

Manchester City Council Report for Resolution

Report to: Executive – 30 June 2021

Subject: Capital Programme Outturn 2020/21

Report of: The Deputy Chief Executive and City Treasurer

Summary

This report informs members of:

- (a) The outturn of capital expenditure for 2020/21.
- (b) The financing of capital expenditure for 2020/21.
- (c) The major variances between the 2020/21 outturn and the previous Capital Programme monitoring report submitted in February 2021.
- (d) The revised capital programme budget for 2021/22 and subsequent years as a result of the review of the programme following outturn.

Recommendations

The Executive is requested to:

- 1. 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 B.
 - 2. Note the outturn of capital expenditure 2020/21 was £335.7m.
 - 3. Note the changes to the outturn attributable to movement in the programme that occurred after the previous monitoring report to Executive in February 2021.
 - 4. Approve virements under £0.5m within the capital programme as outlined in Appendix B.
 - 5. Note the decisions of the Deputy Chief Executive and City Treasurer regarding the funding of capital expenditure in 2020/21 including the use of £98.8m Grants and Contributions, £21.4m Capital receipts, £34.7m Revenue funding and £180.8m Borrowing.
 - 6. Note the revised capital programme for 2021/22 shown in Section 9 and Appendix D.
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Wards Affected: All

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. All capital projects are reviewed throughout the approval process with regard to the contribution they can make to Manchester being a Zero-Carbon City. Projects will not receive approval to incur costs unless the contribution to this target is appropriate.

Manchester Strategy outcomes	Summary of the contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The capital programme contributes to various areas of the economy including investment in public and private sector housing, education and children's social care, transport infrastructure, major regeneration activities, environmental, cultural and leisure services.
A highly skilled city: world class and home grown talent sustaining the city's economic success	The capital programme includes substantial investment in education and also provides opportunities for the construction industry to bid for schemes that could provide employment opportunities at least for the duration of contracts.
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	The capital programme includes investment in adult and children's social care, education, housing and the environment, cultural and leisure services, all of which contribute towards the strategy.
A liveable and low carbon city: a destination of choice to live, visit, work	Investment in all areas of the capital programme contributes towards this community strategy, notably the investment in sustainable and affordable housing, building schools for the future, transport, environmental and major regeneration programmes.
A connected city: world class infrastructure and connectivity to drive growth	The capital programme includes investment in highways infrastructure, and broadband expansion.

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

- Equal Opportunities Policy
 - Risk Management
 - Legal Considerations
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Financial Consequences – Revenue

All Revenue consequences are included in the Revenue Budget Outturn report.

Financial Consequences – Capital

The Capital Outturn 2020/21 for Manchester City Council is £335.7m compared to the revised budget of £373.3m submitted to Executive in February 2021.

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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 3rd June 2020 - Capital Programme - Capital Programme Update
- Report to the Executive 3rd July 2020 - Capital Programme - Capital Programme Update
- Report to the Executive 29th July 2020 - Capital Budget Review and Programme Monitoring 2020/21
- Report to the Executive 29th July 2020 - Capital Programme - Capital Programme Update
- Report to the Executive 9th September 2020 - Capital Programme - Capital Programme Update
- Report to the Executive 14th October 2020- Capital Programme – Capital Programme Monitoring 2020/21 - Period 5

- Report to the Executive 14th October 2020 – Capital Programme – Capital Programme Update
- Report to the Executive 11th November 2020 – Capital Programme – Capital Programme Update
- Report to the Executive 20th January 2021 – Capital Programme – Capital Programme Update
- Report to the Executive 17th February 2021 – Capital Strategy and Budget 2020/21 to 2024/25
- Report to the Executive 17th March 2021 – Capital Programme – Capital Programme Update

1. Introduction

1.1. The purpose of the report is to:

- Inform the Executive of the capital outturn position for 2020/21 including total expenditure and funding;
- Confirm that funding sources have been managed to best utilise resources available to fund the capital programme; and
- Present a revised capital programme for the 2021/22 financial year after taking into account the final outturn position as reported.

1.2. A summary of each part of the programme is included within the report, providing details on the major projects. This is presented alongside a summary of the outturn position, and as a result any changes to the budget that are required.

1.3. Appendix A provides a detailed review of the activities undertaken by portfolio area since the last report, and explains the variances to budget for 2020/21. Appendix B details the virements requested across the Capital Programme since Executive approved the capital budget in February 2021. Appendix C shows the outturn position for the Council's prudential indicators. Appendix D details the full revised capital budget for each project, taking into account the virements requested, the new budgets introduced, and any re-profiling between years.

