire	-58			
Armitage Prim Windows	-20			
Bowker Vale Prim Heating	5			
Buton Lane Prim Roof	-9			
Cheetwood Prim Heating	16			
Crosslee Comm Heating	1			
Crowcroft Park Roof Repairs	-26			
Higher Openshaw Rewire	-76			
Moston Fields Joinery	-37			

Project Name	**2019/20 In yr virement proposed**	**2020/21 In yr virement proposed**	**2021/22 In yr virement proposed**	**2022/23 In yr virement proposed**
Ringway Prim Roof	-56			
Sandilands Prim Windows	-17			
St Mary's Junior Windows	-9			
Ringway Primary School	10			
Schools Capital Maintenance - unallocated	278	-146		
Total Children's Services Programme	0	0	0	0
Core Infrastructure Refresh	-26			
Care Leavers Service	-14			
Replacement Coroners System	-60			
ICT Investment Plan	100			
Total ICT Programme	0	0	0	0
Total Manchester City Council Capital Programme	0	0	0	0

Appendix B – Capital Approvals under authority delegated to the Deputy Chief Executive and City Treasurer

Dept	Scheme	Funding	2019/20 £'000	2020/21 £'000	Total £'000
Highways Services	Great Ancoats Improvement Works	External Contribution		231	231
Public Sector Housing	Chimebank S106	External Contribution	34		34
Totals			**34**	**231**	**265**

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Minutes of the meeting held on Monday, 24 February 2020

Present:
Councillor Russell (Chair) – in the Chair
Councillors Andrews, Clay, Davies, Lanchbury, B Priest, Rowles, A Simcock, Stanton, Wheeler and Wright

Also present:

Councillor Leese - Leader
Councillor N Murphy - Deputy Leader
Councillor Akbar - Executive Member for Neighbourhoods
Councillor Bridges - Executive Member for Children and Young People
Councillor Craig - Executive Member for Adults Health and Wellbeing
Councillor Ollerhead, Executive Member for Finance and Human Resources
Councillor Rahman, Executive Member for Skills, Culture and Leisure
Councillor Richards - Executive Member for Housing and Regeneration
Councillor Stogia - Executive Member for Highways, Planning and Transport
Councillor Karney - Associate Executive Member,
Councillor Stone - Chair of Children and Young People Scrutiny Committee
Councillor Flanagan
Councillor Kilpatrick
Councillor Leech

Apologies: Councillors Ahmed Ali and Moore

RGSC/20/16 The Council's Budget 2020/21

Further to minute RGSC/20/08, the Committee considered a report of the Chief Executive and the Deputy Chief Executive & City Treasurer which provided an update on the Council's financial position following scrutiny of the draft budget proposals and Directorate budget plans by all Scrutiny Committees.

The Committee received statements from both the Leader and the Executive Member for Finance and Human Resources on the Executive's budget proposals and the key issues underlying the budget process. In doing so, they outlined the context of the proposed budget, in particular, they referred to the continued challenges presented by the funding reductions from national government, referencing pressures on Adult Social Care, Children's Services and Homelessness in the city. They also advised that there would likely be budgetary implications going forward arising from the Council's commitment to address climate change over the next five years and the potential impact of future funding arrangements as a consequence of the outcome of the Fair Funding Review and the likelihood of the 100% Business Rate retention pilot ending in 2021/22 and the baseline for growth being reset.

They also thanked all the Scrutiny Committees for their input into scrutinising the budget proposals to date within each Directorate's budget plan, noting that whilst Scrutiny Committees had identified areas that they felt required additional funding, it would not be prudent for the Council to use its reserves at this current point in time, given that it was only able to set a one-year budget and the uncertainty of future funding.

The Committee then received a statement from the Executive Member for Housing and Regeneration regarding the Housing Revenue Account calculations for 2020/21 to 2022/23 and its use. She advised of the challenges the Council faced in delivering its housing ambition that had arisen from the imposition of a 1% annual rent cut for four years from 1 April 2016 and the impact of this on the financial viability of social housing and the amount of resources to invest in improving existing stock. She also referred to the financial implications of “Right to Buy” on the Council HRA Business Plan and the estimated costs in retrofitting the Council’s existing housing stock as part of the Council’s commitment to reduce its carbon emissions. The Executive Member reported that following government changes to the social rent policy, a 2.7% increase in dwelling rents was being proposed and assured the Committee that this increase would be within Local Housing Allowance levels.

The Chair then invited the other Scrutiny Chairs in attendance to bring to the Committees attention any concerns/issues that had arisen from their scrutiny of individual Business Plans. The Chair of Children and Young People’s Scrutiny made the following salient points:-

- Whilst the additional investment into Children’s Services was welcomed, it was acknowledged that this would not resolve all issues or address the level of demand;
- There was concern that whilst school budgets had increased, this increase only reflected the increasing number of children in the city;
- Whilst there was increase in the high needs budget within the dedicated schools grant, this followed several years of the funding being frozen whilst the number of pupils in Manchester was increasing;
- There was concern in relation to the financial impact to Manchester schools should the national funding formula for schools come into effect; and
- Whilst cognisant of the challenges the service faced, the Children and Young People’s Scrutiny Committee had supported the budget proposals put forward.

The Chair then invited Committee Members to ask questions on any of the Directorate Budget Plans. In doing so, she reminded the Committee that the budget proposals had all been scrutinised by the relevant Scrutiny Committees at previous meetings in January and February 2020. The following questions were asked:-

- What was the likely impact to the Council as a result of the potential reduction in future funding of circa 14% in relation to Adult Social Care, which had been exemplified as a potential consequence of the Fair Funding Review; and
- What was the likely impact on the services the Council provided of the roll out of Universal Credit to all remaining claimants on legacy benefits.

The Leader advised that the impact of the roll out of Universal Credit would likely compound the existing issue of the number of claimants and families that were in rent arrears which had the consequential impact on the rise in families being put at risk of being made homeless as well as impacting on those families on low incomes living in deprived communities. It was reported that the potential reduction in the

Adult Social Care budget as a result of proposed Fair Funding changes was circa £22m, following work by the Local Government Association.

The Committee then considered four proposed amendments to the Executive's budget. Three of the amendments had been submitted by members of the Opposition Group (Councillors Stanton, Kilpatrick and Leech) and one proposed by Councillor Flanagan. The amendments were as follows and each proposer was invited to present their amendment to the Committee:-

- To allocate a budget of £960,000 phased equally over three years to enable the Council to make available a £10,000pa Green Neighbourhood Investment Fund in each of the 32 wards, encouraging our neighbourhoods to participate in carbon reduction on a community-led basis shaped by the priorities of the Manchester Climate Change Action Plan; to be funded out of the proposed £2.079m contribution to the Business Rates Reserve for 2020/21.

  (Proposed by Councillor Stanton, seconded by Councillor Kilpatrick)

- To allocate a budget of £960,000 phased equally over three years to enable the Council to deliver a programme of target hardening (including further alleygating) in areas of benefit; to be funded out of the proposed £2.079m contribution to the Business Rates Reserve for 2020/21 and to allocate a budget of £1.5m to enable the Council to deliver road safety & traffic calming schemes in areas of need; to be funded through transfer from the On-street Parking reserve.

  (Proposed by Councillor Kilpatrick, seconded by Councillor Stanton)

- To establish a three-year budget totalling £600,000 to at least double 24-hour toilet provision in the City Centre, lessening the impact of any Public Space Protection Order on our homeless population; funded through a release of reserves.

  (Proposed Councillor Leech, seconded by Councillor Kilpatrick)

- We wish to amend to amend this year's budget and call on the Council to set up a one-off fund for £250,000 to be called the Spring Challenge Fund.

  (Proposed Councillor Flanagan, seconded by Councillor Johns)

The Committee then had a detailed discussion on all of the proposed amendments.

In relation to the amendment from Councillor Stanton, the Committee acknowledged the principle of what he was looking to achieve, but commented that a more structured approach would be more appropriate, noting that this was the intention of the developing ward plans to address climate change at a local level. The Committee suggested that existing Neighbourhood Investment Fund monies could and were already being used in precisely this way on a ward-by-ward basis. In relation to the amendment from Councillor Kilpatrick, again the Committee acknowledged the principle of what he was seeking to achieve but was unsure if it was far reaching enough and questioned the timing of using reserves at the present moment

In considering the amendment from Councillor Leech, there was concern expressed in relation to the estimated cost in providing additional toilet provision within the city and whether the amendment was financially viable. It was also commented that the Committee had previously requested a fully costed feasibility report on extra public toilet provision so that detailed, appropriate consideration could be given to such a proposal. The Chair commented that she believed it would be implausible for the Council to deliver all the necessary requirements that would be associated with complying with his amendment within the level of funding being sought, and referenced the additional cost of £155,000 per year that was being allocated to provide additional security for 24-hour access to the existing provision at Lloyd Street public toilets. Councillor Leech advised the Committee that he had consulted with the City Treasurer on the level of funding required within his amendment.

The Committee was also concerned that the three amendments proposed by the Opposition Group Members were for three years of funding and all required the use of Council reserves. It was commented that given that the Council was only able to set a one-year budget and the uncertainty of future funding arrangements, it would not be prudent to utilise Council reserves given the current and potential future financial climate the Council may face.

In relation to the amendment from Councillor Flanagan, the Committee sought further clarification as to what the additional funding would be utilised for, and where this funding would be sourced from. Councillor Flanagan explained that the funding would be used to aid local communities to contribute in addressing climate change within their wards though a variety of resident led initiatives. He proposed that this additional funding would be drawn from the Council's revenue contributions to capital rather than reserves as a one off funding allocation. The Committee queried as to how this funding would be allocated and who would be responsible for its administration. He reported that the funding would be allocated on a needs basis, rather than split equally across all wards and it was suggested that final approval of any requests for funding would be made by the Executive Member for Finance and Human Resources. There was an acknowledgement by the Committee that similar schemes had been undertaken in the past which had only resulted in short term benefits and that if this amendment was to be supported, it was suggested that appropriate criteria for allocating funding, that would deliver long term benefits, would need to be determined.

Having had regard to all the amendments, the Chair proposed that the Committee:-

- neither supported nor rejected the amendments proposed by Councillors Stanton and Kilpatrick, noting the principle of intent of their amendments and should additional funding be available in future years, request that the Executive give due consideration for such initiatives;
- did not support the amendment proposed by Councillor Leech in light of the fact that a future report was planned for consideration by this committee; and
- supported the amendment by Councillor Flanagan for consideration at Full Council on 6 March 2020.

This proposal was seconded and following a vote, carried.

Decisions

The Committee:-

(1) Endorses the decisions of the Executive on 12 February 2020;
(2) Commends the proposed budget for consideration by Full Council at its meeting on 6 March 2020;
(3) Supports the amendment by Councillor Flanagan for consideration at Full Council on 6 March 2020
(4) Recommends that Council neither supports nor rejects the budget amendments proposed by Councillors Stanton and Kilpatrick, but notes the principle of intent of their amendments and agrees that should additional funding be available in future years, the Executive gives due consideration to such initiatives; and
(5) Recommends that the Council does not support the budget amendment proposed by Councillor Leech and notes that a detailed report has already been requested (Minute RGSC/20/02) in respect of the costings for an additional public toilet provision within the city, which will be considered at a future meeting when the report is available.

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Manchester City Council
Report for Resolution

Report to: Resources and Governance Scrutiny Committee – 4 February 2020
Executive – 12 February 2020
Council – 6 March 2020

Subject: Capital Strategy and Budget 2019/20 to 2023/24

Report of: Chief Executive and Deputy Chief Executive and City Treasurer

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Summary

The purpose of the report is to present the 2019/20 capital programme and forward commitments, alongside the Capital Strategy for the City Council.

Recommendations

The Resources and Governance Scrutiny Committee is requested to note and comment on the report.

The Executive is requested to:

1. Approve and recommend the report to Council, including the projects for Executive approval in section 6.2.

2. Note the capital strategy.

3. Delegate authority to the Deputy Chief Executive and City Treasurer in consultation with the Executive Member for Finance and Human Resources to make alterations to the schedules for the capital programme 2019/20 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 requested to:

1. Approve the budget changes for the 2019/20 capital programme.

2. Approve the capital programme as presented in Appendix 3 (for £318.0m in 2019/20, £378.4m in 2020/21, £288.8m in 2021/22, £208.3 in 2022/23 and £55.3m in 2023/24) which will require prudential borrowing of £710.7m 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 Deputy Chief Executive and City Treasurer in consultation with the Executive Member for Finance and Human Resources to approve capital expenditure on schemes which have budget approval.

b) 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.

c) 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.

d) The Deputy Chief Executive and 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 2020/21 and then £5m per year thereafter.

e) The Deputy Chief Executive and 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.

f) The Deputy Chief Executive and City Treasurer in consultation with the Executive Member for Finance and Human Resources to agree and approve where appropriate the programme of schemes for the delivery of the corporate asset management programme.

g) The Deputy Chief Executive and City Treasurer and City Solicitor in consultation with the Executive Member for Finance and Human Resources to agree and approve the governance process for bids to the proposed VCSE Fund.

Wards Affected: Various

Environmental Impact Assessment - the impact of the decisions proposed in this report on achieving the zero-carbon target for the city
Under the governance process for capital expenditure decision making, zero and low carbon measures are a key component. Each project must set achievable carbon reducing targets before being approved. For some projects, the aim of the investment will be to reduce the City's carbon impact, for example the Civic Quarter Heat Network.

