

**Manchester City Council
Report for Information**

Report To: Resources and Governance Scrutiny Committee – 12 January 2021

Subject: Capital Investment Priorities and Pipeline

Report of: Deputy Chief Executive and City Treasurer

Summary

This paper provides a summary of the Council’s proposed capital investment priorities, which will be included in the Capital Strategy report to Executive in February.

Recommendations

The Committee is asked to note and comment on the report.

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

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Background documents (available for public inspection):

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

Report to the Executive 12 February 2020 (Capital Strategy and Budget 2019/20 to 2023/24)

Report to Council 6 March 2020 (Capital Strategy and Budget 2019/20 to 2023/24)

Report to the Executive 11 March 2020 (Capital Programme Update)

Report to the Executive 3 June 2020 (Capital Programme Outturn Position 2019/20)

Report to the Executive 3 June 2020 (Capital Programme Update)

Report to the Executive 3 July 2020 (Capital Programme Update)

Report to the Executive 29 July 2020 (Capital Programme Monitoring 2020/21)

Report to the Executive 9 September 2020 (Capital Programme Update)

Report to the Executive 14 October 2020 (Capital Programme Monitoring 2020/21)

Report to the Executive 14 October 2020 (Capital Programme Update)

Report to the Executive 11 November 2020 (Capital Programme Update)

1 Introduction

- 1.1 This report seeks to provide the Committee with an update on the potential future projects which will be included within the City Council's Capital Strategy report which forms part of the City Council's suite of budget reports for 2021/22 to be reported to Executive in February, and then Council in March. It also provides an update on the outcomes of the recent consultation on the future of the PWLB.

2 Background

- 2.1 The Council sets a capital budget each financial year. However, unlike revenue expenditure, capital expenditure by its nature is not usually cyclical as it relates to the creation of assets. Therefore the capital programme is managed on a rolling basis, with approved projects added when required. The budget report reflects the programme at a specific point in time but recognises that it is expected to change over time. In recent years the Council has implemented a revised governance process for the approval of capital projects. The capital budget represents all the projects which have received funding approval.
- 2.2 The Capital Strategy will restate the approved programme and consider the potential future investment requirements and this report sets out the main priorities and potential planned investment. Note any future investment will need to be approved through the existing governance process before it forms part of the Council's budget.

3 The Impact of COVID-19

- 3.1 The COVID-19 pandemic has, and will continue to have, a wide-reaching impact on the Council's capital programme. The early impact has been highlighted in reports to Executive, with an initial pause across construction activity with work resuming on major sites relatively quickly.
- 3.2 Ensuring social distancing measures are in place reduces the productivity on site and increases the cost as the work programmes take longer to complete. This has persisted throughout the period and will continue for the foreseeable future. The inflationary impact of COVID-19 will be absorbed, where possible, in existing project budgets through use of contingency budgets. Further approvals will be required if this proves insufficient.
- 3.3 Capital investment has a key role to play in tackling the economic interruption and hardship of the pandemic and will support the Council in meeting its strategic objectives. As detailed in Manchester's Economic Recovery and Investment Plan¹, the Council's aspirations have not changed, and capital investment is important in creating the assets and infrastructure needed to achieve them.

4 Development of the Capital Strategy

- 4.1 The Capital Strategy sets out the longer-term context and is developed to

¹https://secure.manchester.gov.uk/info/500113/city_centre_regeneration/8063/powering_recovery_manchester_s_recovery_and_investment_plan?utm_content=&utm_medium=email&utm_name=&utm_source=govdelivery&utm_term=

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.

- 4.2 The starting point is the existing capital programme. This is based on the approved budget to the end of November. It is summarised in the table below and set out in full in Appendix A and highlights the scale of investment already planned in the City.

	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget	Total	Total 21/22- 24/25
	£m	£m	£m	£m	£m	£m	£m
Manchester City Council Programme							
Highways	58.0	45.3	6.8	6.4	0.0	116.5	58.5
Neighbourhoods	15.6	16.7	17.0	4.7	0.0	54.0	38.4
Growth and Development	93.7	119.4	89.5	28.2	0.0	330.8	237.1
Town Hall Refurbishment	39.1	70.3	86.2	50.4	34.1	280.1	241.0
Housing – General Fund	17.1	17.0	7.8	10.7	0.0	52.6	35.5
Housing – Housing Revenue Account	17.8	45.8	41.0	0.5	0.0	105.1	87.3
Children’s Services (Schools)	44.1	35.5	44.5	0.0	0.0	124.1	80.0
ICT	3.3	10.9	11.2	7.7	0.0	33.1	29.8
Adults, Children’s and Corporate Services	155.7	31.9	9.8	2.5	0.0	199.9	44.2
Total Programme	444.4	392.8	313.8	111.1	34.1	1,296.2	851.8

5 Investment Priorities

- 5.1 The investment priorities identified last year remain and have been updated in the light of the current priorities and the COVID-19 pandemic. The proposed investment priorities are set out below.

