

**Manchester City Council
Report for Resolution**

Report to: Executive – 17 November 2021

Subject: Capital Programme Monitoring 2021/22

Report of: The Deputy Chief Executive and City Treasurer

Purpose of Report

This report informs members of:

- (a) Progress against the delivery of the 2021/22 capital programme to the end of September 2021.
- (b) The latest forecast of capital expenditure and the major variances since the Capital Programme Monitoring report submitted in July 2021.
- (c) The proposed financing of capital expenditure for 2021/22 and affordability of the Capital Programme.

Recommendations

Executive is requested to note the contents of the report and the change to the applicable mortgage rate, as detailed in section 11.

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

Financial Consequences – Revenue

All revenue consequences are included in the current Revenue Budget.

Financial Consequences – Capital

The latest forecast of expenditure for 2021/22 for Manchester City Council is £427.3m compared to the current approved budget of £493.7m. Spend as of 30th September 2021 was £102.2m. The programme is subject to continual review to establish whether the forecast remains achievable. Whilst the intention is for the City Council to progress the programme as stated, some projects and their sources of funding may require re-profiling into future years. The total approved programme is forecast to be £1,091.9m over the next four years.

Contact Officers:

Name: Carol Culley
Position: Deputy Chief Executive and City Treasurer
Telephone: 0161 234 3406
E-mail: carol.culley@manchester.gov.uk

Name: Tom Wilkinson
Position: Deputy City Treasurer
Telephone: 0161 234 1017
E-mail: tom.wilkinson@manchester.gov.uk

Name: Tim Seagrave
Position: Group Finance Lead – Capital & Treasury Management
Telephone: 0161 234 3445
E-mail: tim.seagrave@manchester.gov.uk

Name: Paul Adcock
Position: Principal Finance Manager – Capital
Telephone: 0161 234 4778
E-mail: paul.adcock@manchester.gov.uk

Background documents (available for public inspection):

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

- Report to the Executive 17th February 2021 – Capital Strategy and Budget 2020/21 to 2024/25
- Report to the Executive 17th March 2021 – Capital Update Report
- Report to the Executive 2nd June 2021 – Capital Update Report
- Report to the Executive 30th June 2021 – Capital Update Report
- Report to the Executive 28th July 2021 – Capital Programme Monitoring 2021/22
- Report to the Executive 28th July 2021 – Capital Update Report
- Report to the Executive 15th September 2021 – Capital Update Report
- Report to the Executive 20th October 2021 – Capital Update Report

1 Introduction

1.1 The purpose of the report is to:

- Provide an update to members on the progress of the global capital programme in the three months to the end of September 2021, including activity, benefits realised, financial implications and risk;
- Provide a more detailed update on the major projects within the programme;
- Confirm that there are adequate levels of resources available to finance the capital programme.

2 Background

2.1 The Executive approved the Capital Budget for the period 2021/22 to 2024/25 in February 2021. Since then, subsequent capital budget update reports were submitted to the Executive, the cumulative effects of which can be seen at Appendix B. The revised capital budget for 2021/22 is therefore £493.7m, with a further £601.5m budgeted to be spent across 2022-2025, taking total Council led capital investment in the city to £1.095.2m.

3 Contributing to a Zero-Carbon City

3.1 To reflect the climate change emergency that the Council has declared, capital expenditure business cases are now required to include carbon measures 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 is ongoing and will 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.

3.2 In February Executive agreed to the adoption of the Manchester Low Carbon Build Standard for future capital projects, and this has been implemented. Work is now ongoing to develop specific measurable carbon metrics across the capital programme, for both during and post acquisition/construction phases of a project, that will enable comprehensive reporting on the intended and achieved carbon reductions created through the programme. It is intended that this will form part of these monitoring reports.

4 COVID-19 impact on the Capital Programme and response

4.1 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 previous reports to the Executive, with an initial pause across construction activity and work resuming on major sites relatively quickly.

4.2 The required social distancing measures reduces productivity and increases cost as the work programmes take longer to complete and is likely to continue for the foreseeable future. The inflationary impact of COVID-19 will be

absorbed through existing project contingencies where possible and further approvals sought if this proves insufficient.