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 £710.7m (all non-HRA) of prudential borrowing over the 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 2019/20 is £248.0m, of which £131.9m is forecast to be funded from borrowing. Across the forecast period 2020/21 to 2023/24, the budget is £930.8m, of which £578.8m 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 2019/20 – 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 13 February 2019 (Capital Strategy and Budget 2019/20 to 2023/24)
Report to Council 8 March 2019 (Capital Strategy and Budget 2019/20 to 2023/24)
Report to the Executive 13 March 2019 (Capital Programme Update)
Report to the Executive 26 June 2019 (Capital Programme Outturn Position 2018/19)
Report to the Executive 26 June 2019 (Capital Programme Update)
Report to the Executive 24 July 2019 (Capital Programme Update)
Report to the Executive 11 September 2019 (Capital Programme Update)
Report to the Executive 16 October 2019 (Capital Programme Update)
Report to the Executive 13 November 2019 (Capital Programme Monitoring 2019/20)
Report to the Executive 13 November 2019 (Capital Programme Update)
Report to the Executive 19 December 2019 (Capital Programme Update)
Report to the Executive 12 February 2020 (Capital Programme Monitoring 2019/20)

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 2019-24. This report details the latest position on the Strategy, the governance process and progress on delivery.

1.2 The capital strategy provides the medium to 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 requirements in the CIPFA Prudential Code.

1.3 The strategy sets out the priorities for the Council for its capital investment and forms the framework against which future investment decisions are made. Section 3 of the report sets out the priority areas for future investment, including carbon reduction and housing. Schemes and projects are only added to the budget at the point they have been fully developed and agreed as part of the checkpoint process. As the potential future investment proposals develop they will follow the governance process laid out in this report before they are approved.

2 Strategic Context

2.1 Global and national economic uncertainty mean that it is challenging to forecast how the UK Economy will perform over the next three to five years. This is as a consequence of weaker economic global growth, partly driven by trade protectionism, and Brexit-related uncertainties. If any significant economic slowdown materialises, there will need to be a national response from Government and a clear local response. Following the December 2019 General Election, the new Government has indicated that new funding opportunities will be announced in the March 2020 Budget which will require a Manchester response to in order to capture investment from such opportunities. It is against this backdrop that our overarching capital strategy should be considered.

2.2 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.

2.3 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 - connecting all of the City's residents to the opportunities created by economic growth;
- embrace the need to be a zero carbon exemplar - as part of the City's aims to be zero carbon by 2038 at the latest;
- 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.

2.4 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.

2.5 Residents helped to devise the Our Manchester Strategy, and the benefits to residents of capital investment is a key concern for the Council. Through investment in housing, parks, leisure centres and highways, the capital programme seeks to prioritise the views and needs of the City's residents.

2.6 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. The Council's declaration of a Climate Emergency and our stated ambitions to be a zero carbon city made in 2019 now provides an added dimension that cuts across all of these strategies and reviews.

2.7 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;
- to ensure that there is a sufficiency of facilities in the city to support the demands within our adults and social care system;
- 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.

Underscoring all of the above will be the need to pursue interventions that both encourage and deliver the City's zero carbon goals.

2.8 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.

2.9 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 still 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.

2.10 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.

2.11 The Manchester and Greater Manchester Industrial Strategies were published in 2019 and set out the plans for developing a more inclusive economy that all residents can participate in and benefit from.

2.12 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.

The 2019/20 Capital Programme

2.13 The capital programme has progressed in line with the agreed approach to capital spend and delivery in 2019/20, and as part of the overall five year capital strategy.

2.14 Within the Highways Investment Fund, maintenance, resurfacing, drainage and gulley works are ongoing. Other major Highways projects are progressing including Hyde Road and the A6 Pinch Point widening schemes. A number of walking and cycling schemes, to be funded through the Mayor's Challenge Fund are to be brought forward.

2.15 Works are ongoing at the Manchester Aquatics Centre and the National Cycling Centre to develop designs to RIBA Stage 2 to support major refurbishments at both venues. A number of projects within the Parks portfolio have completed including King George V Park, Heaton Park South Play, Painswick Park and additional works at Platt Fields.

2.16 Corporate Estates recently opened the new Hulme District Office on Stretford Road. Works have begun on the next phase of the Estates Transformation Programme which will see a complete refurbishment of Alexandra House and car park.

2.17 Projects which will reduce the Council's carbon emissions have progressed, including the ongoing replacement of existing street lights with LED bulbs, and the Civic Quarter Heat Network. This strategy starts to set out the areas for future investment.

2.18 Good progress continues at the Factory site, as steel works continue to be erected and other major milestones are reached such as the complex installation of the Proscenium truss.

2.19 Early works have begun on site for the Town Hall project. The project team continue to prepare for Notice to Proceed which is expected in early 2020. It is anticipated that c.£104.0m worth of work packages will have been procured by this date, which will equate to around 60% of the overall project.

2.20 The delivery programme for works funded from Disabled Facilities Grant has continued. Works on fire safety measures in the Council's housing stock have progressed. The first of the North Manchester New Build schemes has completed, with 20 shared ownership units and 40 affordable rent units delivered.

2.21 Work is ongoing to ensure that the Council continues to meet the demand for school places with the continued growth of pupil numbers in the City. A construction partner has been appointed for the Special Educational Needs programme to increase school places across 4 sites in the City - Roundwood, North Hulme, Monsall Road and Camberwell Park. The Schools Maintenance Programme for summer 2019 is nearing completion and a programme of work for 2020/21 is now being drafted.

2.22 Works within the ICT Investment Programme have progressed, to create a simpler, more robust, resilient and easier to support technological environment. A new social care system, which incorporates a new social care payments system, went live at the end of July 2019. In October, the Executive agreed to adopt Microsoft Office and its software tools - Microsoft 365 - to replace Google G Suite and Lotus notes.

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, delivery of the ICT Strategy, asset management and the refurbishment of the Town Hall.

3.4 Through the existing capital programme and recent policy decisions there are already a number of overarching future investment priorities identified which are set out below.

3.5 With the recent declaration of the Climate Emergency by the City Council the Council has a clear target to at least ***halve its carbon output over the next five years***. Investment plans and associated benefits must consider the effect on carbon and work is taking place to understand how investment can be classified in terms of carbon impact as well as financial. The costs of new build programmes to higher environmental standards and meeting the needs of the

Local Plan and planning requirements need to be considered, running alongside investment in green spaces and places including trees and green walls which will require revenue resources for ongoing maintenance. In addition the majority of the Council's carbon emissions are from its existing corporate estate and housing stock and significant investment will be required to bring this up to carbon efficient standards. This represents a major opportunity to both establish Manchester as a centre for green technology and services, and to work with local skills providers to ensure that the city's residents are given the best possible opportunities to access these exciting new careers.

3.6 The Council recognises the ongoing priority to ***deliver new affordable housing stock*** resulting in the decision to increase the delivery target from 5,000 Affordable Homes to a minimum of 6,400 Affordable Homes between April 2015 and March 2025.

3.7 A commitment to developing a more ***inclusive economy***, both for the City and the Council, is vital and this ambition is set out within the Our Manchester Industrial Strategy. Achieving this ambition may require investments on an invest to save basis in existing Council assets, and will also require strategic investment to unlock wider developments, both commercial and residential. There is a major opportunity for new developments in the city such as the Northern and Eastern Gateways to become inclusive and zero carbon exemplars but they need to be adequately resourced to bring about the kind of social, economic and environmental benefits the city desires. The use of progressive procurement policies and social value will help to ensure the maximum benefit to residents from these new developments.

3.8 Regeneration in North Manchester, of which the Northern Gateway will play a crucial role, will continue to be an important part of the Council's capital strategy. Investment in the leisure centre at Abraham Moss, and the proposed investment at North Manchester General Hospital, are vital parts of the regeneration strategy.

3.9 Increasingly there will be a role for the Council to look at ***market intervention***, where the existing market outputs do not support the Council's wider aims. This is likely to be focussed on areas such as health and social care and particular residential and intermediate care, and will require significant partnership support. Such intervention may be short term in nature, to support the development of sustainable business plans, or interventions of a longer nature to support market change.

3.10 A key role for the future capital programme will be to ensure that the Council's ***corporate estate is fit for purpose***. The level of investment needs to increase to support the commitment to reduce the Council's carbon output and due to the current condition of the estate. This is particularly important for the leisure estate, where the assets developed for the Commonwealth Games are now nearly 20 years old, and also in the social care estate where the budget challenges faced by providers has led to a lower level of investment by them on maintenance than expected.

3.11 With the ongoing work around Our Transformation, there will be a continuing need to invest in ICT infrastructure as part of being a ***well-managed Council***. Increased digitisation, and the need to move from legacy ICT platforms, will mean investment is required, alongside work on ICT resilience, network capability, and key operating systems.

3.12 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.

3.13 This report includes forecast additional projects which may require capital investment over the medium term. These projects have been identified during the budget process as potentially being required to support the Council in achieving its strategic aims. These projects do not form part of the approved capital programme as set out within this report, and are expected to follow the governance process set out below as they are developed.

4 Carbon Reduction

4.1 The City Council has declared a climate emergency, and set an aim to become carbon neutral by 2038. This is an ambitious reduction which will require the Council to reduce its direct carbon dioxide emissions by at least 50% by 2025, while also playing its full part in supporting and influencing the city of Manchester to do the same. The Council will produce its zero carbon action plan for 2020-25 in March 2020.

4.2 Changes in how buildings are operated alongside behavioural changes such as recycling more are an important part of meeting that target, but it is vital that this is supported by capital investment aimed at reducing carbon.

4.3 The existing approved capital programme contains significant investment in carbon reducing measures, for example:

- the Street Lighting replacement programme is replacing the lights with LED lights with lower emissions;
- the Civic Quarter Heat Network is currently being built, which will allow Council buildings to be powered through cleaner energy; and
- the Carbon Reduction Programme is progressing, with building-specific projects identified which will reduce the carbon output.

4.4 To halve the Council’s carbon output over the next five years it is clear that further capital investment is required, and hence it is recognised as one of the key priorities for future capital spend. The forecast additional projects identified in this report which could support this include:

- moving to a sustainable transport system across the City, including investment in cycle lanes and electric charging points;
- investment in the Corporate Estate to improve energy efficiency given the estate accounts for roughly 70% of the Council’s carbon emissions;
- the electrification of the waste fleet;

- retrofit works to the Council's housing stock to move towards it being carbon neutral; and
- further investment in green energy solutions.

4.5 As described below, through the approval process for capital expenditure all proposed capital investment must be able to articulate how it can contribute to the Council's zero carbon target. This is one of the key considerations when projects are brought forward.

4.6 In recognising the importance of capital investment to achieving the carbon neutral date of 2038, it is also important to recognise the financial challenge that this creates. The Council must set a balanced budget, and therefore capital financing costs must be affordable within existing revenue constraints. This means that capital investment aimed at reducing carbon must focus on projects which will make the biggest difference, and this will form part of the ongoing decision-making process.

5 Governance

5.1 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.

5.2 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.

5.3 The Council has revised the approval process for capital expenditure in order to strengthen the decision making criteria highlighted above. Work is continuing on improving and streamlining the process, including strengthening the links to the key decision process and to strengthen decision making on funding sources such as Section 106 contributions, to ensure that the use of such sources are maximised.

5.4 The capital expenditure and investment decision making 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 at Appendix 1.

5.5 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. This includes social value, and impact on the low carbon strategy.

5.6 The business cases must be agreed by the relevant directorate board and supported by the relevant Executive member prior to submission to the Strategic Capital Board chaired by the Deputy Chief Executive and City Treasurer. The Board will then make recommendations to members.

5.7 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 detailing financial forecasts, risks, and expected outcomes.

5.8 The governance process for approving capital investments is the same as that for the wider capital programme. Any investment proposal 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 to mitigate any identified risks. Where required external advice is commissioned to perform due diligence or to support the creation of the business case.

5.9 The capital programme is monitored monthly, with quarterly reports to Executive. This will include any new approved capital investment proposals. They will also be subject to regular review including any annual assessment as part of the accounts process, which will take into account any material changes to the standing of the investment. New capital projects are reported to Executive in capital update reports, detailing the aims of the project and the source of the funding required.

6 Changes to the Capital Programme

6.1 All new capital proposals since 2017/18 have been assessed against the criteria above, highlighted at paragraph 5.5. The projects put forward within this report meet the criteria for inclusion around strategic fit.

6.2 There are a number of schemes which have been developed and are ready for inclusion in the capital programme which are summarised below. A summary of the schemes, funding and profile of spend can be found at appendix 2.

For Council approval:

- Rushcroft and Pevensey Court Ground Source Heat Pumps – installation of renewable heating systems to replace communal gas boilers;

- Hammerstone Road depot – additional funding following the widening of the scope of the project to allow the transfer of additional services to the depot, and following the end of design stage 3;
- Buy Back of former Council Properties – provision to buy back former Council homes to support the Council's housing objectives; and
- Central Library Refresh – refresh of the Archives+ exhibition, performance space technology and Children's Library.

For Executive approval:

- Highways Maintenance Challenge Fund – works to resurface Kingsway, funded by government grant;
- Deansgate Streets for All – development costs to develop the first phase of works to Deansgate;
- Automatic Bollard Replacement – further works on the project on new sites to improve security and safety from further threat;
- Basic Need – reintroduction of Basic Need grant income previously allocated to Matthews Lane, following the proposal to develop a new school on the site at Hyde Rd which has recently become available; and
- VCSE Capital Fund – creation of a fund for VCSE's to bid for small works to premises to boost capacity and increase service provision. The governance process for reviewing and approving bids to the Fund is being drafted, and it is proposed that the approval of this process is delegated to the Deputy Chief Executive and City Treasurer and the City Solicitor, in consultation with the Executive Member for Finance and Human Resources.

6.3 The Council's revised capital budget for the 2019/20 and the next five years is set out below. This 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 2020/21

7.1 The capital programme 2020/21 to 2023/24 includes the continuation of the existing programme. For this report, the position is based on that forecast as at the end of December 2019, which is reported elsewhere on the agenda.

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

7.3 The budget for 2019/20 is £248.0m. In addition there are £70.0m relating to schemes hosted on behalf of the Greater Manchester Combined Authority leading to a combined total of £318.0m. 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.

