Manchester City Council
Report for Resolution

Report to:	Executive – 17 February 2021 Resources and Governance Scrutiny Committee – 1 March 2021 Council – 4 March 2021
Subject:	Capital Strategy and Budget 2020/21 to 2024/25
Report of:	The Chief Executive and Deputy Chief Executive and City Treasurer

---

Summary

The purpose of the report is to present the 2021/22 capital programme and forward commitments, alongside the Capital Strategy for the City Council.

Recommendations

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

The Executive is requested to:

(1) Approve and recommend the report to Council, including the projects for Executive approval in section 6, and note that the overall budget figures may change subject to decisions made on other agenda items.

(2) Note the capital strategy.

(3) Note that the profile of spend is provisional, and a further update will be provided in the outturn report for 2021/22.

(4) Delegate authority to the Deputy Chief Executive and City Treasurer in consultation with the Executive Member for Finance and Human Resources to make alterations to the schedules for the capital programme 2021/22 to 2024/25 prior to their submission to Council for approval, subject to no changes being made to the overall estimated total cost of each individual project.

(5) Approve the proposed write off two long-term debtors, (EoN Reality £1.1m and Band on the Wall £0.2m) and delegate to the Deputy Chief Executive and City Treasurer to set out the terms and accounting treatment for the write offs.

The Council is requested to:

(1) Approve the budget changes for the capital programme noted in section 6.

(2) Note the capital programme as presented in Appendix 3 (£329.0m in 2021/22, £533.1m in 2022/23, £255.1m in 2023/24 and £65.9m in 2024/25) which will require prudential borrowing of £708.2m to fund non-HRA schemes over the four-year period for which provision has been made in the revenue budget for the associated financing costs (within limits previously agreed).

(3) Note that the profile of spend is provisional, and a further update will be provided in the outturn report for 2021/22.

(4) Delegate authority to:

a) The Deputy Chief Executive and City Treasurer in consultation with the Executive Member for Finance and Human Resources to approve capital expenditure on schemes which have budget approval.

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

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

d) The Deputy Chief Executive and City Treasurer in consultation with the Executive Member for Finance and Human Resources to add qualifying spend to save projects to the capital budget accordingly up to a maximum of £5m in 2022/23 and then £5m per year thereafter.

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

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

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 and the Carbon Reduction Programme.

Manchester Strategy outcomes	Summary of the contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The capital programme contributes to various areas of the economy, including investment in public and private sector housing, education and children's social care, transport infrastructure,

	major regeneration activities, environmental, cultural and leisure services.
A highly skilled city: world class and home-grown talent sustaining the city's economic success	The capital programme includes substantial investment in education and also provides opportunities for the construction industry to bid for schemes that could provide employment opportunities at least for the duration of contracts.
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	The capital programme includes investment in adult and children's social care, education, housing and the environment, cultural and leisure services, all of which contribute towards the strategy.
A liveable and low carbon city: a destination of choice to live, visit, work	Investment in all areas of the capital programme contributes towards the strategy, notably investment in sustainable and affordable housing, building schools for the future, transport, environmental and major regeneration programmes.
A connected city: world class infrastructure and connectivity to drive growth	Through investment in areas such as ICT and the City's infrastructure of road networks and other travel routes

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

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

The capital programme report as presented will require £708.2m (all non-HRA) of prudential borrowing over the period 2021/22 to 2025/26. Provision has been made in the proposed revenue budget for the associated financing costs, and for the revenue contributions to capital outlay (RCCO) which are forecast to be received from the General Fund and HRA.

Financial Consequences – Capital

For the City Council programme, the latest forecast for 2021/22 is £329.0m, including new projects included in this report, of which £169.3m is forecast to be funded from borrowing. Across the forecast period 2022/23 to 2025/26, the forecast is £854.1m, of which £538.9m is forecast to be funded from borrowing.