5 Capital Programme Forecast 2021/22

5.1 The latest forecast of expenditure for the Manchester City Council Capital Programme in 2021/22 is shown in the table below. The main variances relate to Co-op Academy, Our Town Hall, The Factory, active travel schemes, and Gorton Health Hub, and are discussed in more detail in the following sections.

Manchester City Council Programme	2021/22					Spent to Date
	Current Budget	Forecast at Q1	Forecast at Q2	Forecast at Q3	Variance Q2 to Q1	
	£'m					£'m
Highways	63.2	57.8	48.0		(9.8)	14.5
Neighbourhoods	43.6	36.7	38.6		1.9	7.3
The Factory and St John's Public Realm	56.5	53.3	50.6		(2.7)	15.1
Growth and Development	93.2	93.0	83.2		(9.8)	12.6
Our Town Hall Refurbishment	70.9	67.7	60.4		(7.3)	17.7
Housing – General Fund	17.7	15.8	18.6		2.8	5.7
Housing – Housing Revenue Account	31.2	31.0	28.3		(2.7)	9.1
Children's Services	46.3	44.9	33.7		(11.2)	15.8
ICT	7.1	7.0	6.4		(0.6)	1.9
Corporate Services	19.0	15.0	14.5		(0.5)	2.4
Total (exc. contingent budgets)	448.7	422.2	382.3		(39.9)	102.1
Contingent Budgets	45.0	45.0	45.0		0.0	0.0
Total	493.7	467.2	427.3		(39.9)	102.1

5.2 The all-years capital forecast is shown in the table below:

Manchester City Council Programme	2021/22	2022/23	2023/24	2024/25	Total	All Years Variance to Current Budget
Highways	48.0	34.8	2.3	0.0	85.1	(0.6)
Neighbourhoods	38.6	55.1	17.1	0.0	110.8	0.0
The Factory and St John's Public Realm	50.6	38.5	0.0	0.0	89.1	0.0
Growth and	83.2	69.7	36.2	5.0	194.1	(0.8)

Development						
Town Hall Refurbishment	60.4	83.5	65.6	40.7	250.2	0.0
Housing – General Fund	18.6	15.4	12.7	2.7	49.4	(1.5)
Housing – Housing Revenue Account	28.3	56.5	22.4	5.5	112.7	(0.3)
Children’s Services	33.7	35.3	24.3	0.0	93.3	0.0
ICT	6.4	8.5	7.3	0.0	22.2	0.0
Corporate Services	14.5	14.2	2.8	0.0	31.5	0.0
Total (exc. Contingent budgets)	382.3	411.5	190.7	53.9	1,038.4	(3.2)
Contingent Budgets	45.0	6.0	2.5	0.0	53.5	0.0
Total	427.3	417.5	193.2	53.9	1,091.9	(3.2)

5.3 As shown in the table above, there are a small number of all year variances across the Capital Programme which total a net forecast underspend of £3.2m. The Next Steps Accommodation Programme, Sharp Project, Beswick Filtered Neighbourhood Project, North Manchester New Builds Project, along with smaller projects within Highways and Growth & Development are expected to complete under budget. The budget is expected to be reduced for these underspends when it is next revised in February, allowing any funding associated with it to be released for other investment priorities. There are also a number of projects which are currently forecast to require reprofiling over years, which can be seen in Appendix A, and these will also be reflected in the February budget report.

5.4 A more focussed look at the top 10 projects is provided in Section 6 below. These projects cover 54% of the total programme. Section 7 provides details of any other material changes relating to other parts of the programme since the last report to Executive.

5.5 The programme contains some budgets yet to be allocated to specific projects but reserved for a particular purpose, such as Education Basic Need funding, the ICT Fund and the budget for inflation pressures. These will be allocated as the schemes are progressed and the business case for approval completed, or in the case of inflation the business case showing the impact of inflationary pressures on a scheme completed. They are then subject to approval through the Council’s capital approval process.