2. Contributing to a Zero-Carbon City

2.1. To reflect the climate change emergency that the Council has declared, the capital expenditure business case template has been updated to include a carbon measure for both during the project progression stage and the ongoing lifecycle post completion. The intention is that the carbon footprint of a scheme is considered as part of the decision-making process. This work remains ongoing and will continue to reflect the decisions taken by the Council on how it will meet the future carbon reduction targets in order to become carbon neutral by 2038.

3. Capital Budget

3.1. The Executive approved the Capital Budget for the period 2020/21 to 2024/25 in February 2021. Separate reports to both February and March Executive's including budget increases. The revised capital budget including those increases but before the changes proposed in this report is shown below:

Capital Programme 2020-2025 (£m)	2020/21	2021/22	2022/23	2023/24	2024/25	Total Programme
Capital Budget (Feb 21)	372.0	447.1	331.8	135.1	36.3	1,322.3
Capital Programme Budget Update (Approved Feb 21)	0.5	32.9	0.0	0.0	0.0	33.4
Capital Programme Update (Approved March 21)	0.8	8.5	0.5	6.4	0.0	16.2

Revised Capital Budget	373.3	488.6	332.3	141.5	36.3	1,372.0
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3.2. The figures shown above include those approved by the Executive Member for Finance and Human Resources and the Deputy Chief Executive and City Treasurer under delegated powers since the report to Executive in February.

4. Capital Outturn 2020/21

4.1. The final spend position for the Manchester City Council Capital Programme in 2020/21 is £335.7m compared to a revised budget of £373.3m. The variations, by service area, are shown in the table below.

4.2. The tables in the appendix to this report show the budget approved by the Executive in February 2020 as part of the budget process, alongside the current revised budget and the outturn. The intention is that, by including this information, there is clarity regarding how the budget for 2020/21 has changed across the period.

Capital Programme 2020/21 Outturn

Manchester City Council Programme	Budget set in Feb 2020 £m	Revised Budget £m	Outturn £m	Variance £m
Highways	58.8	53.8	46.2	-7.6
Neighbourhoods	16.7	10.8	4.9	-5.9
Growth and Development	119.0	87.6	72.0	-15.6
Town Hall Refurbishment	49.1	34.6	30.0	-4.6
Housing – General Fund	22.6	13.9	14.6	0.7
Housing – Housing Revenue Account	38.8	16.1	17.6	1.5
Children’s Services	29.5	37.2	32.1	-5.1
ICT	5.7	3.8	3.5	-0.3
Corporate Services	38.2	115.6	114.8	-0.8
Total	378.4	373.3	335.7	-37.6
Reprofiling				-35.3
Cost Variations				-0.6
Net over (under) spend				-1.7

4.3. The outturn position for the 2020/21 financial year is relatively high when compared to the average outturn of £266m over the past three years, and represents the continued significant investment in Manchester with over 220 live projects progressing during the year, a major achievement given the impact of the pandemic.

5. COVID-19 impact on the Capital Programme

- 5.1. The COVID-19 pandemic has, and will continue to have, a wide-reaching impact on the Council's capital programme. The impact on the 2020/21 programme has been highlighted in previous reports to the Executive, with an initial pause across construction activity after which work resumed on major sites relatively quickly.
- 5.2. The required social distancing measures can reduce productivity and increase cost as the work programmes take longer to complete, and this is likely to continue for the foreseeable future. Any inflationary impact of COVID-19 will be absorbed through existing project contingencies where possible and further approvals sought if this proves insufficient.