7.4 There are significant risks to the delivery of the proposed programme. Construction inflation is relatively high as the Manchester construction market remains buoyant and this will impact on costs for existing and future projects and an allowance will need to be made for this. It is difficult to project the exact budget requirement but for the purposes of the Strategy it is proposed to include a total budget of £30m across all years of the programme, to be funded from borrowing.

7.5 The proposed programme is summarised in the table below:

	2019/20 budget £m	**2020/21 budget** £m	**2021/22 budget** £m	**2022/23 budget** £m	**2023/24 budget** £m	**Total** £m	***Total 20/21-23/24*** *£m*
Manchester City Council Programme							
Highways	55.4	58.8	24.6	0.0	0.0	**138.8**	***83.4***
Neighbourhoods	8.6	16.7	17.9	3.9	2.9	**50.0**	***41.4***
Growth	90.8	119.0	53.9	14.2	0.0	**277.9**	***187.1***
Town Hall Refurbishment	17.0	49.1	92.7	99.3	34.7	**292.8**	***275.8***
Housing – General Fund	10.3	22.6	15.0	3.5	8.0	**59.4**	***49.1***
Housing – HRA	19.6	38.8	28.6	28.1	0.0	**115.1**	***95.5***
Children’s Services (Schools)	25.2	29.5	29.7	43.4	0.0	**127.8**	***102.6***
ICT	5.7	5.7	10.9	9.4	7.7	**39.4**	***33.7***
Adults, Children’s and Corporate Services	15.4	26.2	5.5	0.5	0.0	**47.6**	***32.2***
MCC TOTAL	**248.0**	**366.4**	**278.8**	**202.3**	**53.3**	**1,148.8**	***900.8***
Projects carried out on behalf of Greater Manchester	70.0	0.0	0.0	0.0	0.0	**70.0**	***0.0***
Inflation fund		12.0	10.0	6.0	2.0	**30.0**	***30.0***
TOTAL	**318.0**	**378.4**	**288.8**	**208.3**	**55.3**	**1,248.8**	***930.8***

7.6 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.

7.7 As noted above, and detailed throughout the report as potential future investment, there are a number of key investment priorities. It is anticipated that as such schemes progress through the Council’s approval process budget provision will be made for them. The figures in the table above also reflect that a number of grant funded programmes have not yet had the next round of funding announced, for example Basic Need for school places, and it is expected that these will be added when such grant awards are given.

7.8 The proposals in this report are for the draft capital programme from 2020/21. The programme will be updated at the May meeting of the Executive to reflect the final outturn position for 2019/20. The programme will change as projects develop and this will be reported to members at the earliest opportunity.

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 £83.4m between 2020/21 and 2023/24 and the primary schemes within the programme are detailed below.

8.2 The Highways Maintenance Investment Programme (£44.9m) 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 (£6.8m) 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 (£3.6m) 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 (£2.8m) 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 project at Great Ancoats Street (£6.2m) 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.

8.7 Works at the Mancunian Way junction with Princess Road (£4.2m), funded through the Department for Transport's National Productivity Investment Fund, will continue, improving and continuing capacity by creating signalled junctions.

8.8 The Public Realm programme (£2.4m) will support the maintenance and development of the Council's public realm assets.

8.9 The Street Lighting Private Finance Initiative (PFI) project (£3.7m) will deliver the procurement and installation of modern, state of the art, low energy light emitting diode (LED) street lighting technology. The scheme will provide revenue savings due to reduced energy charges, and lower maintenance costs for the Council's street lighting.

8.10 The significant capital investment programme will improve road safety as wherever possible the changes to the highway are made to support it, for example the Great Ancoats Street where accident prevention is a key aim of the project. Similarly, the programme of cycling and walking improvements funded through the GM Mayor's Challenge Fund will see significant road safety benefits from better road crossings, segregated cycle lanes and additional pedestrian facilities.

Potential Future Investment

8.11 To support the City's wider development and growth plans, and the delivery of the GM 2040 Transport Strategy and the emerging city centre transport strategy, work has been undertaken to look at how the funding allocated for project development can be utilised. A pipeline of schemes is being developed based on data which prioritises sites on the highway network based on a number of strategic principles. Business cases for schemes will be drawn up and brought forward on a priority basis.

8.12 Work will be ongoing with Transport for Greater Manchester to move forward on plans for a sustainable transport system, including reducing car journeys together with supporting the expansion of electric vehicles through investment in charging points.

8.13 Investment is also expected to support the establishment and delivery of a number of major projects where highways infrastructure will play a key role. Currently proposals including the support of major developments such as consideration of HS2, Etihad Campus, Northern Gateway and the Airport and the Bee Network along with localised pinch points.

8.14 Investment which prioritises improvements to the network for cycling and walking will be pursued, with the development of a number of schemes approved through the GM Mayor's Challenge Fund. These works supplement other proposals which seek to promote sustainable forms of transport across the city.

8.15 The business case for investing in car park assets across the city in order to ensure stock is fit for purpose will be developed, and in particular the investment needed to meet additional requirements including the installation of electric charging points and cycle hire parking. Consideration to the future car parking capacity and policy for the city centre needs to be considered alongside the impact on existing revenue car parking income.

8.16 Work is also underway to review benefits achieved through previous Highways Investment Programmes. This will establish the rationale and outcomes for future potential investment needs.

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 £41.4m between 2020/21 and 2023/24, as shown in the table below, and the primary schemes within the programme are also detailed below:

	2019/20 budget £m	**2020/21 budget** £m	**2021/22 budget** £m	**2022/23 budget** £m	**2023/24 budget** £m	**Total £m**
Environment and Operations	2.6	5.0	0.0	0.0	0.0	**7.6**
Leisure	5.5	11.1	17.1	3.9	2.9	**40.5**
Libraries	0.5	0.6	0.8	0.0	0.0	**1.9**
Total Neighbourhoods	**8.6**	**16.7**	**17.9**	**3.9**	**2.9**	**50.0**

Environment and Operations

9.2 Work on Waste Reduction Measures (£1.2m) will continue, initially seeking to increase recycling rates in apartment blocks across the City.

9.3 As part of the waste and street cleaning contract, a loan will continue to be available to the contractor to upgrade vehicles (£3.8), including to make them clean air compliant, on a spend to save basis. The loan will be repaid through reduced service costs. As noted above, the potential to electrify elements of the waste fleet will be reviewed.

Leisure

9.4 The Parks Investment Programme (£12.0m) will focus on improvements to the quality of the community and local parks, green spaces and allotments across Manchester.

9.5 Investment will continue at Abraham Moss leisure centre (£20.0m). These works will reduce revenue costs associated with the upkeep of the building, and provide long-term savings to the Council.

Potential Future Investment

9.6 There is a need to continue with the development of the City's leisure estate, with the introduction of new leisure assets as well as large scale improvements to existing facilities as the focus of investment. It is expected that any such proposals would contribute to the low carbon aims of the Council. The funding for these works will be mixed due to the joint management of Waterfall funding with Sport England and the ability to access other national funds as well as the requirement to access City Council resources. Leisure spend over this next period will include the National

Cycling Centre refurbishment, Manchester Aquatics Centre refurbishment, Abraham Moss Leisure Centre and the Hub at Hough End.

9.7 The focus of Parks investment will be linked to the further development and approval of the Parks Development Plan. With funding already held against this programme, details of individual schemes and work packages will be brought forward, seeking to maximise investment across park assets.

9.8 Redevelopment of the North Manchester General site will form part of the regeneration of North Manchester, linking with the planned Northern Gateway investment as well as the provision of the new hospital and associated health facilities. Initially this may be focussed around Crumpsall Park. Such investment should be a priority for the Council against any source of regeneration finance that the Government may bring forward.

9.9 There are a number of potential library sites for investment over the next period as part of a wider estate management and the extension of customer self-service provision. Manchester Central Library has seen over 8 million visitors since reopening in 2014 and now welcomes 2 million visitors per year - there is a need to refresh the digital element of the library and also some other front of house areas including the children’s library.

9.10 Manchester Art Gallery are developing proposals linked to the Platt Hall Gallery and other works to broaden their offer to residents and consider storage requirements for collections including Queens Park. There is also development work being undertaken for other venues which Manchester City Council own but are operated by other organisations. The Department for Digital, Culture, Media and Sport have recently announced a new capital funding scheme for which the details and application criteria are awaited.

9.11 To support the Council’s low carbon agenda it is proposed that the waste management fleet is reviewed to explore potential electrification. Investment to “green the city” through tree planting, the use of green walls and other measures to absorb carbon and encourage biodiversity will be reviewed and considered.

9.12 The development of New Smithfield Market remains a significant potential investment opportunity, with work required to understand the scope of such works and the implications for the Council.

10 Growth

10.1 Growth includes the programme for the Council’s property assets, and investment in neighbourhood development and cultural facilities. The programme is forecast to be £187.1m between 2020/21 and 2023/24, as shown in the table below, and the primary schemes within the programme are also detailed below:

	2019/20 budget £m	2020/21 budget £m	2021/22 budget £m	2022/23 budget £m	2023/24 budget £m	Total £m
Culture	30.1	55.7	13.7	0.0	0.0	**99.5**
Corporate Property	18.2	33.4	21.4	0.7	0.0	**73.7**
Development	42.5	29.9	18.8	13.5	0.0	**104.7**
Total Growth	**90.8**	**119.0**	**53.9**	**14.2**	**0.0**	**277.9**

Culture

10.2 The continuing Factory project (£69.4m) will create a cultural facility within the St John's area of the City Centre.

Corporate Property

10.3 The Asset Management Programme (£20.7m) will ensure that the Council's assets, including its elite sporting assets, are well-maintained.

10.4 The continuing Carbon Reduction Programme (£8.3m) 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.

10.5 The continuing Estates Transformation plan (£6.9m), 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 (£19.6m) 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

10.6 The Strategic Acquisitions budget (£4.3m) 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.

10.7 The Sustaining Key Initiatives (£13.6m) investment provides the Council with the capacity to intervene to ensure key commercial, operational and mixed use development priorities are secured in the city. It is expected that any intervention would be done primarily on an investment basis.

10.8 The Northern Gateway investment plan (£18.8m) 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.

10.9 The Medieval Quarter Public Realm (£1.6m) 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.

10.10 Further loan support for Manchester College (£5.0m) will continue to enable the first phase of the College's expansion.

10.11 Public realm works at Lincoln Square (£1.2m), supporting the wider redevelopment of the area, will provide a more distinctive identity for the square.

10.12 The Civic Quarter Heat Network (£13.5m) 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.

Potential Future Investment

10.13 There is a need to review the ongoing annual level of investment in the Council's corporate estate to ensure that it is of good standard and meets the needs of users. This may include the incorporation of assets which currently sit outside of the current Asset Management Programme, such as City Council owned schools, and may also include the maintenance of previous Sure Start centres and care homes, with the existing leasing arrangements with providers reconsidered to ensure the ongoing operation of the sites. In some instances consideration may have to be given to direct market intervention, as noted in the Adult's section of the report below.

10.14 The corporate estate will also be a key conduit of measures to help reduce the Council's carbon footprint and bring the estate up to a minimum energy performance certificate (EPC) rating of C, based on a strategy of Reduce, Produce and Connect. The aim is to reduce demand for energy, for example through design measures such as LED lighting, produce low carbon energy through solar panels and ground source heat pumps, and connect schemes together by gathering and sharing data to examine how energy demand can be further reduced. The estate asset management programme will form part of this work aligning works to the AMP repairs schedule where possible, alongside existing programmes such as the Carbon Reduction Programme and Civic Quarter Heat Network. There will also be the opportunity to explore investment opportunities into sustainable energy supplies for the City.

10.15 The Council will continue to explore and lead investment opportunities in key strategic areas of the City including the Etihad Campus, the delivery of the Northern Gateway strategic business plan, Eastern Gateway, and other areas for development such as Wythenshawe Town Centre and Moston Lane. Investment in Piccadilly Gardens will also be brought forward.

10.16 There may also be an opportunity to invest in primary/community care hubs, similar to that being developed in Gorton although perhaps smaller in scale, working closely with the Health Service. However, the financing of these arrangements and the potential limitations around Health capital allocations will be an obvious consideration.

10.17 Opportunities to support the development of strategic assets through direct purchases or loans to partner organisations and third parties are also being explored as part of a wider investment approach. This may be particularly important for specific sites, such as Mayfield, where the Council's involvement can help progress and accelerate wider investment progress.

10.18 Proposals to establish a ring-fenced budget for the public realm in the St John's area of the City Centre, where the Factory project is a key development, funded from the expected growth in local taxation will be brought forward.

10.19 The Growth pipeline is wide and varied, and therefore consideration of appropriate investment strategies will be key. Understanding how projects interlink, when investments may be realised, and therefore the capacity to deliver both practically and financially will need to be key considerations.

10.20 There may be strategic investment opportunities where the capital financing costs are covered by an income stream from a third party. These should not have a negative impact on the Council's capital financing capacity, but will increase the Council's level of debt until they are fully repaid.

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 £275.8m between 2020/21 and 2023/24 with planned spend currently £17.0m in 2019/20.

11.2 Based on the project achieving notice to proceed, and with the greater certainty around the cost of work packages that this would represent, the cost plan will subsequently be reviewed and therefore the profile of the budget shown in this report is subject to change. Before notice to proceed is given, work is currently underway to review the completion of the design for the building, and the current overall costs based on the work packages which have been agreed or are in the tender process. The decision to proceed will be based on satisfactory outcomes to those reviews.

12 Housing – General Fund

12.1 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 £49.1m between 2020/21 and 2023/24 and the primary schemes within the programme are detailed below.

12.2 Funding remains set aside within the programme for commercial and residential acquisitions (£6.6m) which will support the existing Brunswick and Collyhurst schemes.