6 Major Projects

6.1 The top ten budget by value remaining are shown in the table below:

Project	Current Budget 2021/22	Forecast at Q1	Forecast at Q2	In Year Variance	Spend to date 2021/22	Total Budget (All Years)	Total Variance (All Years)
	<i>£m</i>						
Our Town Hall Refurbishment	70.9	67.7	60.4	(10.5)	17.7	305.1	0.0
The Factory & St John's Public Realm	56.5	53.3	50.6	(5.9)	15.1	196.8	0.0
Housing Infrastructure Fund (Victoria North)	12.5	12.5	12.5	0.0	0.7	51.0	0.0
Carbon Reduction Programme & Public Sector Decarbonisation	20.6	22.7	20.6	0.0	1.7	43.4	0.0
Co-op Academy Belle Vue	21.6	21.6	10.7	(10.9)	2.5	31.5	0.0
Collyhurst	2.0	2.0	2.0	0.0	0.2	31.3	0.0
Manchester Aquatics Centre	7.5	7.5	5.7	(1.8)	0.0	30.5	0.0
Hammerstone Road Depot	11.4	11.4	7.5	(3.9)	1.0	25.0	0.0
Abraham Moss Leisure Centre	8.8	8.8	6.5	(2.3)	2.0	24.7	0.0
National Cycling Centre	6.0	0.0	6.0	0.0	0.1	24.6	0.0

6.2 Following approval of the National Cycling Centre project in July 2021 with a budget value of £24.6m, the Victoria North project, with a budget value of £21.9m, has been removed from this list.

Our Town Hall Refurbishment

6.3 The Our Town Hall Refurbishment project is forecasting to be within budget, although the project has faced a number of challenges including the impact of COVID-19, issues identified relating to discovery on site, and the scale of complexity of the design work required.

6.4 For 2021/22 the forecast spend is £60.4m compared to a revised budget of £70.9m, a variance of £10.5m. This is an increased variance of £7.3m since quarter 1. This is due to discovery issues on site such as problems with window surrounds, which has held up progress. The main clusters that are reporting variances in year compared to budget are:

- fit out, due to the delay in tendering the drylining package;
- internal stone package has been delayed due to de-scoping work to bring the packages closer to the allocated budget which has meant it will start later on site; and

- the building service cluster for which a revised cashflow is expected this month but it is reporting slippage due to late design on work packages.
- 6.5 A total of £131.5m worth of packages have now been procured, and there are 35 packages remaining with a value of £55m. At this point 77% cost certainty has been achieved with the project expecting to achieve 90% cost certainty by February 2022. Risks will be carefully managed through and across the various work packages. External factors such as inflationary pressures, supply chain uncertainty, the impact of COVID-19, and the availability of sufficient appropriate specialists, will be monitored to ensure prompt action can be taken to reduce any negative impact on cost and programme.
- 6.6 During quarter 2 significant progress has been made with the envelope works. The restoration of chimneys is progressing well, and the first temporary roof trusses have been installed to the Great Hall, which is a major milestone in advance of the removal of roof tiles and the start of roof repairs. Cranes are being utilised on site to address the major logistical challenges of removing chimney capping stones, and the Lloyd Street chimneys have been completed ahead of programme. The Civic Quarter Heat Network (CQHN) has started connecting to the building.
- 6.7 With the road closures under the Section 278 agreement now in place, the next quarter will see utility diversion works on site. One to one stakeholder engagement sessions will be held, focussing on site logistics to minimise the impact and disruption to local businesses ahead of the perimeter works commencement date in October 2021, for completion in June 2022. Progress on the temporary roof above the Great Hall will continue. Internally, progress on the Princess Street and Lloyd Street lift cores will continue along with below ground drainage works.

The Factory

- 6.8 The Factory and St Johns projects are forecasting to be within budget overall and the construction is on track to be completed in December 2022 with Manchester International Festival (MIF) having early access for work from at least October 2022. The project is currently forecast to spend £50.6m this year compared to a revised budget of £56.5m, a variance of £5.9m, which has increased by £2.7m since quarter 1. The variance is due to a reduction in the forecasted use of contingency of £0.8m, and re-profiling of construction costs of £5.1m which in the main relates to work packages around mechanical, electrical and plumbing engineering (MEP), the external envelope, warehouse roofing, structural steel and precast panels. The scale and complexity of this project inevitably means that there will be some changes to timescales for design and programming of works.
- 6.9 A total of £115m worth of packages have now been procured, and there are 7 packages remaining with a value of £3.2m. At this point 78% cost certainty has been achieved with the project expecting to achieve 88% cost certainty by March 2022. Risks will be carefully managed through and across the various work packages. As with the Our Town Hall project, there are risks with

external factors including supply chain uncertainty, the impact of COVID-19 and the impact of inflation.