Contact Officers:

Name: Carol Culley
Position: Deputy Chief Executive and City Treasurer
Telephone: 0161 234 1647
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 and Treasury Management
Telephone: 0161 234 3459
E-mail: tim.seagrave@manchester.gov.uk

Attachments

Appendix 1: Capital Approval Process flowchart
Appendix 2: Proposed Amendments to the Capital Budget
Appendix 3: Detailed Capital Programme 2021/22 – 2025/26
Appendix 4: Comparison of Capital Financing Requirement to External Debt and Internal Borrowing

Background documents (available for public inspection):

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

Report to the Executive 17th February 2021 – Capital Strategy and Budget 2020/21 to 2024/25
Report to Council 5 March 2021 (Capital Strategy and Budget 2020/21 to 2024/25)
Report to the Executive 17th March 2021 - Capital Programme Update
Report to the Executive 2nd June 2021 – Capital Programme Update
Report to the Executive 30th June 2021 – Capital Programme Update and Capital Programme Monitoring 2020/21 Outturn
Report to the Executive 28th July 2021 – Capital Programme Update
Report to the Executive 15th September 2021 – Capital Programme Update
Report to the Executive 20th October 2021 – Capital Programme Update
Report to the Executive 17th November 2021 - Capital Programme Monitoring 2021/22
Report to the Executive 19th January 2022 – Capital Programme Update

1 Introduction

1.1 As part of the suite of budget reports presented on this agenda, Executive and Council are recommended to approve the updated Capital Strategy for 2021-25. This report details the latest position on the Strategy, the governance process and progress on delivery.

1.2 The capital strategy provides the medium to long term context in which capital investment decisions are made, governance arrangements and the approach to investments and Treasury Management Strategy, which is elsewhere on the agenda.

1.3 This report sets out the priority areas for future investment, including carbon reduction and housing. Schemes and projects are added to the budget at the point they have been developed and agreed as part of the checkpoint approval process.

2 Strategic Context

2.1 The Capital Strategy has been prepared as the national economy and fiscal position emerges from the impact of the COVID-19 pandemic. Whilst there are some improvements in the Office for Budget Responsibility's (OBR) economic forecasts inflation has reached it highest level for more than three decades with CPI expecting to reach 6% by Easter 2022.

2.2 The COVID-19 pandemic is continuing to impact on the delivery of the capital programme. Whilst the early impact was related to site access and a slowdown in work programmes, it is now been felt in the significant inflationary pressures on the supply of materials and labour. The December statistics for inflation in the construction industry published by the Department for Business, Energy and Industrial Strategy highlight that the material price index for all work increased by 22.7% in November 2021 compared to November the previous year. This included price increases of 66.1% for fabricated structural steel and 60.4% for particle board in the same period. Whilst these will be absorbed through project contingencies where possible, it is an important consideration within the Strategy.

2.3 The Spending Review included announcements on a number of new potential capital funding sources. The UK Shared Prosperity Fund (when available) is expected to be on average £0.9bn a year across the UK, based on the profile announced in the 2021 Autumn Spending Review, to match the receipts from EU structural funds which have previously been received. Further details on accessing funding are expected during 2022. Other available funds include Green Homes grant, the Getting Building Fund and the Public Sector Decarbonisation scheme. Similarly, access to EU programmes which can continue to be used following the ending of the transition period, such as Horizon Europe, which is the EU's research and innovation programme. Opportunities to use this funding will be maximised and they could play a significant role in supporting the capital programme.

2.4 Manchester is one of the fastest growing cities in England, according to recent ONS data. The capital strategy will need to support the council to capitalise on the opportunities this brings and to be able to maximise any funding opportunities available. The negative impact of cost-of-living increases and welfare changes are keenly felt by many of our residents. Ensuring good connectivity to the jobs created, facilities to support strong communities and places where people want to live and work, and a strong affordable housing offer are equally important. There will be an increased focus on:

- Creating a more inclusive economy – capturing our own growth and connecting more of our residents to the city's success, especially those residents experiencing inequalities.
- Tackling poverty and inequality – reducing poverty and increasing wealth in Manchester in a way that addresses the deep inequalities that exist in the city, including health inequalities.
- Housing – increasing the supply of affordable housing and creating more diversity in housing tenure.
- Neighbourhoods – create thriving communities
- Climate and zero carbon – making Manchester a leader in the fight against climate change and reaching our goal of being a zero-carbon city by 2038.

The Greater Manchester Context

2.5 The ambition is for Greater Manchester (GM) to become a financially self-sustaining region at the heart of the Northern Powerhouse. GM have been working hard with Government to turn that vision into a reality. The priorities around growth and reform are distinctive and evidence based, and the City Region is one of the few economic geographies that can be a national engine for growth for the North and the UK as a whole.

2.6 Following the publication of a one year "Living with Covid Resilience Plan" in 2021, a fully refreshed Greater Manchester Strategy will be launched in February 2022. The focus of the new strategy is to create a greener, fairer and more prosperous Greater Manchester, tackling the inequalities that exist in the city-region and which have been worsened by the clinical and economic impact of COVID. The strategy will provide the overarching framework that supports the GM Industrial Strategy, Housing Strategy, Spatial Framework and Internationalisation Strategy.