12.3 Major adaptations funding is expected to be available (£13.7m) to assist in works to make social rented properties suitable for disabled residents.

12.4 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).

12.5 Funding is available, through the government's Marginal Viability Fund, to support the delivery of new homes on the New Victoria (£10.0m) site by addressing infrastructure works.

Potential Future Investment

12.6 The Council recognises the ongoing priority to deliver safe, secure and affordable housing stock resulting in the decision to increase the delivery target from 5,000 Affordable Homes to a minimum of 6,400 Affordable Homes by March 2025. There is limited capacity from within the Council's Housing Revenue Account and the Council's Housing Affordability Fund to support new additional Affordable Homes in the city. Therefore, to deliver the significant numbers of new affordable homes needed in the city, our partnership relationships with Registered Housing Providers will be key along with a clear commitment to leveraging the Council's land and property assets to help underpin the delivery of new homes.

12.7 As noted above, the Council will play a key role in bringing forward investment across the City, but particularly in the Eastern and Northern Gateways which will include additional homes. To achieve this within the financial constraints that the Council faces, the roles of developers and the Council will need to be considered on a case by case basis.

12.8 The City will also work with colleagues in Greater Manchester to identify and access funding for energy conservation measures in private households.

12.9 Work will be undertaken to review potential capital requirements for the development of supported and semi-supported housing options to address the needs of homeless people and young people at risk of homelessness.

12.10 There is also a further proposal to consider the establishment of a Council-owned temporary accommodation unit for homeless families. The delivery of either option would reduce the net cost to the city through reduced revenue spend on bed-and-breakfast and hotel accommodation.

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 £95.5m between 2020/21 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 (£62.5m). 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 (£23.7m), including proposals for new social housing new builds and land assembly linked to the Northern Gateway.

13.4 The land assembly programme around Parkhill Avenue (£4.3m) will continue to facilitate the regeneration of the area.

Potential Future Investment

13.5 The Council will consider options for retrofit works to make its existing housing stock zero-carbon. This could also help to contribute to addressing fuel poverty. Alongside this, there will be a continued focus on increasing the level of affordable housing across the City, either through models of direct delivery or through working with registered providers and other partners.

13.6 As noted above, the role of the HRA in providing new affordable housing will continue to be reviewed to seek business models which are sustainable and can achieve benefits for the HRA. This is expected to include the development of housing at Silk Street.

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 £102.6m between 2020/21 and 2023/24 and the primary schemes within the programme are detailed below.

14.2 The programme to increase the Special Educational Needs capacity (£22.2m) across the city will continue, with works to be undertaken at Roundwood, North Hulme, Monsall Road and Camberwell Park.

14.3 The Council will receive no Basic Need grant in 2020/21. The existing unallocated grant is c. £65.9m, which is expected to be required for the creation of secondary school places.

14.4 A Government grant-funded schools maintenance programme (£6.6m), 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.

14.5 Works to develop the scale of sixth form provision for North Ridge secondary special school (£2.8m) funded from government grant will continue to progress.

Potential Future Investment

14.6 The statutory requirement to provide sufficient school places across primary and secondary education continues to be monitored along with approvals as part of the Government's Free School programme to ensure places are able to meet demand. A School Places plan for 2020 to 2025 will set out the priorities for how we meet the demand for increased school places to meet the needs of our growing population.

14.7 Recent capital investment in the Education Portfolio has focused on the Special Educational Needs and Disabilities and Alternative Provision places in the city. There is the potential for further investment in this area as part of the next phase of the Capital Strategy.

14.8 The benefits of undertaking a programme of condition surveys across the Education Estate in order to take holistic decisions regarding the maintenance of school buildings will also be reviewed.

14.9 The ambition to deliver carbon efficient schools and the lack of easily developable sites within Manchester will mean that it is increasingly difficult to do this within the levels of DfE funding and unit cost.

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 £33.7m between 2020/21 and 2023/24 and the primary schemes within the programme are detailed below.

15.2 The ICT Investment Plan (£33.7m) will continue. The initial focus will be on the collaboration technology that the Council uses. Implementation of this project will unlock potential benefits for other investment, particularly on user devices.

15.3 Other projects will be brought forward as required, and as service needs become evident.

15.4 It is expected that some of this budget may need to be transferred to revenue, depending on the type of work 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 update reports.

Potential Future Investment

15.5 Activity will focus on the strengthening of core ICT systems, and in particular the delivery of the next phase of Council's collaboration platform. This will inform the subsequent future capital investment requirements which are likely to include the delivery of a device replacement strategy.

15.6 An updated ICT Strategy for the Council is being finalised for approval. This and the accompanying Technology Roadmap which will follow will provide the framework for future ICT investment decisions. The initial focus for the ICT investment plan will focus on collaboration, as this will underpin the corporate ICT approach - the subsequent ICT investment strategy will need to respond to the final collaboration approach, and therefore will be pursued once collaboration is substantially developed. This will include end user devices and telephony solutions. There is also a need to modernise and digitise many of the Council's core business processes which is being picked up through the Our Transformation work.

15.7 Whilst the main focus will be on collaboration, work will continue on supporting services across the Council in developing ICT solutions to their needs, and these will be brought forward on a case by case basis.

15.8 Of the remaining ICT Strategy funding, c. £1m has been earmarked to support the further development of Manchester's Smart City agenda. The Corporate Core revenue budget report contains separate proposals for increasing the Council's capacity in this area including developing the priorities for future investment, building on the City Council's innovation and smart city programmes to date including the City Verve and Triangulum projects.

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 £32.2m between 2020/21 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 (£19.9m). 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 the project with Health Innovation Manchester (£8.8m), to conduct research on life science sub-sectors of health and medical technologies, will continue.

16.4 There is c. £1.9m available to fund the purchase of equity in car parking facilities at the Airport, which will support the development of the Airport and should provide a return to the City Council.

Potential Future Investment

16.5 Children's Services are currently developing a future estates strategy for their assets, aligning this to service plans. It is likely that capital investment will be required to support the ongoing provision of services to meet current and future needs.

16.6 This capital requirement is likely to include the maintenance of previous Sure Start centres, with the arrangements with providers reconsidered to ensure the ongoing operation of the sites and potentially an income stream to cover maintenance costs.

16.7 Adult Social Care have identified a potential need for investment to allow market intervention to develop care facilities that will meet current and future health and social care needs as well as addressing areas of market failure to ensure continuity of service. This may be short-term in nature, but could be of vital importance to limit the impact of such market issues on residents. By its nature this may need to be actioned quickly and efficiently in order to be successful, so appropriate budgets and approval routes will need to be considered.

16.8 Investment may also be needed to build capacity, and in particular creating capacity for specific care needs to ensure that there is appropriate provision for vulnerable residents. This may require new build facilities, or the acquisition of existing buildings which can be tailored to care models. This is likely to be closely linked to collaboration work with partners, such as the Health Service.

16.9 As noted above, there may also be an opportunity to invest in primary/community care hubs, similar to that being developed in Gorton although perhaps smaller in scale, working closely with the Health Service.

16.10 The Corporate Core needs to retain the ability to provide market intervention or allocate loans to third parties as part of a wider approach to investment which supports the achievement of strategic aims for the city and our residents. These are interventions which support the Council as a whole, and will be progressed on the basis of the business case for each.

16.11 There will also be a need to look into investment options regarding energy sources for the Council as a whole in order to achieve the Council's carbon aims, and this is likely to require a corporate approach.

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, and specifically the Housing Investment Fund. The programme is currently estimated to be £70.0m in 2019/20 based on existing budget approvals and the value of investments now novated across to the Greater Manchester Combined Authority.

17.2 It is estimated that the loans being retained by the Council, due to the short term nature of them, will be repaid within the next 12 months.

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 As noted above, all future capital investment will be reviewed to assess the impact on carbon reduction, and this will need to include the Council's corporate estate and housing stock.

18.4 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 achievability of the forward plan.

19.10 It is important to recognise that there is a finite level of prudential borrowing that the Council could undertake, based on affordability within existing revenue budget constraints. This means that the Council has to work to develop schemes which attract external funding, or deliver a substantial return on investment. All proposed schemes are reviewed so that the revenue consequences are understood, including capital financing costs. The Prudential Indicators, included within the Treasury Management Strategy Statement, are intended to support decision making on debt.

19.11 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.

19.12 It is proposed that the City Council capital programme, excluding the projects carried out on behalf of Greater Manchester, for 2020/21 is funded as follows:

Fund	Housing Programmes		Other Programmes £m	**Total £m**
	HRA £m	Non-HRA £m		
Borrowing		1.3	199.1	**200.4**
Capital Receipts	0.5	5.0	23.3	**28.8**
Contributions		1.0	24.2	**25.2**
Grant	1.4	14.3	55.7	**71.4**
Revenue Contribution to Capital Outlay	36.9	1.0	14.7	**52.6**
Grand Total	**38.8**	**22.6**	**317.0**	**378.4**

19.13 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.

19.14 Prudential borrowing of up to £578.8m over the 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 2020-2024 is:

- 2020/21 - £200.4m
- 2021/22 - £197.8m
- 2022/23 - £133.3m
- 2023/24 - £47.3m

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 £578.8m of prudential borrowing which includes:

Scheme	**£m**
Highways Investment Plan	37.6
Bridge maintenance	6.8
Hyde Road (A57) Pinch Point Widening	2.1
Manchester Salford Inner Relief Road	0.1
Mancunian Way and Princess Parkway NPIF	1.4
Princess Rd Safety Review	0.4
School Crossing Patrols	2.7
A6 Stockport Road Pinch Point Scheme	0.7
Street Lighting PFI	3.7
Waste Contract	3.8
Blackley Cremator and Mercury Abatement	1.6
Hough End Master Plan	0.2
Parks Investment Programme	12.0
Indoor Leisure Provision at Abraham Moss	20.0
Manchester Regional Arena Track Replacement	0.7
Libraries investment	1.3
The Factory	20.6

Scheme	£m
Hammerstone Road	19.6
Carbon Reduction	8.3
Heron House	1.4
The Space Project	1.0
The Sharp Project	0.5
Civic Quarter Heat Network	13.5
Manchester College	5.0
Lincoln Square	1.2
Estates Transformation	6.9
Sustaining Key Initiatives	13.6
Eastern Gateway	0.8
Northern Gateway	18.8
Refurbishment of the Town Hall and Albert Square	275.8
West Gorton Regeneration	1.3
Ben Street Regeneration	0.9
ICT Investment Plan	33.7
Gorton integrated health development;	19.9
BioMedical Investment	8.8
Manchester Airport Car Park investment	1.9
Inflation Fund	30.0

19.15 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.

19.16 Further "spend to save" investment opportunities may arise and delegated authority is given to the Deputy Chief Executive and 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.

19.17 The proposed funding for the programme, including the inflation fund, across the forecast period is shown below:

	2019/20 budget £m	**2020/21 budget** £m	**2021/22 budget** £m	**2022/23 budget** £m	**2023/24 budget** £m	**Total £m**
Grant	46.5	71.4	41.6	43.4	0.0	**202.9**
External Contribution	24.9	25.2	4.6	0.0	0.0	**54.7**
Capital Receipts	18.7	28.8	13.8	3.2	8.0	**72.5**
Revenue Contribution to Capital Outlay	26.0	52.6	31.0	28.4	0.0	**138.0**
Borrowing	131.9	200.4	197.8	133.3	47.3	**710.7**
Total	**248.0**	**378.4**	**288.8**	**208.3**	**55.3**	**1,178.8**

19.18 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.

19.19 Work will continue to confirm the position for the capital programme from 2019/20 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 2019/20. 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 31 March 2019:

	Value as at 31/3/19 £m
Long-term Debtors	299.7
Long-term Investments	149.1
Investment Property	422.8
Total	**871.6**

20.7 The long-term debtors represent loan finance provided by the Council to other parties, and include the loans to Manchester Airport (£207.4m), Public Finance Initiative prepayments (£24.5m), and Manchester College (£17.7m). These loans are regularly reviewed, and would be impaired if there was a risk of default. Some of the loans 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 (£6.5m). 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 Car Parks - financial support to the Airport to develop the business;
- Manchester College Loan - loan to support the College's expansion;
- Band on the Wall Loan - loan to support the development of the venue;
- Manchester Jewish Museum Loan – loan to support the development of the museum;
- 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. 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 2019/20 it is forecast that c. £62.9m 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 Deputy Chief Executive and City 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:

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	£'m					
Opening CFR	1,528.5	1,6710.6	1,842.3	2,006.5	2,103.5	2,113.5
Borrowing	131.9	200.4	197.8	133.3	47.3	0.0
Additional long term liabilities[1]	36.5	1.2	0.8	0.9	0.8	0.7
MRP	(26.3)	(29.9)	(34.4)	(37.2)	(38.1)	(42.7)
Closing CFR	**1,670.6**	**1,842.3**	**2,006.5**	**2,103.5**	**2,113.5**	**2,071.5**

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

[1] The additional long term liabilities are likely to increase following the introduction of International Financial Reporting Standard 16, due in April 2020. Work is underway to identify the impact of this, and it will be reported to members in due course, the estimate included in these figures is a c. £20m increase.

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 capital 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 Deputy Chief Executive and 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 Contributing to a Zero-Carbon City

24.1 Under the governance process for capital expenditure decision making, zero and low carbon measures are a key component. Each project must set achievable carbon reducing targets before being approved.

24.2 For some projects, the aim of the investment will be to reduce the City’s carbon impact, for example the Civic Quarter Heat Network.

25 Contributing to the Our Manchester Strategy

(a) A thriving and sustainable city

25.1 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.

(b) A highly skilled city

25.2 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.

(c) A progressive and equitable city

25.3 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.

(d) A liveable and low carbon city

25.4 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.