- 6.10 During this period the project has seen work commencing on the Foyer steelwork and the fit out of the Towers level 6 plantroom. Work is still progressing well on the MEP fit out to the roof, mastic installation and theatre structural installation. The Towers shrink wrap, theatre rib slab concrete pour and substructure blockwork to core B along with the fixing of final pre-cast panel work has been completed.
- 6.11 The external fundraising has commenced and secured an initial £150k over the next three years, with the first £50k being received by The Factory Trust. Detailed plans to raise over £20m have been developed and will progress with pace over the next 18 months.

Housing Infrastructure Fund (Victoria North)

- 6.12 The total budget for the Housing Infrastructure fund is £51.0m, and the project is due to complete in 2024. During 2021/22 the works are forecast to spend to budget at £12.5m.
- 6.13 Early stage public consultation with regards to enabling works and the wider Redbank scheme has commenced in October 2021, which includes two public events. Submission of the enabling works planning application, which includes demolition of the Creamline Dairies site, is anticipated in mid-November 2021, with works expected to start on site in early 2022.
- 6.14 Appointments of all consultants and contractors have now been finalised and design work is in progress. Access to third party land has been negotiated in relation to site investigations for the flood mitigation works, which have now commenced on site and are expected to complete by the end of November. Site investigation works are ongoing in relation to the main infrastructure works.
- 6.15 Engagement with the Environment Agency is continuing regarding the design development for flood mitigation works and a wider scheme to take account of contaminated land issues.

Carbon Reduction Programme including PSDS

- 6.16 The total budget for the existing Carbon Reduction Programme has been revised from £22.7m to £20.6m and is due to complete by 2025. In 2021/22 Phase 1 of the programme is forecasting to spend to budget at £3.0m. Similarly, the total budget for the Public Sector Decarbonisation Scheme (PSDS) has been revised from £19.7m to £17.6m the difference being a £2.1m virement to the National Cycling Centre Project. The project is forecast to budget. Planning approval for Photovoltaic (PV) solar panels on Arcadia and Space are being worked through with the Planning Team. Commercial meetings are progressing in order to line up the contract with planning approvals. RIBA 4 designs for Heat Pumps are underway prior to contracts

being completed and signed.

- 6.17 All works to the Carbon Reduction Programme phase 1 are expected to complete within the financial year, saving 1,400 tonnes of CO2 annually, except those at Manchester Football and Tennis Centre which is being used as a COVID-19 vaccination centre. Works at the National Cycling Centre and Hammerstone Road, part funded by the European Regional Development Fund (ERDF), will be delivered in stages and are expected to start in quarter 1 of 2022/23, in line with other works at those sites.
- 6.18 Following confirmation of c.£19.7m PSDS grant funding, a scheme of works largely focused on decarbonisation of heat has been finalised, detailed designs and costings are in place and the route to contract for works has commenced. The deadline for spending the grant has now been extended to March 2022, which remains a risk, but allows for planned works at Manchester Aquatics Centre and the National Cycling Centre to be undertaken within the wider refurbishment schemes. Each project within the programme will be managed with a separate governance and risk management structure and tight monitoring of the programme and its delivery will ensure immediate action can be taken to resolve any issues in a timely manner.

Co-op Academy Belle Vue

- 6.19 The total budget for the Co-op Academy Belle Vue project is £31.5m and the project is expected to complete in October 2022. For 2021/22, the project is forecast to spend £10.7m compared to a revised budget of £21.6m, a variance of £10.9m. Significant effort has been taken to agree the contract with the contractor as soon as possible, which meant that more detailed cost information only became available once the contract was signed in July, with start on site in August. Until the contract cost profile was agreed the forecasts could only be estimates, and with the programme now fixed the periods of higher spend will be in the next financial year. The handover date is also later than originally anticipated.
- 6.20 Japanese knotweed removal has started and will be finished when the remaining trees to be removed are cut down. The contractor is currently undertaking mass fill foundations and site clearance, with the construction of the steel frame now taking place. The expected handover date is 21 October 2022, and discussions with the Co-op are ongoing as to the move-in date and the impact of not being in the school a month earlier.
- 6.21 In the next quarter, the foundations will be completed with the steel frame erected and fire proofed, and drainage will be started.
- 6.22 Key risks around the project remain the volatility of the UK construction market with shortages of materials and labour leading to significant price uncertainty. Where possible fixed price arrangements have been entered into or suitable risk allowances included within the contract sum.