- Supporting economic recovery of the city following the COVID-19 pandemic. **Investment that is catalytic** in supporting economic growth, housing growth, job creation, reducing carbon emissions, transforming health, economic and social outcomes, and creating further investment in the city, is a priority and a key theme throughout the Capital Strategy.
- Supporting the declaration of the Climate Emergency. The Council has a clear target to at least **halve its carbon output by 2025**. Investment plans must consider the carbon impact alongside financial impact. The costs of new build programmes to higher environmental standards, following the introduction of the Manchester Low Carbon Build Standard endorsed by the Manchester Climate Change Agency, and meeting the needs of the Local Plan and planning requirements (including investment in green spaces and place such as trees and green walls) need to be considered alongside any revenue implications. Reviewing procurement

practices to ensure carbon is a focal point will also support this aim, given the scale of the capital programme and the associated procurement required. 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.

- **Deliver new affordable housing** to meet the increased delivery target from 5,000 Affordable Homes to a minimum of 6,400 Affordable Homes between April 2015 and March 2025.
- Developing a more **inclusive economy**. Our ambition is set out within the Our Manchester Industrial Strategy and reiterated in the Economic Recovery and Investment Plan. This is likely to require investment on an invest to save basis in existing Council assets and strategic investment to unlock wider commercial and residential developments. There is an 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 realise the social, economic and environmental benefits desired. The use of progressive procurement policies and social value will ensure the maximum benefit to residents from these new developments.
- Regeneration in **North Manchester**. This includes the North Manchester General Hospital redevelopment, anchoring a health and wellbeing campus as proposed in the Economic Recovery and Investment Plan. This, alongside the Northern Gateway should create the potential to support a growing city, create new housing and regenerate the area.
- Investment in the **city centre** as a key driver of growth and jobs for the city and one of the four strategic areas of interventions within the Economic Recovery Plan. Whilst a significant amount of investment will be from the private sector, public sector investment is needed in core areas such as public realm, in order to stimulate further private investment and growth in those areas.
- Investment in **cultural and creative industries** which make a major contribution to Manchester's international reputation and role as a destination for cultural tourism and are a growing element of the city economy. Given the importance of these industries and the particular challenge that people working in them have faced due to the pandemic, both short- and longer-term support is needed.
- **Market intervention** where the existing market outputs do not support the Council's wider aims. This is likely to be focussed on areas such as health and social care such as residential and intermediate care and will require significant partnership support. This may be short term in nature, to support the development of sustainable business plans, or of a longer nature to support market change.

- Ensuring the Council's **corporate estate is fit for purpose**. This includes investment to reduce the Council's carbon output and in relation to the current condition of the estate. This is particularly important for the leisure estate where the assets developed for the Commonwealth Games are now nearly 20 years old, and also in the social care estate where the budget challenges faced by providers has led to a lower level of investment on maintenance than expected.
- **Investment in digital infrastructure, data management, and the application of new approaches**. These are now key elements of the Manchester economy and reflected in the new draft Manchester Digital Strategy – “Creating an Inclusive, Sustainable & Resilient Smart City”. The provision of digital infrastructure and the application of digital technology is needed to capitalize on private sector investment and compete economically on the national and international stage. It can also drive greater inclusion for residents and workers and projects have the potential to find technological solutions to health, mobility and environmental challenges by utilising the power of connected devices.
- Continued Investment in ICT infrastructure as part of being a **well-managed Council**. Increased digitisation, and the need to move from legacy ICT platforms will mean investment is required, alongside work on ICT resilience, network capability, and key operating systems.

5.2 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.

6 Potential Investment Proposals

6.1 The potential capital projects which support the Council in achieving its strategic aims are described in more detail below.

Highways

6.2 A significant proportion of the Highways Capital programme is funded from government grant and will be confirmed once the funding has been allocated. Key areas for investment also include:

6.3 Alongside the recent public consultation of the draft City Centre transport plan, investment is proposed on key transport corridors across the City Centre using the existing budget for other highways improvements.

6.4 A review of the current Highways Investment Plan, due to be substantially spent by the end of 2021/22, is underway. The outcomes will be used to support the business case for further investment to continue to improve the highways network and footways which may be required to compliment government grant funding.

6.5 The permanent closure of Deansgate will be progressed, beginning with consultation and the implementation of an experimental traffic order so the proposals can be fine-tuned.

- 6.6 Investment which prioritises improvements to the network to support active travel and reallocate road space to walking and cycling will continue to be pursued, with the development of a number of schemes approved through the GM Mayor's Challenge Fund. These works supplement other proposals which promote sustainable forms of transport across the city.
- 6.7 Investment is planned in road safety and security measures.
- 6.8 Investment is also expected to support the establishment and delivery of several 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 and corridors.