(e) A connected city

25.5 Through investment in areas such as ICT and the City's infrastructure of road networks and other travel routes

26 Key Policies and Considerations

(a) Equal Opportunities

26.1 The proposals have been drawn up in awareness of Council policy on equality.

(b) Risk Management

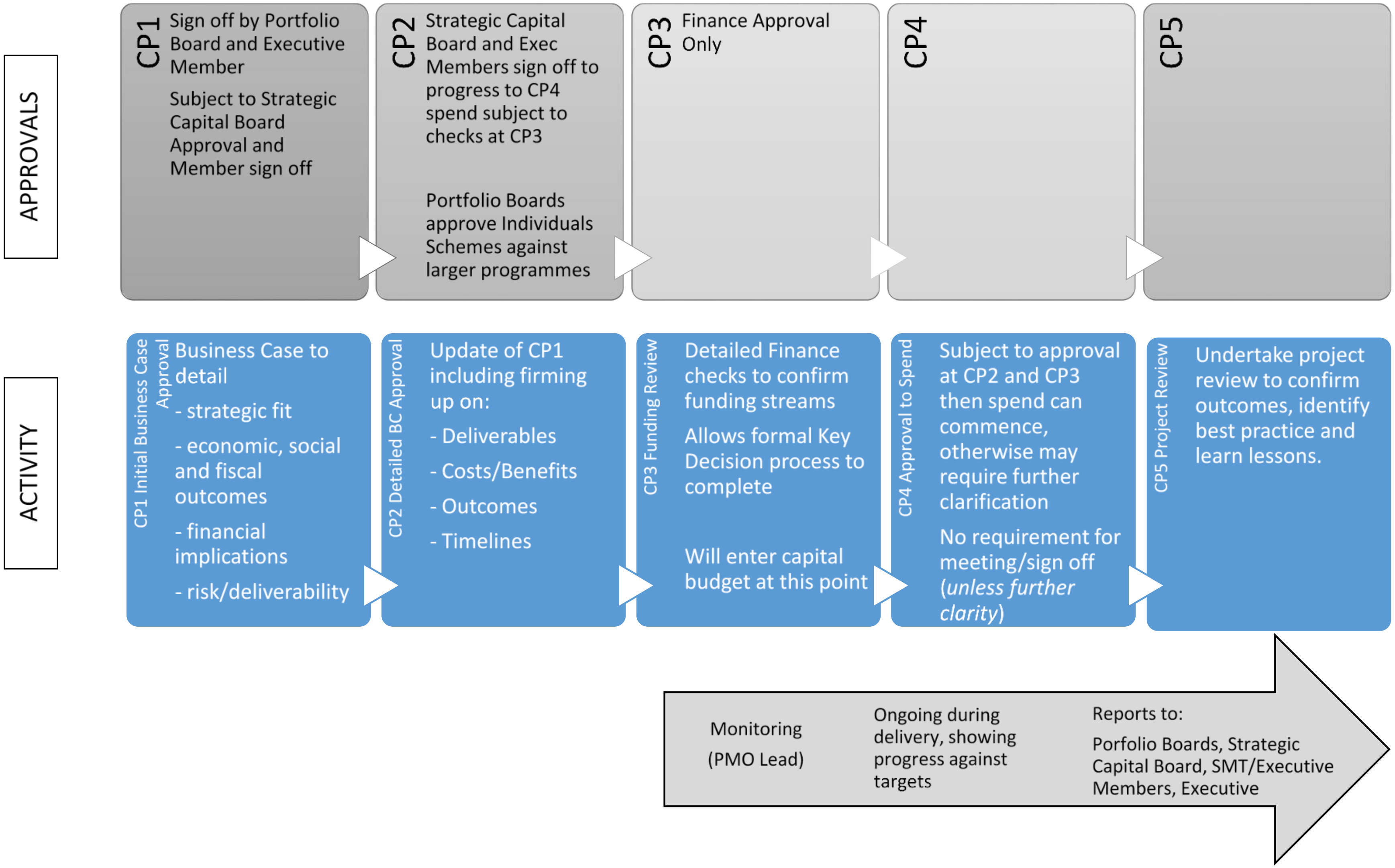
26.2 The capital programme is based on forecast costs and funding, and as such there are risks to achieving the programme from external factors such as shortage of labour or materials, alongside market risks such as price fluctuations and interest rate changes. The Strategic Capital Board, and associated 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

26.3 None in this report.

Capital Approval Process and Governance

Appendix 1



Appendix 2 – amendments to the capital budget introduced as part of this report

Adjustments to the Capital Budget February 2020 EXECUTIVE							
Dept	**Scheme**	**Funding**	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**	**Future £'000**	**Total £'000**
Council Approval Requests							
Public Sector Housing	Rushcroft and Pevensey Courts Ground Source Heat Pumps	HRA Reserves		2,518	137		2,655
Public Sector Housing	Northwards Housing Programme	HRA Reserves		- 2,518	- 137		- 2,655
Growth and Development	Hammerstone Road Depot	Borrowing			4,763	695	5,458
Growth and Development	Carbon Reduction Programme	Borrowing			- 926		- 926
Public Sector Housing	Buying Back Former Council Homes	Capital Receipts		500	500	500	1,500
Neighbourhoods	Central Library Refresh	Borrowing		194	763		957
Total Council Approval Requests			**0**	**694**	**5,100**	**1,195**	**6,989**
Executive Approval Requests							
Highway Services	Maintenance Challenge Fund	Government Grant	50	1,025			1,075
Highway Services	Deansgate Streets for All Development Costs	Borrowing	20	255			275
Highway Services	Highways Investment Programme	Borrowing	- 20	- 255			- 275
Highway Services	Auto Bollard Replacement and Improvement	Parking Resrve		608			608
Children's	Basic Need Unallocated	Government Grant			4,408		

Corporate Services	VCSE Small Premises Works	Capital Fund		500	500		
Total Executive Approval Requests			**50**	**2,133**	**4,908**	**0**	**7,091**
Total Budget Adjustment Approvals			**50**	**2,827**	**10,008**	**1,195**	**14,080**

Please note that the additional budgets for 2019/20 are not included in the Capital Monitoring report for quarter 3, as they are new approvals.

Appendix 3 – the proposed Capital Programme Budget

Project Name	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
Highway Programme					
Highways Planned Maintenance Programme					
Planned Highways Maintenance Programme	400	75	0	0	0
Drainage	3,575	2,051	1,871	0	0
Large Patching repairs	2,884	1,311	1,311	0	0
Carriageway Resurfacing	6,485	3,697	3,563	0	0
Footway schemes	892	4,050	3,857	0	0
Carriageway Preventative	6,096	6,325	3,054	0	0
Bridge Maintenance	370	3,782	3,048	0	0
Other Improvement works	122	6,595	7,186	0	0
Highways Major Projects					
Hyde Road (A57) Pinch Point Widening	1,535	3,579	0	0	0
Manchester/Salford Inner Relief Road (MSIRR)	7,783	100	0	0	0
Great Ancoats Improvement Scheme	2,121	6,074	105	0	0
Mancunian Way and Princess Parkway NPIF	4,178	4,111	87	0	0
School Crossings	3,017	2,653	0	0	0
Cycle City Phase 2	1,475	2,843	0	0	0
Green Bridge at Airport City	2,055	839	71	0	0
A6 Stockport Road Pinch Point Scheme	183	730	8	0	0
Highways Stand Alone Projects Programme					
Velocity	54	0	0	0	0
Safe Routes to Loreto High School	212	0	0	0	0
20mph Zones (Phase 3)	70	86	0	0	0
Flood Risk Management - Hidden Watercourses	0	49	0	0	0
Flood Risk Management - Higher Blackley Flood Risk	0	41	0	0	0
Cycle Parking	15	0	0	0	0

Project Name	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
Shadowmoss Rd / Mossnook Rd	12	0	0	0	0
Princess Rd Safety Review	47	439	0	0	0
Public Realm	1,056	1,974	400	0	0
Street Lighting PFI	9,000	3,657	0	0	0
Didsbury West S106	1	23	0	0	0
A56 Liverpool Road	83	0	0	0	0
A56 Chester Road	51	0	0	0	0
Sunbank Lane S278	40	0	0	0	0
Sharston Roundabout SCOOT	40	0	0	0	0
Derwent Avenue S106	6	8	0	0	0
Woodhouse Park	50	15	0	0	0
Christie Extension RPZ	40	306	9	0	0
Residents Parking schemes	133	545	0	0	0
Arena Security Measures	185	12	0	0	0
Ladybarn District Centre	223	20	0	0	0
Levenshulme Mini Holland Cycling and Walking scheme	151	606	0	0	0
CCTV Operating System Upgrade	150	283	0	0	0
Northern/Eastern GW Walking and Cycling scheme-devel costs	119	601	0	0	0
Chimebank S.106	34	0	0	0	0
Highways Maintenance Challenge Fund	50	1,025	0	0	0
SEMMMS PROGRAMME					
Local Roads (temp SEMMMS A6 Stockport)	255	0	0	0	0
SEMMMs A6 to Manchester Airport	50	0	0	0	0
Bus Priority Package Programme					
Bus Priority Package - Oxford Road	5	302	0	0	0
Bus Priority Package - Princess Street/Brook Street	140	13	0	0	0
Total Highways Programme	**55,443**	**58,820**	**24,570**	**0**	**0**

Project Name	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
Environment Programme					
Waste Reduction Measures	250	1,209	0	0	0
Waste Contract	2,089	3,840	0	0	0
Smart Litter Bins	258	0	0	0	0
Leisure Services Programme					
Parks Programme					
Hollyhedge Park Drainage IMPS	2	0	0	0	0
Heaton Park Pay & Display	8	0	0	0	0
PIP - Park Events Infrastructure	289	0	0	0	0
Parks Development Programme	413	3,136	2,965	2,965	2,965
Heaton Park Bowls	48	0	0	0	0
Somme 100 Year Memorial	33	0	0	0	0
Painswick Park Improvement	30	0	0	0	0
Heaton Park Southern Play Area	370	0	0	0	0
Wythenshawe Park Sport Facilities S106	139	0	0	0	0
Northenden Riverside Park	75	0	0	0	0
King George V Park	81	0	0	0	0
Leisure & Sports Facilities					
Indoor Leisure - Abraham Moss	1,408	5,962	13,168	902	0
Indoor Leisure - Moss Side	93	0	0	0	0
Boggart Hole Clough - Visitors Centre	0	535	0	0	0
Mount Road S106	32	0	0	0	0
Velodrome Track	71	0	0	0	0
HSBC UK NCC Immediate Works	450	0	0	0	0
Active Lifestyle Centre Artificial Grass Pitch Replacement	198	0	0	0	0
Interactive Football Wall - Platt Fields Park	84	0	0	0	0
MAC - Booth St Car Park	148	0	0	0	0

Project Name	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
Culture Website	42	0	0	0	0
Festive Lighting Strategy	138	0	0	0	0
Manchester Regional Arena Track Replacement	812	254	434	0	0
Cremator & Mercury Abatement Plant Replacement Strategy	0	1,007	544	0	0
Hough End Master Plan - Strat Football Hub Development Costs	52	189	0	0	0
Range Stadium Capital Project	465	0	0	0	0
Libraries and Info Services Programme					
Relocation of Manchester Visitor Info Centre (MVIC)	59	0	0	0	0
GM Archives Web Portal	48	80	0	0	0
Central Library Wolfson Award	32	0	0	0	0
Central Library Refresh	0	194	763	0	0
Roll Out of Central Library ICT	7	0	0	0	0
Newton Heath Library	17	0	0	0	0
Open Libraries	157	301	0	0	0
Contact Theatre loan	200	0	0	0	0
Total Neighbourhoods Programme	**8,598**	**16,707**	**17,874**	**3,867**	**2,965**
Cultural Programme					
First Street Cultural Facility	14	0	0	0	0
The Factory (Build)	29,860	53,959	13,277	0	0
The Factory (Public Realm)	210	1,723	457	0	0
Corporate Estates Programme					
Asset Management Programme	9,317	11,650	9,030	0	0
MAC feasibility works	933	0	0	0	0
Town Hall Complex Transformation Programme	67	0	0	0	0
Hammerstone Road Depot	163	9,333	9,524	695	0
Carbon Reduction Programme	697	6,388	1,959	0	0

Project Name	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
Estates Transformation	0	0	800	0	0
Estates Transformation - Hulme District Office	702	0	0	0	0
Estates Transformation - Alexandra House	5,639	5,994	133	0	0
Ross Place Refurbishment	434	0	0	0	0
Proud Trust - Sidney Street	250	0	0	0	0
Development Programme					
Digital Assets Board (MCDA)					
The Space Project - Phase 2	0	987	0	0	0
The Sharp Project	60	540	0	0	0
Digital Asset Base - One Central Park	3,651	0	0	0	0
Strategic Acquisitions Board					
Strategic Acquisitions Programme	5,860	3,000	1,323	0	0
Sustaining Key Initiatives	0	0	5,000	8,600	0
Northern Gateway					
Northern Gateway	6,175	6,675	7,275	4,875	0
Eastern Gateway					
Eastern Gateway - Central Retail Park	400	729	0	0	0
Eastern Gateway - New Islington Marina	3,522	61	0	0	0
Hall and Rogers	57	0	0	0	0
City Centre					
ST Peters Square	999	0	0	0	0
Medieval Quarter Public Realm	76	1,587	0	0	0
City Labs 2	2,023	0	0	0	0
Manchester College	5,000	5,000	0	0	0
Digital Business Incubators	2,000	0	0	0	0
Lincoln Square	0	0	1,200	0	0
Other Strategic Development Initiatives					
Hulme Hall Rd Lighting	36	0	0	0	0