Collyhurst

- 6.23 The current budget for the first phase of the Collyhurst Programme is £31.2m and is due to be spent by March 2024. In 2021/22 the programme is forecasting to spend to budget at £2.0m.
- 6.24 During the last quarter, the Council has begun reviewing the initial draft of the development and funding agreement with the Far East Consortium (FEC), the Council's JV partner for the Victoria North initiative, who will act as Development Manager for the works undertaken. Planning approval has been achieved on the South Collyhurst element, so the full scheme is now consented which involves the provision of 274 homes, including 130 new Council properties and the first phase of the Community Park. Work is being carried out with the design team prior to submission of a bid to the Shared Ownership and Affordable Homes Programme (SOAHP). FEC have continued enabling works on site around tree, earthworks and remediation in accordance with the programme.
- 6.25 In the next quarter progression of the legal agreement with FEC is expected. There will also be progression on the Pre-Construction Services Agreement (PCSA) process and the local lettings policy. Work with the Design team will continue.
- 6.26 Risks remain around the volatility of the housing market, potentially affecting sales prices and prolonging construction periods, which may slow delivery of the scheme. The market will be continually monitored, and colleagues will ensure that the development keeps pace with demand and is suitably phased.

Manchester Aquatics Centre

- 6.27 The total budget for the Manchester Aquatics Centre refurbishment is £30.5m and the project is scheduled to complete in Summer 2024. For 2021/22, the project is forecast to spend £5.7m compared to a budget of £7.5m, a variance of £1.8m. This is due to delays associated with the reviewing the business case and design for enhancements requested by the operator. The initial design was progressed on the basis of these being included and therefore the project team has needed to investigate other opportunities to enhance the entrance which has led to the overall delay to the programme, including the start on site date, which was originally expected to in November 2021 and has moved to December 2021.
- 6.28 All works are progressing for the Manchester Aquatics Centre. A programme has been accepted to accommodate the World Para Swimming Championships. The project team have agreed a layout for an enhanced entrance and added a splash pad type facility in lieu of a like for like replacement of the current leisure pool. RIBA 4 design is due to be submitted for approval. Full completion of both phases one and two is programmed for July 2024.
- 6.29 An enhanced package of carbon reduction works has been incorporated into

the project following confirmation of funding via the Public Sector Decarbonisation scheme (PSDS). These works will be delivered by the main contractor as part of the overall refurbishment project and have no impact on the construction programme which is due to commence at the end of 2021.

Hammerstone Road Depot

- 6.30 The total budget for the Hammerstone Road project is £25.0m and the project is due to complete in 2023. For 2021/22, the project is forecast to spend £7.5m compared to a revised budget of £11.4m, a variance of £3.9m which has occurred since the forecast at quarter 1.
- 6.31 The contract commencement date has been pushed back to allow further investigative works to the brickwork and steel frame within the loco shed, drainage and boundary wall in order to reduce risk within the main contract and respond to comments from planners. The end date of the programme is not anticipated to change due to the reorganisation of works.
- 6.32 Advanced works have been undertaken, to include a new electrical installation and new bin store.
- 6.33 In the next quarter pre-contract enabling works will continue on site in order to maintain progress. Planning authorities will continue to review the application with the Design team. Market testing is expected to be completed and the Stage 4 cost plan will be finalised by the contractor.
- 6.34 Key risk areas are around unexpected discoveries during ground works and when removing brickwork to expose the steel frame, and co-ordination of the ERDF funded solar panels with the main roof works. The project will be carefully monitored throughout to ensure any issues that arise can be dealt with in a timely manner.

Abraham Moss Leisure Centre

- 6.35 The total budget for Abraham Moss Leisure Centre is £24.7m and the project is expected to complete in February 2023. For 2021/22 the forecast is to spend £6.5m, a variance of £2.3m which has occurred since the forecast at quarter 1.
- 6.36 There has been a programme delay to Abraham Moss Leisure Centre due to the discovery of pile foundations within the footprint of the site. This will impact on the design and methodology for laying the concrete slab. Further surveys have been commissioned to identify if the proposed foundation solution is still appropriate. The financial impact of this is not yet known.
- 6.37 In the next quarter, adjustments will be required to the foundation design. Once this is detailed a budget cost will be agreed to proceed with the works. CP&P are preparing a briefing note covering the ground conditions and approach to be adopted. The Design team are continuing to draw up cricket plans for review and sign off. Subject to approvals, a funding application will

be made to the English Cricket Board (ECB) for a £350k grant investment towards the final scheme.