6. Summary of Main Variances to the Revised Budget

- 6.1. The main changes to the programme since the report to Executive in February 2021 are as follows:
 - Highways – With evening and weekend work not required due to the quiet road network, additional costs have been avoided creating savings for the Highways Maintenance Programme. As a result, £1.4m will be moved into 2021/22 to be used against the future programme.
 - Neighbourhoods - As noted in earlier Executive reports, issues relating to COVID-19, Brexit, and their impact on the supply chain has led to the delivery of the Electric Refuse Collection vehicles taking longer than anticipated. As a result, a total of £5.1m will be reprofiled into next financial year. By the end of May, 6 of the vehicles had been delivered.
 - Strategic Development – The Northern Gateway project team are in a process of negotiation with Far East Consortium (FEC) to finalise the Loan Facility Agreement. Completion was targeted for March 2021 however, negotiations on the finer details of certain clauses have taken longer than anticipated leading to slippage of £6.7m into future years.
 - Our Town Hall Project - A total of £4.6m will be reprofiled into next financial year due to unspent contingency in 2020/21 and a number of work packages starting on site later than originally anticipated.
 - Public Sector Housing - Across the Northwards Programme, a total of £1.5m will be accelerated into 2020-21 due to better progress being achieved than originally anticipated.
 - The contractor for the Roundwood Road project within the SEN programme overestimated their spend profile in the early stages of the works. This coupled with some setbacks due to COVID-19 has resulted in £1.5m to be reprofiled into next financial year.
- 6.2. Major variances by service area are detailed in appendix A.

7. Capital Financing 2020/21

- 7.1. The funding of the 2020/21 Capital Programme is summarised below:

	£m	%
Capital Expenditure	335.7	
Financed by:		
Government Grants	63.3	18.8%
Other External Contributions	35.5	10.6%
Capital Receipts	21.4	6.4%
Revenue Funding	18.8	5.6%
HRA Major Repairs Reserve	15.9	4.7%
Borrowing	180.8	53.9%

7.2. The Executive is asked to note the following decisions made by the Deputy Chief Executive and City Treasurer regarding the funding of the capital expenditure incurred in 2020/21.

- (a) Any unused grant, subject to conditions, has been carried forward into 2021/22 and will be matched against future spend. The programme was managed to ensure that any grant with a risk of claw back due to time constraints or other factors was fully utilised in 2020/21. Similarly, any external contributions that have not been used will be carried forward into 2021/22.
- (b) The balance of available capital receipts carried forward from 2019/20 was £96.8m. A further £18.6m receipts were received in 2020/21 including pooled receipts. Drawdown from capital receipts was £21.4m leaving a balance for use in future years of £94.0m, of which £69.1m relate to Housing, plus any new receipts generated in 2021/22.
- (c) Revenue contributions were used to finance expenditure of £18.8m, including works on the Factory Project, various Highways projects and the HRA.
- (d) The Major Repairs Reserve funds expenditure on the HRA capital programme. The use of this reserve includes self-financing revenue from the HRA revenue budget.
- (e) Borrowing of £180.8m has been used to fund the programme. The borrowing figure represents the amount to be funded by borrowing in the long term, however, in practice was internally borrowed as no significant long term external debt was taken in 2020/21.
- (f) The minimum revenue provision for 2020/21 was £25.7m. This is the funding set aside to repay the debt incurred through funding previous capital expenditure through borrowing. This has been funded from the Council's capital financing budget.

8. Capital Programme Re-phasing and Variations

- 8.1. Based on the monitoring information above, it is proposed that the capital programme budget is re-phased to reflect the planned delivery of projects in 2021/22 to 2024/25. The cumulative impact of these adjustments are shown in the table below. The figures below also show the budget increases approved by Executive on 2nd June 2021. The future programme will be reviewed throughout 2021/22 to reflect changes to the proposed profile of spend.

Proposed Capital Programme variations 2020/21 to 2024/25

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	Total Programme £m
Revised Capital Budget (March 2021)	373.3	488.6	332.3	141.5	36.3	1,372.0
Forecast Re-profile	-35.3	-15.5	26.9	7.0	16.8	0.0
Cost Variations	-0.6	-3.1	-7.6	0.0	0.0	-11.3
Proposed Capital Budget	337.4	470.0	351.6	148.5	53.1	1,360.7
Budgets approved by Executive 2 nd June 21	0.0	4.2	1.9	5.6	0.0	11.7
Revised Capital Budget	337.4	474.2	353.5	154.1	53.1	1,372.4

Virements in 2020/21

- 8.2. Various schemes across the programme require virements in 2020/21 and future years, as shown in Appendix B.
- 8.3. The Council is recommended to approve virements over £0.5m within the capital programme as outlined in Appendix B.
- 8.4. The Executive is recommended to approve virements under £0.5m within the capital programme as outlined in Appendix B.