Our Manchester Strategy for the City

2.7 The Our Manchester Strategy 2016–2025 sets out the future ambitions for Manchester. It details the goals that everyone in our city – our public, private, voluntary and community organisations and our residents – will work on together to put Manchester in the topflight of world cities by 2025. In 2020 we reset these priorities to acknowledge and look beyond current challenges and make sure the city achieves its ambition. The reset of our strategy was based on over 3,800 consultation responses and place a renewed focus on young people, our economy, health, housing, our environment, and infrastructure.

2.8 The five themes of the Our Manchester Strategy are:

- A thriving and sustainable city
- A highly skilled city
- A progressive and equitable city

- A liveable and zero carbon city
- A connected city

2.9 Through each priority runs Manchester's commitment to build a more equal, inclusive and sustainable city for everyone who lives, works, volunteers, studies and plays here. Only by working together can we achieve our vision by making an impact on our priorities of making Manchester:

The Manchester Economic Recovery and Investment Plan

2.10 In direct response to the economic challenges of the COVID-19 pandemic, the Council has worked with key partners in the private and public sectors to develop an ambitious plan for a more inclusive and sustainable recovery. The Manchester Economic Recovery and Investment Plan was launched in November 2020 with the full support of local businesses. It includes 50 projects with a total investment value of £800m. The projects include a number of thematic areas including skills, zero carbon, digital, culture and transport, but with four key strategic areas of investment which will drive economic growth:

- **Innovation**: Building, in part, on the city's work across its universities, Manchester has the potential to leverage Greater Manchester's science, research, innovation and teaching asset base to create new largescale clusters of high-value economic activities.
- **Manchester City Centre and Urban Realm**: investment in public space and mobility will capitalise on the City's success in this area and make the area yet more attractive to investors.
- **Zero Carbon Housing Retrofit**: The UK Government has already committed to a net zero carbon emissions target by 2050 and through hosting the 26th UN Climate Change Conference of the Parties (COP26), there is a clear focus on zero carbon and climate resilience. This project provides an opportunity to link new investment to local employment and deliver skills initiatives alongside delivering long-term investment in zero carbon.
- **North Manchester**: Two major developments provide the basis for the social and economic transformation of an area. A new North Manchester General Hospital with a health and wellbeing campus and Victoria North; a major housing and regeneration initiative.

2.11 Since the plan was adopted, Manchester City Council has been working collaboratively with our partners on a range of workstreams to support the city's recovery. This has included distributing grant funding to businesses, working with training providers to link made unemployed to new opportunities, and successfully applying for central government funding to deliver regeneration projects such as the refurbishment of Campfield Market Hall.

Other City Council Priorities

2.12 A number of other significant developments will inform the approach to capital investment within the city. These include:

- The Our Manchester Industrial Strategy,
- the Manchester Residential Growth Strategy and Affordable Housing Strategies with the commitment to supporting overall and affordable

housing growth
- Maximising new commercial development opportunities,
- Delivering on the outcomes of the reviews of the Highways Estate, the Operational Built Estate and the ICT Estate.
- The Council’s declaration of a Climate Emergency in July 2019 and our Climate Change Action Plan with the objective of halving the Council’s direct emissions by 2025 and to play our full part in supporting the city to do the same.

3 Development of the Capital Strategy

3.1 The Capital Strategy has been developed to ensure that the Council can take capital expenditure and investment decisions in line with Council priorities and properly take account of stewardship, value for money, prudence, risk, sustainability and affordability.

3.2 Capital investments will be made in line with the Capital Strategy priorities. These decisions are within the economic powers of the Council and have strong governance arrangements that underpin decision making. The Council will not invest in capital schemes purely for yield, although some schemes will be financed all or in part from returns on investment. Usually, investment will be within the local authority area although there may be exceptions if it is within the relevant economic area and meeting a key regeneration or zero carbon objective.