National Cycling Centre

- 6.38 The total budget for National Cycling Centre (NCC) is £24.6m and it is expected to complete in 2022. For 2021/22 the project is forecast to budget at £6.0m.
- 6.39 The track will close from January to July 2022 and negotiations continue with GLL and British Cycling regarding the decant. Detailed design is progressing, and contracts are due to be signed, with the project expected to be completed in August 2022.
- 6.40 With £2.1m secured from the PSDS grant for solar panels these must be installed by March 2022 and commissioned as soon as possible afterwards. Site setup and logistics are being developed and shared with the team developing the car port proposals.

7 Other material changes to the programme

- 7.1 Other material changes to the Capital Programme are detailed below:

Project	Current Budget 2021/22	Forecast at Q1	Forecast at Q2	In Year Variance	Spend to date 2021/22	Total Budget (All Years)	Total Variance (All Years)
<i>£m</i>							
Emergency Active Travel Fund (EATF)	5.5	1.8	0.7	(4.8)	0.2	5.7	0.0
Integrated Working – Gorton Health Hub	14.7	10.6	10.2	(4.5)	1.3	22.8	0.0
Patching Defect Repairs	7.5	7.5	5.1	(2.4)	2.3	8.3	0.0
Northern Quarter Cycling Scheme	5.1	5.1	2.7	(2.4)	0.7	9.5	0.0
Manchester Digital Security Innovation Hub (Cyberhub)	2.0	2.0	0.0	(2.0)	0.0	2.0	0.0
Chorlton Cycling Scheme	7.0	6.5	5.4	(1.7)	2.4	15.0	0.0

Piccadilly Gardens Early Works	1.7	0.3	0.3	(1.4)	0.0	1.8	0.0
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Emergency Active Travel Fund Development Works

- 7.2 The Emergency Active Travel Fund (ATF) within the Highways portfolio currently includes works to the City Centre (Triangle) and the Wythenshawe Active Travel Fund scheme, which were first and second ranked as part of Transport for Greater Manchester's (TfGM) project prioritisation exercise. Both will seek to introduce permanent infrastructure to increase sustainable travel by encouraging more residents to walk and cycle.
- 7.3 There is an in-year variance of £4.8m, which is an increase of £1.1m since quarter 1. This is due to the agreement of the governance and approval process with external funders taking longer than anticipated, further modelling being required to support the benefits to be realised, and to allow for the alignment of the work programmes with other complimentary schemes that connect or facilitate the ATF projects. Works are currently under design with an expected start date on site January 2022 although an element of the Active Travel City Centre scheme is programmed to be delivered before the Christmas embargo to support visitors and business during the Christmas trading period.

Integrated Work – Gorton Health Hub

- 7.4 Within the Corporate Services portfolio, the Gorton Health Hub programme aims to improve access to primary care for local residents, shift care from higher cost hospital settings, increase local employment and release land for new affordable housing. The scheme was put on hold to allow the scope to be revised and options appraisals reviewed. Following agreement of the chosen option a full cost plan and contractor mobilisation is now underway. This has resulted in a variance to the in-year budget of £4.5m which is an increase of £0.4m since quarter 1.

Patching Defect Repairs

- 7.5 Within the Highways portfolio, the Patching Defect Repairs project aims to maintain the carriageway & footway network by repairing actionable defects identified during safety inspections. There is a requirement to move £2.4m into the next financial year due to resource and contractor availability. The current contract ends on the 30th of November 2021 and the contractor has confirmed that they wish to exit. The current forecast considers the proposed alternate contractors and their availability and supply chain.

Northern Quarter Cycling Scheme

- 7.6 Also within the Highways portfolio, the Northern Quarter Cycling Scheme (formerly The Regional Centre Cycleway) was identified by TfGM as an important route around the City Centre for both cyclists and general traffic.

The route will create an east-west cycle route to Piccadilly Station via the Northern Quarter to Victoria Station. There is a forecast variance to the in-year budget of £2.4m.