Neighbourhoods

- 6.9 The Economic Recovery and Investment Plan highlights the importance of culture to Manchester. Potential investment to ensure that there is space available for cultural and creative industries, alongside supporting existing cultural infrastructure is being reviewed, with an intention to leverage external funding where available.
- 6.10 The development of New Smithfield Market remains a potential investment opportunity with work continuing to understand the scope of such works and the implications for the Council.
- 6.11 The continued development of the City's leisure estate, with the introduction of new leisure assets as well as large scale improvements to existing facilities. It is expected these proposals will contribute to the low carbon aims of the Council. The funding will be mixed with the joint management of Waterfall funding with Sport England, the ability to access other national funds and some access of City Council resources. This is expected to include the National Cycling Centre refurbishment, Manchester Aquatics Centre refurbishment, and the Hub at Hough End.
- 6.12 Further investment in the library estate is proposed, including the refresh of neighbourhood libraries and the self-service system, to ensure that communities can continue to have wide access to library services.
- 6.13 The focus of Parks investment will be linked to the approval of the Parks Development Plan. Funding is already held against this programme and details of individual schemes will be brought forward.
- 6.14 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.

Growth and Development

- 6.15 The programme includes the Asset Management Programme (AMP) which is kept under constant review to ensure it is a comprehensive programme for all Council assets. This may include bringing in assets such as City Council owned schools and the maintenance of previous Sure Start centres and care homes, with the existing leasing arrangements with reviewed to ensure the ongoing operation of the sites.
- 6.16 Investment to 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 remains. This will reduce demand for energy, through design measures e.g. 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. Works will be aligned to the AMP repairs schedule where possible, alongside existing programmes such as the Carbon Reduction Programme and Civic Quarter Heat Network. Investment opportunities into sustainable energy supplies for the City are being actively explored in line with the Council's Climate Change Action Plan.
- 6.17 The Growth pipeline is wide and varied and consideration of appropriate investment strategies will be key. This may include using Council-owned land to leverage investment from partners, rather than solely seeking a capital receipt. There may also be investments 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.
- 6.18 The Council will continue to explore and lead investment opportunities in key strategic areas including the Etihad Campus, the Northern Gateway, Eastern Gateway, and other areas for development such as Wythenshawe Town Centre and Moston Lane. Investment in public realm, particularly in the city centre, to drive economic growth and attracting new investment, will focus on the pipeline highlighted in the Economic Recovery Plan, including Mayfield, Piccadilly Gardens and active travel hubs.
- 6.19 Following completion of the public consultation on the draft development framework for the former Central Retail Park, proposals for this site are expected to be progressed. Similarly, following the report to Executive in November, proposals to develop a mobility hub in Ancoats are expected to be brought forward, to support promoting modal shift towards cycling, public transport and electric vehicles.
- 6.20 The Economic Recovery Plan sets out projects which create new enterprise, craft and production space which can accommodate small enterprises and safeguard jobs in the cultural and creative industries.
- 6.21 In line with the emerging Manchester Digital Strategy, the Digital Cooperative Project will enhance and future-proof digital networks across the city, and provide support for existing and new businesses, as well as advanced digital skills training for local people. Alongside this, the proposed Civic Innovation Programme will provide a route to identify solutions to key social challenges.

- 6.22 Opportunities to support the development of strategic assets through direct purchases or loans to partner organisations and third parties are also being explored. This will be particularly important for specific sites where the Council's involvement could help progress and accelerate wider investment progress.

Housing – General Fund

- 6.23 The priority is to deliver safe, secure and affordable housing to achieve the minimum of 6,400 Affordable Homes by March 2025. There is limited capacity from within the Council's Housing Revenue Account and Housing Affordability Fund. Therefore, relationships with Registered Housing Providers will be key along with the commitment to leveraging the Council's land and property assets.
- 6.24 The Council will play a key role in bringing forward investment across the City, but particularly in the Eastern and Northern Gateways. The roles of developers and the Council will need to be considered on a case by case basis for each development.
- 6.25 Proposals for the local delivery vehicle (LDV) to build new affordable homes funded in part, through cross subsidisation from associated market housing, will be brought forward, with a view to creating multiple phases of delivery.
- 6.26 The City will also work with colleagues in Greater Manchester to identify and access funding for energy conservation measures in private households.
- 6.27 Work is continuing to develop proposals for the development of supported and semi-supported housing options to address the needs of residents who require independent living, with support, including homeless people and young people at risk of homelessness. The establishment of a Council-owned temporary accommodation unit for homeless families continues to be worked on. This would also reduce revenue spend on bed-and-breakfast and hotel accommodation.