Project Name	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
New Smithfield Market	0	469	0	0	0
Heron House & Registrars	3,085	1,388	0	0	0
Civic Quarter Heat Network	9,557	9,507	4,000	0	0
Total Growth & Development Programme	**90,787**	**118,990**	**53,978**	**14,170**	**0**
Town Hall Refurbishment Programme					
Our Town Hall refurbishment	17,051	49,132	92,739	99,321	34,652
Total Town Hall Refurbishment Programme	**17,051**	**49,132**	**92,739**	**99,321**	**34,652**
Private Sector Housing Programme					
Brunswick PFI					
Brunswick PFI Land Assembly	1,176	550	558	0	0
Collyhurst					
Collyhurst Regeneration	0	178	1,000	2,700	0
Collyhurst Environmentals	0	55	0	0	0
Collyhurst Land Assembly Ph1	4	29	0	0	0
Collyhurst Land Acquisitions Ph2	0	0	210	799	0
Eccleshall Street - 3 Sites	0	500	0	0	0
Housing Investment Model	0				
Site Investigation and Early Works HIF Pilot Sites	185	65	0	0	0
Miles Platting PFI					
Miles Platting PFI Land Assembly	6	550	0	0	0
Private Housing Assistance					
Disabled Facilities Grant	6,500	7,501	6,200	0	0
Toxteth St CPO & environmental works	15	141	0	0	0
Bell Crescent CPO	0	0	0	0	482

Project Name	**2019/20 Proposed Budget**	**2020/21 Proposed Budget**	**2021/22 Proposed Budget**	**2022/23 Proposed Budget**	**2023/24 Proposed Budget**
Redrow Development Programme					
Redrow Development Phase 2 onward	3	20	0	0	0
West Gorton					
West Gorton Compensation	0	4	0	0	0
West Gorton Ph 2A Demolition & Commercial Acquisitions	15	433	904	0	0
Private Sector Housing - Stand Alone Projects					
HCA Empty Homes Cluster Phase 2	386	415	891	0	0
Princess Rd	0	100	0	0	0
Empty Homes Scheme (s22 properties)	0	2,000	0	0	0
HMRF	100	40	54	0	0
Collyhurst Acquisition & Demolition (Overbrook & Needwood Close)	-3	0	664	0	0
Extra Care	0	1,245	1,200	0	0
Moston Lane Acquisitions	0	0	0	0	7,500
Equity Loans	0	397	0	0	0
West Gorton Community Park	1,026	805	0	0	0
Ben St. Regeneration	379	877	0	0	0
Marginal Viability Fund - New Victoria	505	6,705	3,290	0	0
Total Private Sector Housing Programme	**10,297**	**22,610**	**14,971**	**3,499**	**7,982**
Public Sector Housing					
Northwards - External Work					
Charlestown - Victoria Ave multistorey window replacement and ECW - Phase 1	3,740	8,209	3,574	0	0
External cyclical works phase 3a	2	0	0	0	0
Harpurhey Lathbury & 200 Estates external cyclical works ph 3b	0	-18	31	0	0
Environmental works	19	0	0	0	0

Project Name	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
Harpurhey Shiredale Estate externals	0	0	15	0	0
Moston Miners Low Rise externals	0	0	18	0	0
Newton Heath Limeston Drive externals	0	0	6	0	0
External cyclical works ph 3b Moston Estates (Chauncy/Edith Cliff/Kenyon/Thorveton Sq)	0	0	2	0	0
External cyclical works ph 3b Ancoats Smithfields estate	156	25	0	0	0
External cyclical works ph 4b Charlestown Chain Bar low rise	0	0	45	0	0
External cyclical works ph 4b Charlestown Chain Bar Hillingdon Drive maisonettes	0	0	15	0	0
External cyclical works ph 4b Cheetham Appleford estate	0	0	2	0	0
External cyclical works ph 4b Crumpsall Blackley Village	0	0	34	0	0
External cyclical works ph 4b Higher Blackley South	6	0	1	0	0
External cyclical works ph 4b Newton Heath Assheton estate	0	0	27	0	0
External cyclical works Ph 4b Newton Heath Troydale Estate	0	0	89	0	0
External cyclical works Ph 5 New Moston (excl corrolites)	0	0	9	0	0
Environmental improvements Moston corrolites	75	21	0	0	0
ENW distribution network phase 4 (various)	222	5	0	0	0
Dam Head - Walk up flates communal door renewal	140	0	0	0	0
Various Estate based environmental works	65	100	135	0	0
Delivery Costs	816	918	440	0	0
Northwards - Internal Work					
Decent Homes mop ups ph 9 and decent homes work required to voids	1	0	89	0	0
One offs such as rewires, boilers, doors, insulation	3	0	30	0	0
Ancoats - Victoria Square lift replacement	427	0	0	0	0
Aldbourne Court/George Halstead Court/Duncan Edwards Court works	12	0	0	0	0
Boiler replacement programme	-5	-6	0	0	0

Project Name	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
Harpurhey - Monsall Multis Internal Works	1,500	1,062	200	0	0
Newton Heath - Multies Internal Works	200	3,153	250	0	0
Higher Blackley - Liverton Court Internal Works	800	45	0	0	0
Various - Bradford/Clifford Lamb/Kingsbridge/Sandyhill Court Internal Works	2,598	132	0	0	0
Charlestown - Rushcroft/Pevensey Court Internal Works	700	711	150	0	0
Collyhurst - Mossbrook/Roach/Vauxhall/Humphries Court Internal Works	2,348	343	106	0	0
Decent Homes mop ups phase 10 and voids	378	384	0	0	0
One off work - rewires, boilers, doors	158	0	0	0	0
Fire precautions multi storey blocks	0	150	0	0	0
Installations of sprinkler systems - multi storey blocks	218	0	273	0	0
ERDF Heat Pumps	0	3,768	350	0	0
Charlestown - Rushcroft/Pevensey Courts Lift Refurb	0	0	525	0	0
One off type work (rewires/boilers/doors)	100	300	0	0	0
Fire Risk Assessments	300	3,046	2,500	0	0
Northwards - Harpurhey 200 Estate Internal Works	250	686	0	0	0
Rushcroft and Pevensey Courts Ground Source Heat Pumps	0	2,518	137	0	0
Delivery Costs	1,814	1,440	492	0	0
Northwards - Off Debits/Conversions					
Bringing Studio Apartments back in use	7	0	10	0	0
Various Locations - bringing bedsits back into use	0	0	104	0	0
Delivery Costs	2	0	13	0	0
Homeless Accommodation					
Improvements to Homeless accommodation city wide	1	0	36	0	0
Plymouth Grove Women's Direct Access Centre	0	0	28	0	0
Improvements to Homeless Accommodation Phase 2	345	662	147	0	0
Delivery Costs	46	73	23	0	0

Project Name	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
Northwards - Adaptations					
Public Sector Northwards Adaptations	200	0	0	0	0
Adaptations	750	770	0	0	0
Northwards - Unallocated					
Northwards Housing Programme	0	2,120	0	21,982	0
Retained Housing Programme					
Collyhurst Maisonette Compensation & Demolitions	0	89	0	935	0
West Gorton Regeneration Programme					
West Gorton PH2A Low & High Rise Demolition	10	16	0	0	0
Future Years Housing Programme					
Collyhurst Estate Regeneration	0	0	0	1,541	0
Buy Back Properties - Right to Buy	155	0	0	0	0
Collyhurst Regen - Highways Phase 1	0	190	97	1,394	0
Collyhurst Regen - Churnett Street	0	0	0	790	0
Collyhurst Regen - Needwood & Overbrook acquisition / demolition	0	125	0	0	0
Willert Street Park Improvements	0	10	0	0	0
North Manchester New Builds	227	319	0	0	0
North Manchester New Builds 2	442	2,850	0	0	0
North Manchester New Builds 3	294	351	0	0	0
Parkhill Land Assembly	0	0	4,270	0	0
Collyhurst	100	3,655	13,890	955	0
Buying Back Former Council Homes	0	500	500	500	0
Total Public Sector Housing (HRA) Programme	**19,622**	**38,722**	**28,663**	**28,097**	**0**
Children's Services Programme					
Basic Need Programme					
Holy Trinity VC Primary	47	0	0	0	0

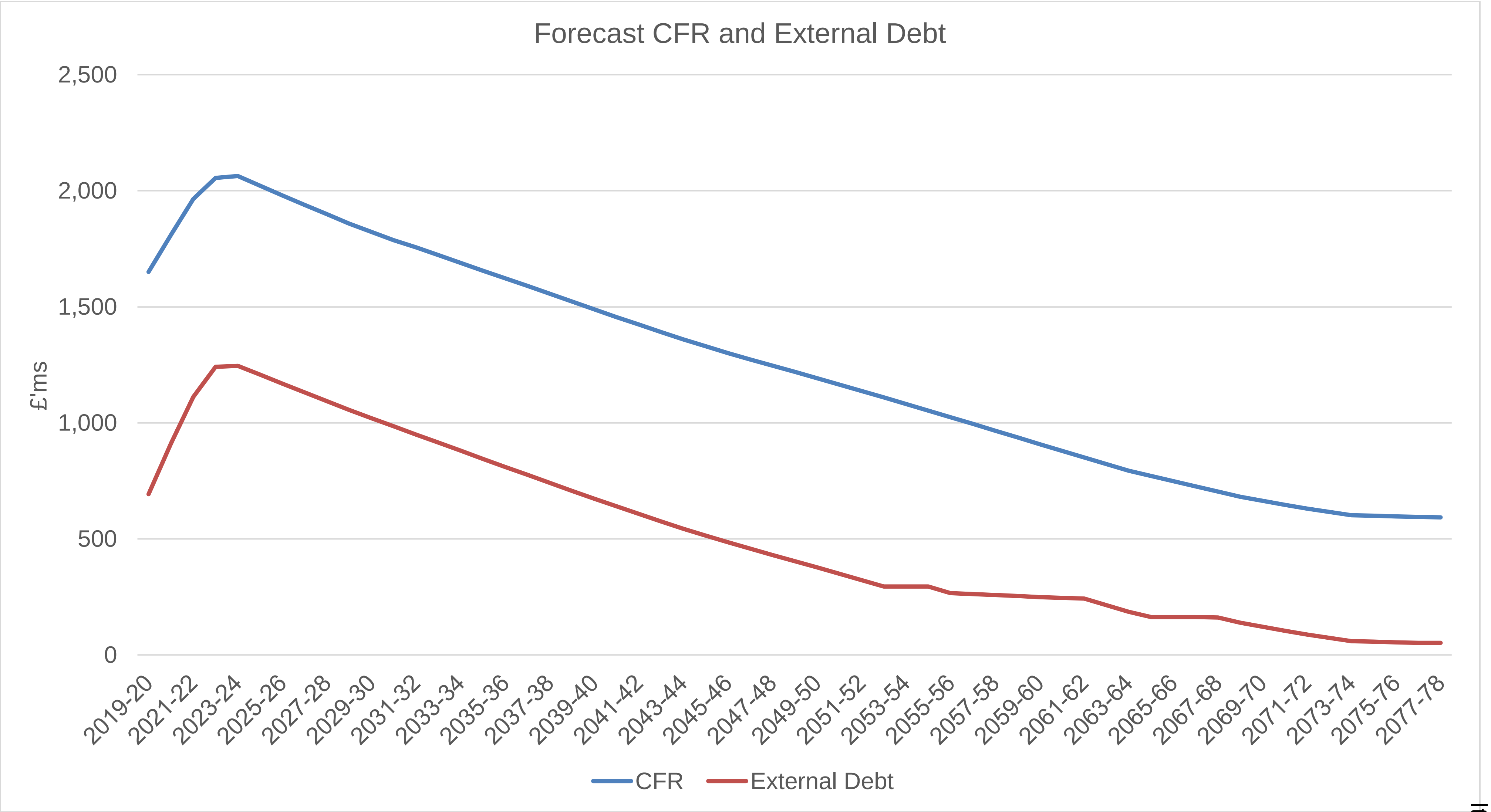
Project Name	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
Lytham Rd	100	0	0	0	0
Plymouth Grove Refurbishment	107	0	0	0	0
Beaver Rd Primary Expansion	94	0	0	0	0
Lily Lane Primary	54	0	0	0	0
St. James Primary Academy	8	0	0	0	0
Crossacres Primary School	30	0	0	0	0
Ringway Primary School	5	0	0	0	0
Webster Primary Schools	11	0	0	0	0
Dean Trust Expansion	1,000	2,784	0	0	0
Brookside Rd Moston	362	4,920	1,745	28	0
North Hulme Adv Playground	278	3,400	683	11	0
Monsall Road (Burgess)	290	3,717	979	20	0
Roundwood Road	330	5,525	1,127	34	0
KS3/4 PRU Pioneer Street	70	0	0	0	0
SEND Expansions - Melland & Ashgate	866	0	0	0	0
Basic need - unallocated funds	200	488	22,115	43,286	0
Universal Infant Free School Meals (UIFSM) - Allocated	266	0	0	0	0
Universal Infant Free School Meals (UIFSM) - Unallocated	75	0	0	0	0
Schools Maintenance Programme					
Moston Lane - re-roof	19	0	0	0	0
Abbott Primary School Fencing	11	0	0	0	0
Crowcroft Park PS-Rewire	-2	0	0	0	0
Broad Oak Primary School Kitchen	85	730	0	0	0
All Saints Primary Rewire	419	0	0	0	0
Armitage Primary Windows	101	0	0	0	0
Bowker Vale Primary Heating	267	0	0	0	0
Buton Lane Primary Roof	183	0	0	0	0
Cheetwood Primary Heating	142	0	0	0	0