- 7.7 The variance is due to a review of achievability of programme for the Northern Quarter Area 2 works, with some construction works being reprogrammed into the next financial year, and a movement in programme in Northern Quarter Area 3 where works are now expected to start in January 2022, moved from October 2021 to avoid working during the busy Christmas period. Within Northern Quarter Area 2, although the project is progressing through the design phase, there is a need for continuing discussion with all stakeholders. Additional time is also required to resolve consultation issues with bus operators. Within Northern Quarter Area 3, various assessments, reviews and approvals are required before works can commence on site. There has also been a change in design, moving from the use of auto-bollards to static bollards, meaning the third party, risk and contingency costs have been moved into the next financial year.

Manchester Digital Security Innovation Hub (Cyberhub)

- 7.8 The Digital Security Innovation Hub, within the Growth & Development portfolio will be located on the second floor of Heron House. This project will include the Category B refurbishment of 10,909 sq ft of space on the second floor of Heron House, Albert Square. Legal negotiations are continuing, but it is unlikely that the lease will be concluded this financial year, which has resulted in a variance to the in-year budget of £2.0m.

Chorlton Cycling Scheme

- 7.9 The Chorlton Cycling Scheme within the Highways portfolio aims to promote sustainable modes of transport as part of the City Centre Transport Strategy. The project will create a 5km route that includes large sections of segregation for people travelling on foot and by bike from traffic between Chorlton Park and Manchester. The 5km route will run along Barlow Moor Road, Manchester Road, Upper Chorlton Road and Chorlton Road, linking with existing routes and continuing to the city centre. There is a forecast variance to the in-year budget of £1.7m.
- 7.10 The variance is due to reduced construction statutory costs, removal of land acquisition as the current design no longer includes a requirement for land purchase, and the movement of forecasts for design, legal, Traffic Regulations Orders (TRO), risks, and contingency into 2022/23 for Chorlton Area 3. Works are expected to commence on site for area 3b in November 2021, however, due to the modelling information required it has been assumed that a January 2022 start date is more achievable.

Piccadilly Gardens Early Works

- 7.11 Early works in Piccadilly Gardens includes the appointment of a Design and Build contractor to undertake detailed design and planning of a wider scheme

up to RIBA Stage 3. The budget was approved to deliver the redevelopment, surveys, design works and planning submission, and to also bring forward short term improvements to enhance the experience of the space and reduce levels of anti-social behaviour. The demolition of the concrete wall is now complete, however there is a variance to the in-year budget of £1.4m as it has been agreed that an international design competition will be held to appoint a contractor, and this process could take between 18-24 months to conclude.

8 General Programme Risks

- 8.1 The Capital Budget is prepared on the best estimate of the start date and spend profile for each scheme and as the scheme develops this may change. This report is intended to highlight the total life and cost of schemes, and the risks associated with their development. All projects carry risk such as delivery risk, third party risk and market risk, including build cost and inflation. Some of the current risks are outlined below.
- 8.2 There are significant inflationary pressures in the construction market. The latest statistics from the Department for Business, Energy and Industrial Strategy (BEIS) reflect a 23.5% annual change in the construction material price index for the UK, and a 2.8% change between July and August. Such indices aggregate price movements across a wide range of construction materials, but the BEIS data shows, for example that the price of fabricated structural steel has increased by 74.8% over the last year, and imported plywood by 78.4%.
- 8.3 There is evidence in the market that contractors are reluctant to bid for work if they have capacity concerns, and in some cases are unable to bid for works as they do not have the resources available to do so. Logistical and supply issues are compounding to put pressure on prices, alongside increased costs for labour. This means contractors may be reluctant to commit to fixed price contracts and may look to pursue cost variances to existing contracts to manage the inflation pressure along the supply chain.
- 8.4 This is clearly a considerable risk to the programme, particularly where contracts are not yet agreed. There are options available to the Council, such as entering fixed price agreements or elevating risk costs, but the inflationary risk is likely to be priced in on a prudent basis. There is also an inflation contingency budget of £17.3m for the whole programme which can be accessed if inflationary pressures will be greater than the contingency budgets built into existing cost plans. Officers will continue to monitor the construction market and seek to mitigate the price risks.
- 8.5 As noted above, some of the funding sources for the programme are time-limited, such as the Public Sector Decarbonisation Scheme. Officers will continue to monitor progress against these schemes to seek to maximise the level of grant funding used.