9. Capital Programme Forecast for 2021/22 and future years

- 9.1. If the virements set out above are approved, the revised capital programme for 2021/22 and future years is shown in the table below:

Manchester City Council Programme	21/22	22/23	23/24	24/25
	£'m			
Highways	57.7	16.6	2.2	0.0
Neighbourhoods	36.5	33.6	14.9	0.0

The Factory and St John's Public Realm	56.5	32.6	0.0	0.0
Growth and Development	93.7	63.6	31.3	5.0
Town Hall Refurbishment	70.9	76.8	62.5	39.9
Housing – General Fund	15.9	11.6	11.0	2.7
Housing – Housing Revenue Account	27.7	46.3	15.0	5.5
Children's Services	44.3	13.9	0.0	0.0
ICT	7.0	6.8	0.0	0.0
Corporate Services	19.0	9.8	2.8	0.0
Total (exc. contingent budgets)	429.2	311.7	139.7	53.1
Contingent Budgets	45.0	41.8	14.4	0.0
Total	474.2	353.5	154.1	53.1

- 9.2. The figures above will change, should the recommendations in the Capital Update report elsewhere on the agenda be approved.
- 9.3. The forecast budget for 2021/22 is ambitious compared to previous annual expenditure. This reflects the need to progress capital investment as part of the post-COVID-19 recovery and the number of significant projects which are expected to progress during the year. The Capital Budget is prepared on the best estimate of the spend profile for each scheme across its life and as the scheme develops this may change. All projects carry risk such as delivery risk, third party risk and market risk, including build cost and inflation which will impact on their overall cost.
- 9.4. The large-scale projects due to begin in 2021/22 include the refurbishment of Abraham Moss Leisure Centre, the Manchester Aquatics Centre Refurbishment, the Housing Infrastructure Fund and Northern Gateway works, Coop Academy Belle Vue and Gorton Health Hub. As these are in their early stages, the estimated start dates are likely to change leading to a variation against the in-year budget. Any further COVID-19 impacts could also change project plans and timelines. This may create further variations against the in-year budget, but not the overall budget for the project.
- 9.5. In the above table, contingent budgets have been shown separately. These include the remaining Manchester Airport Group support which may not be required in 2021/22, the inflation budget which would require further approvals before it could be used, and other unallocated programme budgets including the ICT investment plan, Education Basic Need and the Northwards Housing Programme which is not yet allocated to specific schemes. The budget will change as new schemes will be added throughout the year, and specific projects funded through the contingent budgets are brought forward through the Council's capital approval process.
- 9.6. Scheme costs will be kept under close review. Whilst the transition from the European Union (EU) saw no direct charges on construction or construction

products there are administrative burdens, for example changes to the way British businesses import materials, hire people, and procure from the EU which could add to the overall costs. The economic impact of the pandemic on inflation is still uncertain. In general, the North West (NW) regional activity is expected to cool off as companies try to protect their long-term order books, although the level of activity in Manchester is expected to perform better than other regions. Future prices will be very much dependent on how deep the effects off the recession are and how long the economic recovery takes.

- 9.7. Whilst there has been an improving picture for construction activity in the first quarter of 2021, this has been tempered by widely reported materials shortages and labour shortages affecting productivity. The forecast is difficult to identify as it is early in the recovery from the pandemic and COVID-19 related pressures as noted above, will take time to monitor the effects. Whilst the recovery will be slow over 2021, prices are expected to rise less than 1% in the year to 3rd quarter 2021. Prices will increase, with less contractors in the market (liquidations due to COVID-19, and the withdrawal of COVID-19 government support), tender prices are therefore forecast to rise ahead of input costs, by around 4% for the NW. This will vary for each project. The Council's capital strategy includes provision for inflation to be allocated when appropriate.
- 9.8. The approach to capital monitoring for 2021/22 financial year will also change, with a greater emphasis on the activities and risks of the major projects. The capital monitoring reports will not seek to re-profile budgets across financial years, but rather consistently compare to the in year budget detailed above as well as any additions reported throughout the year. Officers will continue to review the forecast for 2021/22 to ensure it remains achievable and any significant variances will be reported to the Executive.

10. Social Value

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

11. Prudential Indicators

- 11.1. The prudential indicators as at the end of March 2021 are shown at appendix B.

12. Contributing to the Our Manchester Strategy

(a) A thriving and sustainable city

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

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

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

Investment in all areas of the capital programme contributes towards this community strategy, notably the investment in sustainable and affordable housing, building schools for the future, transport, environmental and major regeneration programmes.

(e) A connected city

The capital programme includes investment in highways infrastructure, and broadband expansion.

13. Key Policies and Considerations

(a) Equal Opportunities

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

(b) Risk Management

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

(c) Legal Considerations

None.