Project Name	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
Crosslee Comm Heating	81	0	0	0	0
Crowcroft Park Roof Repairs	120	0	0	0	0
Grange School Sports Hall	163	0	0	0	0
Higher Openshaw Rewire	773	0	0	0	0
Lily Lane Primary Windows	7	46	0	0	0
Moston Fields Joinery	184	0	0	0	0
Ringway Primary Roof	175	0	0	0	0
Sandilands Primary Windows	106	0	0	0	0
St Mary's Junior Windows	34	0	0	0	0
Ringway Primary School	10	0	0	0	0
Alma Park Gas Improvement	1	0	0	0	0
Schools Capital Maintenance - unallocated	1,644	2,854	3,000	0	0
Education Standalone Projects					
Paintpots	3	6	0	0	0
Early Education for Two Year Olds - Unallocated	0	52	0	0	0
Gorton Youth Zone	1,275	0	0	0	0
Healthy Pupil Capital Funding	257	0	0	0	0
North Ridge SEN	283	2,747	9	0	0
Special Educational Needs grant	0	1,160	0	0	0
Seymour Road	1,200	0	0	0	0
Commercial Wharf/ISS Refurbishment of YJS Building	294	0	0	0	0
Ghyll Head	25	1,091	0	0	0
Acquisition of land at Hyde Road	13,144	13	12	0	0
Total Children's Services Programme	**25,197**	**29,533**	**29,670**	**43,379**	**0**
ICT Capital Programme					
ICT					

Project Name	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
Solaris	2	0	0	0	0
ICT Infrastructure & Mobile Working Programme					
New Social Care System	1,699	0	0	0	0
End User Computing	117	0	0	0	0
Core Infrastructure Refresh	83	0	0	0	0
Internet Resilience	23	27	0	0	0
New Rent Collection System	33	0	0	0	0
Communications Room Replacement Phase 2	61	1,795	3,996	514	0
Data Centre Network Design and Implementation	2,867	250	0	0	0
End User Experience	699	3,425	0	0	0
Replacement Coroners System	83	0	0	0	0
Telephony	0	200	200	0	0
ICT Investment Plan	0	0	6,728	8,900	7,690
Infrastructure					
Wider Area Network Redesign	22	0	0	0	0
Total ICT Programme	**5,689**	**5,697**	**10,924**	**9,414**	**7,690**
Corporate Capital Programme					
ONE System Developments	11	0	0	0	0
Pay and Display Machines	750	174	0	0	0
Phase 1 Implementation - Locality Plan Programme Office	485	100	0	0	0
Integrated Working - Gorton Health Hub	1,970	17,171	2,272	481	0
Alcohol Treatment for Fibroscan Machine	40	0	0	0	0
BioMedical Investment	7,958	6,100	2,700	0	0
Band on the Wall	200	0	0	0	0
Manchester Jewish Museum Loan	0	290	0	0	0
Manchester Airport Car Park Investment	3,700	1,900	0	0	0

Project Name	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
FC United	250	0	0	0	0
VCSE Small premises works	0	500	500	0	0
Total Corporate Capital Programme	**15,364**	**26,235**	**5,472**	**481**	**0**
Inflation Fund	0	12,000	10,000	6,000	2,000
Total Manchester City Council Capital Programme	**248,048**	**378,446**	**288,861**	**208,228**	**55,289**
Projects carried out on behalf of Greater Manchester					
Housing Investment Fund	70,000	0	0	0	0
Total GM projects	**70,000**	**0**	**0**	**0**	**0**
Total CAPITAL PROGRAMME	**318,048**	**378,446**	**288,861**	**208,228**	**55,289**

Appendix 4 – Capital Financing Requirement and Forecast External Debt



Manchester City Council
Report for Resolution

Report to: Executive – 12 February 2020
Resources and Governance Scrutiny – 24 February 2020
Council – 6 March 2020

Subject: Treasury Management Strategy Statement 2020/21, including Borrowing Limits and Annual Investment Strategy

Report of: Deputy Chief Executive and City Treasurer

Summary

To set out the proposed Treasury Management Strategy Statement and Borrowing Limits for 2020/21 and Prudential Indicators for 2020/21 to 2022/23.

Recommendations

The Executive is requested to:

1. Recommend the report to Council.

2. Delegate authority to the Deputy Chief Executive and City Treasurer, in consultation with the Executive Member for Finance and Human Resources, 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. Recommend the report to Council.

The Council is requested to:

1. Approve the proposed Treasury Management Strategy Statement, in particular the:

   - Borrowing Requirement listed in Section 7 of this report;
   - Borrowing Strategy outlined in Section 10;
   - Annual Investment Strategy detailed in Section 11;
   - Prudential and Treasury Indicators listed in Appendix A;
   - MRP Strategy outlined in Appendix B;
   - Treasury Management Policy Statement at Appendix C; and
   - Treasury Management Scheme of Delegation at Appendix D

2. Delegate to the Deputy Chief Executive and City Treasurer, in consultation with the Executive Member for Finance and 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

Environmental Impact Assessment - the impact of the decisions proposed in this report on achieving the zero-carbon target for the city
Treasury Management activity underpins the Council's finances, and therefore supports projects and initiatives which seek to achieve the Council's zero carbon target.

Our Manchester Strategy outcomes	**Contribution to the strategy**
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The Treasury Management function supports the whole Council by seeking to ensure that funding is available when required, to fund all of the work that the Council undertakes. Therefore, whilst not directly contributing to the strategic aims, the Council's treasury management activity underpins the work taking place elsewhere to achieve the outcomes.
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 capital financing budget forms a key part of the Council's revenue budget. The activity forecast in this report is affordable within the existing and future capital financing budget, including use of the capital financing reserve.

Financial Consequences – Capital

None – the Council's treasury management activity is by definition not capital expenditure.

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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 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 details 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.

Treasury Management Strategy for 2020/21

1.6 The suggested strategy for 2020/21 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: CIPFA Definition of Treasury Management
Section 3: Statutory and other Requirements
Section 4: Treasury Limits and Prudential Indicators for 2020/21 to 2022/23
Section 5: Impact of 2012 HRA reform
Section 6: Current Portfolio Position
Section 7: Prospects for Interest Rates
Section 8: Borrowing Requirement
Section 9: Borrowing Strategy

2 CIPFA Definition of Treasury Management

2.1 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.'

3 Statutory and other requirements

Statutory requirements

3.1 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.

3.2 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 11 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.

3.3 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 also issued Public Services Guidance Notes in 2018 to support the changes made to the Codes.

CIPFA requirements

3.4 The CIPFA Code of Practice on Treasury Management has been adopted by the Council. This strategy has been prepared in accordance with the revised December 2017 Code.

3.5 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.

3.6 The Council's adherence to the Prudential Code is monitored through the series of Prudential Indicators defined by CIPFA. 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.

Balanced Budget Requirement

3.7 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 capital expenditure; and

- 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.

4 Prudential and Treasury Indicators for 2020/21 to 2022/23

4.1 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.

4.2 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.

4.3 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.

4.4 The full set of Treasury limits and Prudential Indicators recommended by the Code and used by the Council, together with their suggested levels for 2020/21 is noted in Appendix A of this report.

4.5 It should be noted that the Prudential and Treasury 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.

5 The Housing Revenue Account – Impact of 2012 HRA Reform

5.1 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.

5.2 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.

5.3 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.

5.4 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.

6 Current Portfolio Position

6.1 The forecast portfolio position for the end of the current financial year is shown below. Short term borrowing from the Greater Manchester Combined Authority (GMCA) relates to investments made by the City Council for the Housing Investment Fund which have not been novated across to the Combined Authority, and instead the GMCA is providing cash flow support to ensure that this ongoing arrangements remains cash neutral for the Council. Some of this debt relates to investments which have novated, and this will be cancelled rather than repaid – the accounting treatment for this is being discussed with external auditors, and the debt position unwound accordingly.

6.2 The Council's forecast treasury portfolio position at 31 March 2020 is:

Table 1	**Principal**			**Av Rate**
	GF £'m	HRA £'m	**Total £'m**	%
Long Term Borrowing				
PWLB	150.0	0.0	**150.0**	2.45
Market	336.8	61.9	**398.7**	4.48
Stock	0.9	0.0	**0.9**	4.00
SALIX	17.2	0.0	**17.2**	0.00
HCA	8.4	0.0	**8.4**	0.00
	513.3	61.9	**575.2**	
Short Term Borrowing				
GMCA – related to HIF	150.1	0.0	**150.1**	0.00
Other	4.5	0.0	**4.5**	1.15
	154.6	0.0	**154.6**	
Gross Debt	**667.9**	**61.9**	**729.8**	2.96
External Investments	(12.0)	0.0	**(12.0)**	0.70
Internal Balances (GF/HRA)	34.5	(34.5)	**0**	0.00
Net Debt	**690.4**	**27.4**	**717.8**	
Capital Financing Requirement			1,670.6	
Gross Debt			729.8	
Internal Borrowing			**940.8**	

6.3 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 provides a figure for the capital expenditure incurred by the Council but not yet provided for.

6.4 The Capital Financing Requirement of the City Council as at 31 March 2020 is forecast to be c. £1,670.6m. The difference between this and the actual gross debt of the Council is c. £940.8m which is the amount of funding that the Council has internally borrowed, or has been funded through credit arrangements. This is a reflection of the Council's ongoing treasury strategy of using internal cash to reduce the amount of borrowing required rather than holding this cash as investments.

6.5 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.

6.6 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.

6.7 The portfolio at 31 March 2020 includes Council Stock with a value of £0.9m. 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.

7 Prospects for Interest Rates

7.1 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 for interest rates at financial year ends (March):

- 2020: 0.75%
- 2021: 1.25%
- 2022: 1.50%

7.2 There is no certainty to these forecasts. A detailed view of the current economic background prepared by Link Asset Services is at Appendix F to this report.

7.3 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.

7.4 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.

8 Borrowing Requirement

8.1 The potential long-term borrowing requirements over the next three years are:

Table 2	**2020/21 £'m estimate**	**2021/22 £'m estimate**	**2022/23 £'m estimate**
Planned Capital Expenditure funded by Borrowing	200.4	197.8	133.3
Change in Grants & Contributions	21.9	26.0	43.4
Change in Capital Receipts	(0.2)	(4.3)	(8.5)
Change in Reserves	27.5	27.7	14.8
MRP Provision	(26.6)	(30.9)	(33.3)
Refinancing of maturing debt (GF)	3.0	6.8	7.5
Refinancing of maturing debt (HRA)	0.0	0.5	0.8
Estimated Borrowing Requirement	**226.0**	**223.6**	**158.0**
Funded by:			
GF	226.0	223.1	157.2
HRA	0.0	0.5	0.8

9 Borrowing Strategy

General Fund

9.1 Following the HRA debt settlement in 2012 the Council's debt position is one of significant internal borrowing meaning cash backed reserves and provisions are being used in lieu of external debt. The external debt held is predominantly long term in nature.

9.2 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 suggests that the Council will need to undertake external borrowing in the future and will not be able on to rely on internal borrowing alone. Where possible, internal borrowing will remain the first option due to the interest savings generated.

9.3 To this aim, the Council's borrowing strategy will 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.

9.4 Beyond the forecast period for capital investment and matching to the same principles as above, a prudent strategy is to seek to borrow in the medium term with maturities to match the estimated MRP that is generated in the same 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.

9.5 The overall strategy is therefore for the Council to continue to use 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 2020/21 and beyond does not contain any requirement for the HRA to borrow. It is expected that proposals will be brought forward that require funding via borrowing so it is likely the HRA will have a borrowing requirement in 2020/21. 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.

- **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 October 2019 the Treasury increased all PWLB rates by 100 basis points, citing concerns regarding the increased levels of debt local authorities were requesting in the current low-rate market environment. This means that although PWLB remains a highly accessible form of debt finance, it may not provide value for money and other market options may be preferable.

The Link forecast for the PWLB Certainty Rate is as follows:

Table 3	**Mar 20**	**Jun 20**	**Sep 20**	**Dec 20**	**Mar 21**	**Mar 22**	**Mar 23**
	%						
Bank Rate	0.75	0.75	0.75	0.75	1.00	1.00	1.25
5 yr PWLB rate	2.40	2.40	2.50	2.50	2.60	2.90	3.20
10 yr PWLB rate	2.70	2.70	2.70	2.80	2.90	3.20	3.50
25 yr PWLB rate	3.30	3.40	3.40	3.50	3.60	3.90	4.10
50 yr PWLB rate	3.20	3.30	3.30	3.40	3.50	3.80	4.00

A more detailed Link forecast is included in Appendix G to this report.

- **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.

- **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.

- **Homes and Communities Agency funding**

This is funding from Government and can only be used in specific circumstances. It 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 City Council is currently the accountable body for these funds, but decisions on how the funding should be used are made by the Greater Manchester Combined Authority. It is anticipated that the existing debt of this type held by the City Council, shown in the forecast portfolio earlier in this report, will be novated to the Combined Authority in 2020.

- **Inter-Local Authority advances**

Both short and medium term loans are often available in the inter Local Authority market.

- **Market Loans**

Following the increase in PWLB rates noted above, there has been a considerable increase in market activity relating to local authority debt. At the time of writing the report, the market is still developing and may take a couple of months to form and for debt pricing and structure to become clear.

It is anticipated that there will be a range of structures available, including forward starting loans.

- **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.

Sensitivity of the forecast

9.13 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

9.14 The current borrowing position reflects the historic strong Balance Sheet of the Council as highlighted in Section 6. The policy remains to keep cash as low as possible and minimise temporary investments.

9.15 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.

9.16 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.

9.17 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.

9.18 Against this background caution will be adopted within 2020/21 treasury operations. The Deputy Chief Executive and 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

9.19 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.

9.20 This Council will not borrow in advance of need to on lend and profit from the difference in interest rate. 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

9.21 As noted above, 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; however, 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

9.22 It is likely that opportunities to reschedule debt in the 2020/21 financial year will be limited due to prevailing debt interest rates being relatively low.

9.23 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.

9.24 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.

9.25 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)

9.26 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 Deputy Chief Executive and City Treasurer the authority to pursue any restructuring, rescheduling or redemption opportunities available.

9.27 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.

9.28 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 Deputy Chief Executive and City Treasurer will be asked to approve them in accordance with the delegated powers accorded to the position and the changes will be reported to Members.