9 Capital Resources

- 9.1 The table below summarises the current funding assumptions for the Capital Programme based on the current forecast. This will continue to be reviewed for the remainder of the financial year to ensure that the optimum value for money is achieved.

	Draft Funding 2021/22 £m	Draft Funding 2022/23 £m	Draft Funding 2023/24 £m	Draft Funding 2024/25 £m	Draft Funding All Years £m
Grants	97.2	76.0	42.6	0.0	215.8
Contributions	27.5	26.5	0.0	0.0	54.0
Capital Receipts	17.7	12.1	14.1	2.7	46.6
Revenue Contributions to Capital	29.4	52.0	20.7	5.5	107.6
Capital Fund	7.8	1.7	1.3	0.0	10.8
Borrowing	247.7	249.3	114.5	45.7	657.2
Total	427.3	417.6	193.2	53.9	1,092.0

- 9.2 Modelling the Council's future cash flow based on the funding assumptions above and the forecast revenue use of reserves and anticipated changes to working capital provides an assessment of the ongoing affordability of the forecast capital programme.
- 9.3 Total resources to be used over the forecast period have increased by £37.3m since the report at the end of Q1, in line with the budget approvals given during the same period and the variances noted above. This includes an increase in borrowing of £21.0m.
- 9.4 The current modelling forecasts that the programme remains affordable within the revenue budget available including reserves. The model forecasts that the capital financing reserve held by the Council will be required to meet the costs associated with the Council's borrowing by 2024/25.
- 9.5 The model is based on a significant number of assumptions, including the timing of any future borrowing and forecast future interest rates. As these assumptions change, the outcome of the capital financing model including use of capital financing reserves can also change.
- 9.6 The current forecast for the Council's prudential indicators, compared to those reported to members in Executive in the budget reports, based on the current forecast capital expenditure and funding is shown at appendix C.

10 Social Value

- 10.1 Every capital project is required to consider the social value which could be realised, either through procurement or other routes, through the creation of the asset. This is one of the key requirements of any capital business case brought forward.

- 10.2 By capturing the expected social value benefits, this allows projects to monitor their social value output on an ongoing basis. In some cases, such as where social value is monitored with groups like the North West Construction Hub, this is done on an aggregate basis rather than project by project.
- 10.3 During the last quarter, for example, as part of the Children's Services Special Educational Needs (SEN) programme, 3 new apprentice jobs have been created, which includes a graduate trainee who will receive 2 years management training. Support has been provided to 14 local people, with temporary posts on site. Community support includes purchasing, donating and planting bulbs in local parks, litter picks and the donation of IT kits to support online learning for local schools. Support has been provided to a local centre with the donation and painting of walls, relaying paving and painting handrails together with volunteer support. Free funded vocational training opportunities have been provided to local unemployed people and a week of work experience for young people has been delivered.
- 10.4 The projects within the Highways Service have employed 5 local people for the contract duration. Financial donations totalling £25k have been made, which have been used in the refurbishment of Brunswick Parish Church, as part of a Manchester Mind initiative, to refurbish Sackville Street gardens and help deter anti-social behaviour. Other donations include wildflower bulbs and hanging baskets for a green project, and road safety signs to schools in South Manchester.
- 10.5 Transport infrastructure company Colas Ltd won a social value award at the 2020 Civil Engineering Contractors Association, for committing to support local homeless people to find stable accommodation and employment, when working on the Princess Road junction improvement works. Colas provided pre-employment support and training for homeless and long-term unemployed people, in association with local charities. Colas also worked with Highways to find work for someone who had worked for them on Council projects but, unfortunately, after his contract ended, he became homeless. By approaching the wider supply chain for Highways, a permanent position was found.

11 Interest on mortgages

- 11.1 The Council has a number of historic mortgages, provided for specific regeneration schemes in the north of the city, which were equity share arrangements. Some of these mortgages have reached the end of the intended term, and so interest becomes payable on the outstanding amount. The Executive is required to publish the applicable interest rate for such mortgages, set in accordance with legislation.
- 11.2 For the purposes of charging interest on mortgages that the Council has provided, from the 30th September 2021 the applicable interest rate is 3.50%, being the higher of the local average debt rate and the national standard mortgage rate. The local average debt rate is the weighted average rate of the Council's long-term debt at that date.

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.