Housing Revenue Account

- 6.28 The Council will consider options for retrofit works to make its existing housing zero-carbon. The potential initial investment sought, noted in the Economic Recovery and Investment Plan, is for the Manchester Housing Provider Partnership to establish a collaborative approach to procurement and delivery, with a view to retrofitting 3,500 properties a year including the Council's housing. This would also contribute to addressing fuel poverty.
- 6.29 There will be a continued focus on increasing the level of affordable housing, either through models of direct delivery or through working with registered providers and other partners. The role of the HRA in providing new affordable housing will continue to be reviewed. This will include the development of housing at Silk Street, Newton Heath.

Children's Services (Schools)

- 6.30 The statutory requirement to provide sufficient school places across primary, secondary and specialist education continues to be monitored along with approvals as part of the Government's Free School programme to ensure there are sufficient places to meet demand. Once the design has been completed, proposals will be brought forward for a new secondary school at Hyde Rd, following the acquisition of the site.
- 6.31 School maintenance projects will continue and be scaled in accordance with the level of government grant received, taking into account the condition of school buildings and prioritising accordingly.

ICT

- 6.32 Future investment will focus on improvements to the Council's core systems and infrastructure, and in supporting services across the Council in developing ICT solutions to their needs. Proposals will be brought forward to continue the network refresh, including the local and wide area networks, to review and improve the way in which residents and businesses can access Council services with the replacement of the CRM system, and to replace the Council's ERP SAP system which includes payroll, HR, the finance ledger and procurement. The replacement of these legacy systems is critical to modernising and automating business processes and maximising the use of data and reporting.

Adults, Children's and Corporate Services

- 6.33 As referenced in the priorities, there is a potential need for Adult Social Care to intervene in the social care market to shape the market to meet health and social care needs including new build facilities, or the acquisition of existing buildings which can be tailored to care models. There are no specific schemes in the pipeline, and these would be developed with health service partners. There may also be a need to address areas of market failure to ensure continuity of service. The intervention may be short-term but could be vital in limiting the impact on residents. By its nature this may need to be actioned quickly and appropriate budgets and approval routes are being considered.
- 6.34 The Corporate Core needs to retain the ability to provide market intervention or provide loans to third parties as part of a wider investment strategy to deliver the strategic aims for the city. These would be brought forward with a clear business case and due diligence process.
- 6.35 Investment options for carbon efficient energy sources are also being actively explored and are likely to be brought forward in the last quarter of 2020/21.

7 Capital Financing: Outcome of the PWLB Consultation

- 7.1 Within the documents published last month as part of the Government's Spending Review was the outcome from the recent consultation on the future of the PWLB.
- 7.2 The headline outcome of the consultation is that the margin above Gilts used to

calculate PWLB rates has been reduced by 100 basis points (1%), reversing the change to the margin introduced last year. This means that interest costs on PWLB debt have become lower.

- 7.3 However, the consultation response also details how Treasury wants to dissuade local authorities from incurring debt through the acquisition of assets primarily for yield. To have access to the PWLB, local authorities will need to provide a high-level description of their capital spending and financing plans for the next three years, with the spend categorised. The categories cover service spending, housing, regeneration, preventative action and treasury management activity. The final category is investment assets bought primarily for yield.
- 7.4 If a local authority is forecasting spend in that final category, it will not be able to borrow from the PWLB until the relevant projects are removed from the local authority's capital plans. If this does not happen, the authority will not be able to borrow from the PWLB. Further, if the government has concerns over capital plans once a loan has been issued, it can take steps to either increase the disclosure requirements for the specific local authority on its capital plans, request the authority unwind the transaction, or finally (and in extremis) require that the loans be repaid in full.
- 7.5 Work is ongoing to understand the disclosure requirements for the Council, and to ensure that the capital decision making process incorporates an assessment of which spending category a project may fall into. This will allow the Deputy Chief Executive and City Treasurer, as the Section 151 officer, the evidence to support any applications for PWLB funding. Further information will be included within the Capital Strategy.

8 Conclusion

- 8.1 The Capital Strategy will form part of the suite of budget papers to support the Council's budget for 2021/22. The Strategy will detail the existing approvals and governance, alongside the priorities for future investment and the potential projects.
- 8.2 The level of resources that the Council has to invest in capital continue to be constrained and any investment has to be in line with the requirements of the Prudential Code. The outcomes of the recent PWLB consultation include reducing the rate by 100 basis points which will increase the Council's investment capacity but also include more stringent controls that have to be adhered to. The full details will be incorporated into the Capital Strategy.
- 8.3 As schemes are developed initial funding allocations are allocated and finalised and included in the budget once the funding approval is in place. These will continue to be reported via the Capital Update Report. The format of the capital monitoring is also being reviewed for the next financial year.

9 Recommendations

- 9.1 The recommendations appear at the front of this report.