10 Annual Investment Strategy

HRA

10.1 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.

General Fund

Introduction

10.2 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.

10.3 The risk appetite of the Council is low in order to give priority to the security of its investments. The Council will aim to achieve the optimum return on its investments commensurate with desired levels of security and liquidity.

10.4 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.

10.5 The Council's TMSS focusses solely on treasury management 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.

Investment Policy

10.6 The Council's investment policy is to manage the Council's cash flow through investments in high credit quality.

10.7 As in previous years, 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.

10.8 Investment in banks and building societies are now exposed to bail-in risk following the introduction of the EU's Banking Recovery and Resolution Directive, which means depositor's funds over £85,000 are at risk of "bail-in" if the bank fails. In response to this, the Council adopted lower operational limits for such investments in 2016/17 and these remain.

10.9 The exception is 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 2019/20 will be maintained in 2020/21.

10.10 In line with the policy adopted in this strategy in previous years, options to diversify the investment portfolio have been reviewed and adopted. The

[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.

Council now actively uses money market funds alongside deposits with banks, other local authorities and the Debt Management Agency.

10.11 For 2020/21 the Council will continue to consider investing 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 more detail below. These instruments 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, and to identify and resolve any governance challenges arising from investing in instruments which have an active secondary market. Work is continuing to open further access points to markets and to identify opportunities for benefit which are new to the Council.

10.12 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.

Specified and Non-Specified Investments

10.13 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.

10.14 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[2]	See Creditworthiness Policy.	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

[2] 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 10.21-10.22. If this limit is breached, for example due to significant late receipts, the Deputy Chief Executive and 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.

Table 4	Minimum 'High' Credit Criteria	Use
Treasury Bills	UK Government backed	In-house
Covered Bonds	AAA	In-house

Creditworthiness Policy

10.15 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

10.16 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.

10.17 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 prominence to just one agency's ratings.

10.18 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[3] 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.

10.19 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

[3] 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 Link Asset Services' Credit List.

government support for banks and the credit ratings of that government support.

Investment Limits

10.20 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.

10.21 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

10.22 In seeking to diversify the 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	£75 million
Certificates of Deposit	£25 million
Covered Bonds	£25 million

10.23 It is proposed that the limit for Money Market Funds increases by £15m, when compared to last year's Strategy. This reflects the role the funds have been playing in the Council's investment portfolio, and would allow the Council to have 5 active funds as opposed to 4. There is a risk to taking this approach, in that it potentially increases the investments in one type of instrument at any given time, but the nature of Money Market Funds and the diversification of instruments within the Fund helps to mitigate this.

10.24 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 Deputy Chief Executive and City Treasurer and any increase in the limits will be reported to Members through the normal treasury management reporting process.

Durational Limits

10.25 Operationally the Council has in recent years not invested cash for more than three months, which was a product of security concerns following the financial crisis of 2008/09 and the relatively volatile nature of the Council's cash flow.

10.26 The financial markets have changed significantly since 2008/09, and the transparency of creditworthiness has improved. It is therefore proposed that the Council formally states, as part of the Investment Strategy, that it will invest for up to 364 days provided that such investments form part of the management of the cash flow and not for increased yield. On this basis, such investments will only be made if the cash flow forecast at the time indicates a level of "core" cash which will not be required for the investment period.

Money Market Funds

10.27 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.

10.28 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.

10.29 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 or European based.

10.30 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 Constant Net Asset Value 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.

Treasury Bills

10.31 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.

10.32 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.

10.33 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

10.34 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

10.35 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

10.36 Based on cash flow forecasts, the level of cash balances in 2020/21 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

10.37 Link's view of forecast Bank Rate is noted at Section 9. The current economic outlook is that the structure of market interest rates and government debt yields have several key treasury management implications.

10.38 On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years. Link's view is that Bank Rate will rise to 1.00% by March 2021.

10.39 This suggest that investment returns are likely to remain relatively low during 2020/21, and beyond given the global economic outlook.

10.40 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.

10.41 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.

10.42 For 2020/21 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

10.43 At the end of the financial year, the Council will receive a report on investment activity as part of the Annual Treasury Management Report.

Policy on the use of External Service Providers

10.44 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.

10.45 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 Deputy Chief Executive and 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.

15 Contributing to a Zero-Carbon City

15.1 Treasury Management activity underpins the Council's finances, and therefore supports projects and initiatives which seek to achieve the Council's zero carbon target.

16 Contributing to the Our Manchester Strategy

16.1 The Treasury Management function supports the whole Council by seeking to ensure that funding is available when required, to fund all of the work that the Council undertakes. Therefore, whilst not directly contributing to the strategic aims, the Council's treasury management activity underpins the work taking place elsewhere to achieve the outcomes.

17 Key Policies and Considerations

(a) Equal Opportunities

17.1 None.

(b) Risk Management

17.2 CIPFA's Prudential and Treasury Management Codes provide the risk management framework within which the treasury management activities of the Council operate. The Strategy should be seen as the Council's approach to this framework.

(c) Legal Considerations

17.3 None.

Appendix A

Prudential and Treasury Indicators for approval

Please note last years approved figures are shown in brackets.

Treasury Management Indicators	2020-21 %		2021-22 %		2022-23 %
Estimated Financing Costs to Net Revenue Stream[4]	6.7%		7.3%		7.4%
Authorised Limit - external debt	£m		£m		£m
Borrowing	1,384.5	(1,684.5)	1,396.2	(1,412.9)	1,396.2
Other long term liabilities	190.0	(170.0)	190.0	(170.0)	190.0
TOTAL	1,574.5	(1,900.5)	1,586.2	(1,582.9)	1,586.2
Operational Boundary - external debt					
Borrowing	1,006.2	(1,151.7)	1,176.9	(1,275.0)	1,295.5
Other long term liabilities	190.0	(170)	190.0	(170.0)	190.0
TOTAL	1,196.2	(1,321.7)	1,366.9	(1,445.0)	1,485.5
Estimated external debt	792.8	(977.4)	1,016.4	(1,141.5)	1,174.3
Upper limit for total principal sums invested for over 364 days	0	(0)	0	(0)	0
Estimated Capital Expenditure					
Non - HRA	339.6	(370.3)	260.2	(207.4)	180.2
HRA	38.8	(48.7)	28.6	(36.6)	28.1
TOTAL	378.4	(419.0)	288.8	(244.0)	208.3
Estimated Capital Financing Requirement (as at 31 March)					
Non – HRA	1,543.1	(1,477.1)	1,706.5	(1,611.1)	1,802.5
HRA	299.2	(299.2)	300.0	(300.0)	301.0
TOTAL	1,842.3	(1,776.3)	2,006.5	(1,911.1)	2103.5

Maturity structure of borrowing during 2020-21	Upper Limit		Lower limit	
under 12 months	80%	(80%)	0%	(0%)
12 months and within 24 months	70%	(70%)	0%	(0%)
24 months and within 5 years	60%	(50%)	0%	(0%)
5 years and within 10 years	50%	(50%)	0%	(0%)
10 years and above	80%	(80%)	40%	(40%)
Has the Authority adopted the CIPFA Treasury Management Code?				Yes

[4] Note that for 2021-22 onward these are based on estimated net revenue budgets.

The status of the indicators will be included in Treasury Management reporting during 2020/21. They will also be included in the Council's Capital Budget monitoring reports during 2020/21.

Definitions and Purpose of the Treasury Management Indicators noted above (Indicators are as recommended by the CIPFA Prudential Code last revised in 2017)

Estimated Financing Costs to Net Revenue Stream

The authority will set for the forthcoming year and the following financial years an estimate of financing costs to net revenue stream. The indicator recognises that ultimately all debts of a local authority fall on the taxpayer, and that therefore when considering affordability it is important to review the scale of financing costs to net revenue.

Estimated Capital Expenditure

The authority sets a capital budget for each financial year, which includes an estimate of the capital expenditure which might be incurred. The figures here also include changes to other long term liabilities.

Estimates Capital Financing Requirement

The capital financing requirement reflects the authority's underlying need to finance capital expenditure, and is based on all capital expenditure including that incurred in previous years.

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. Other long term liabilities include PFI's, service concessions and finance leases. Due to the introduction of IFRS16 (Leasing) on the 1st of April 2020, more of the Council's lessee leases will be classed as finance leases and will therefore fall under the categorisation, therefore the value has increased from previous years. Work is underway to determine the value of this change in accounting standards, but £20.0m has been added to the indicator at this stage, and will be reviewed once this work is complete. 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.

Estimated 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 Estimated 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 external 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.

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 2020/21 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, and with the introduction of IFRS16 (Leasing) from the 1st of April 2020 more lessee leases will be classified in a similar way. 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 from a third party of high credit quality, 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.

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.

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 **Deputy Chief Executive and City Treasurer**

- delivery of the function

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 December 2019 – Link Asset Services

UK. Brexit. 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January. Now that the Conservative Government has gained a large overall majority in the **general election** on 12 December, this outline deal will be passed by Parliament by that date. However, there will still be much uncertainty as the detail of a trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open two possibilities; one, the need for an extension of negotiations, probably two years, or, a no deal Brexit in December 2020.

GDP growth has taken a hit from Brexit uncertainty during 2019; quarter three 2019 surprised on the upside by coming in at +0.4% q/q, +1.1% y/y. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The economy is likely to tread water in 2020, with tepid growth around about 1% until there is more certainty after the trade deal deadline is passed.

While the Bank of England went through the routine of producing another **quarterly Inflation Report,** (now renamed the Monetary Policy Report), on 7 November, it is very questionable how much all the writing and numbers were worth when faced with the uncertainties of where the UK will be after the general election. The Bank made a change in their Brexit assumptions to now include a deal being eventually passed. Possibly the biggest message that was worth taking note of from the Monetary Policy Report, was an increase in concerns among MPC members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%. The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. The Bank revised its inflation forecasts down – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence, the MPC views inflation as causing little concern in the near future.

The **MPC meeting of 19 December** repeated the previous month's vote of 7-2 to keep Bank Rate on hold. Their key view was that there was currently 'no evidence about the extent to which policy uncertainties among companies and households had declined' i.e. they were going to sit on their hands and see how the economy goes in the next few months. The two members who voted for a cut were concerned that the labour market was faltering. On the other hand, there was a clear warning in the minutes that the MPC were concerned that "domestic unit labour costs have continued to grow at rates above those consistent with meeting the inflation target in the medium term".

If economic growth were to weaken considerably, the MPC has relatively little room to make a big impact with Bank Rate still only at 0.75%. It would therefore, probably suggest that it would be up to the Chancellor to provide help to support growth by way of a **fiscal boost** by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction and it made significant promises in its election manifesto to increase government spending by up to £20bn p.a., (this would add about 1% to GDP growth rates), by investing primarily in infrastructure. This is likely to be announced in the next Budget, probably in February 2020. The Chancellor has also amended the fiscal rules in November to allow for an increase in government expenditure.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5%. It is likely to remain close to or under 2% over the next two years and so, it does not pose any immediate concern to the MPC at the current time. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market,** growth in numbers employed has been quite resilient through 2019 until the three months to September where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000, which showed that the labour market was not about to head into a major downturn. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure in October. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.5% in October (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.0%. As the UK economy is very much services sector driven, an 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. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. **Growth** in 2019 has been falling after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2 and then 2.1% in quarter 3. The economy looks likely to have maintained a growth rate similar to quarter 3 into quarter 4; fears of a recession have largely dissipated. The strong growth in employment numbers during 2018 has weakened during 2019, indicating that the economy had been cooling, while inflationary pressures were also weakening. However, CPI inflation rose from 1.8% to 2.1% in November, a one year high, but this was singularly caused by a rise in gasoline prices.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018.

In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%. At its September meeting it also said it was going to **start buying Treasuries again**, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy $60bn, whereas it had been reducing its balance sheet by $50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long term debt). The Fed left rates unchanged in December. However, the accompanying statement was more optimistic about the future course of the economy so this would indicate that further cuts are unlikely.

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This **trade war** is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.

However, in November / December, progress has been made on agreeing a phase one deal between the US and China to roll back some of the tariffs; this gives some hope of resolving this dispute.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1, +0.2% q/q (+1.2% y/y) in quarter 2 and then +0.2% q/q, +1.1% in quarter 3; there appears to be little upside potential in the near future. German GDP growth has been struggling to stay in positive territory in 2019 and fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of Targeted Long Term Refinancing Operations**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although they will have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt for an unlimited period.** At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments would need to help stimulate growth by 'growth friendly' fiscal policy.

There were no policy changes in the December meeting, which was chaired for the first time by the new President of the ECB, Christine Lagarde. However, the outlook continued to be down beat about the economy; this makes it likely there will be further monetary policy stimulus to come in 2020. She did also announce a thorough review of how the ECB conducts monetary policy, including the price stability target. This review is likely to take all of 2020.

On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU. The results of the Spanish general election in November have not helped the prospects of forming a stable coalition.

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 shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

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.

WORLD GROWTH. Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of

Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. **Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates**.

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

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.** On this basis, while GDP growth is likely to be subdued in 2019 and 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit in December 2020**, 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 were 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. Quantitative easing could also be restarted by the Bank of

England. 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 even, but dependent on a successful outcome of negotiations on a trade deal.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

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 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** 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.** In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **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. The CDU has done badly in recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.
- **Other minority EU governments.** Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.

- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but his time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some $19trn of corporate debt in major western economies,** if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks,** for example in 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 agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary 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.

Appendix G

Prospects for Interest Rates

The data below shows the latest interest rate forecast from the Council's treasury management advisors, Link Asset Services, dated 11th November 2019.

Link Asset Services Interest Rate View

%	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB rate	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB rate	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB rate	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB rate	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

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.

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 than 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.

Appendix I

Treasury Management Implications of HRA Reform

As discussed in Section 5 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 Deputy Chief Executive and City 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 Deputy Chief Executive and 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.