3.3 There will also be:

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

3.4 The priorities for the Capital Strategy are therefore:

- ***Investment into neighbourhoods and communities.***

    - to support new and expanded high quality primary and secondary school facilities for a growing population;
    - sustaining core assets such as parks, leisure facilities, community facilities and libraries for Manchester residents;
    - to support businesses and residents to create thriving district centres with appropriate retail, amenities and public service offer;
    - to ensure that there is a sufficiency of facilities in the city to support the demands within our adults and social care system;

- ***Investment in growth and regeneration – to support employment growth through a strengthening and diversification of the economic base and efficient use of land.***

- Catalytic in supporting recovery and economy and delivery of the Recovery Plan
- Delivery of major regeneration schemes in the north and east of the city: North Manchester including North Manchester General Hospital, Victoria North, and Back of Ancoats and Holt Town
- Eastern Gateway
- To promote the role and continuing growth of the City Centre as a major regional, national and international economic driver.
- Securing investment for an internationally competitive cultural and sporting offer

- ***Delivery of the Zero Carbon Action Plan*** and achieving net carbon zero by 2038 at the latest in the city, as set out in the Zero Carbon section of this report. This will need to cut across all the Council's investment priorities.

- ***Delivery of the Housing Strategy*** to provide an expanded, diverse and affordable housing offer, creating the conditions to increase the supply of affordable and social housing, and that all new homes in the city are supported by good local public services and an accessible public transport infrastructure.

- ***Maintaining our corporate assets.*** Investing in highways and road safety, the Asset Management Plans, and ICT, alongside seeking to maximise the use of the corporate and investment estate, to ensure Manchester is a well-managed council.

- ***Investment in new and upgraded transport infrastructure,*** including delivering the Highways Investment Programme, and further investment in schemes which support modal shift and active travel.

3.5 The above sets out ambitious priorities. The Council has to set a capital budget which is affordable and sustainable within its revenue budget and some difficult prioritisation decisions will be required.

3.6 This report includes pipeline projects which have been identified to support the delivery of the Council's objectives and may require capital investment. These projects do not form part of the approved capital programme but will be added as they are developed, become viable and are approved. Likewise, a number of programmes, such as highways and schools' maintenance, are funded via government grants and these will be brought into the programme when the funding is confirmed.

4 Zero Carbon Capital Investment

4.1 The City Council has declared a climate emergency and is seeking to become carbon neutral by 2038 at the latest, requiring the Council to reduce its direct carbon dioxide emissions by at least 50% by 2025.

4.2 This will require reducing carbon to be embedded across all planning and investment. Changes in how buildings are operated alongside behavioural changes such as recycling will be important but will need to be supported by capital investment aimed at reducing carbon.

4.3 The Council has an important leadership role working alongside the Manchester Climate Change Partnership and GMCA. This includes the development of the Local Plan and the implementation of the Manchester Low Carbon build standard for new developments planned for 2023, the delivery of the Green and Blue infrastructure plan and related pieces of work. Our direct investment will include work such as delivering the Tree Action Plan (year 2 complete including a £1m contribution from MCC for tree planting programme) and rolling out the learning from West Gorton Park into new developments including Victoria North and Mayfield.

4.4 Last year the Council formally adopted the Manchester Low Carbon Build Standard for all new developments directly delivered by the council, following its endorsement by the Manchester Climate Change Agency. The Standard sets minimum expectations which should be followed by all Council schemes, with zero carbon exemplar schemes actively encouraged.

4.5 A significant challenge remains the retrofit of the city's housing stock. The Council has worked with Greater Manchester on the recently approved *retrofitGM: Accelerating the Renovation of Greater Manchester's Building* to reduce carbon emissions from how buildings are heated. The strategy has the three aims of boosting skills, improving access to funding and investment and speeding up delivery, and the work is led by the GM Decabonisation Taskforce which includes our Registered Providers. The council is holding a Low Carbon Homes event in March designed to be a call for action for this work.

4.6 As the majority of the Council's carbon emissions are from its existing corporate estate and the Council has a responsibility to reduce emissions across the Northwards and partner managed housing stock, significant investment will be required to bring these buildings up to carbon efficient standards. This represents a major opportunity to both establish Manchester as a centre for green technology and services, and to work with local skills providers to ensure that the city's residents are given the best possible opportunities to access these new careers.

4.7 The delivery of the Council's Climate Change Action Plan (CCAP) requires both revenue and capital investment from multiple funding sources over multiple financial years.

4.8 To date, we have already put in place investment of approximately **£192m** to deliver the 5-year Plan. The breakdown of this funding by source is as follows:

- **£76.4m** via the Council (including investment in LED streetlighting replacing lights with LED lights with lower emissions, the completion of the Civic Quarter Heat Network powering council buildings with cleaner energy, Estates Carbon Reduction, purchase of Electric Refuse Collection Vehicles, Tree Planting, and new climate change posts)
- **£65m** from UK Government (including funding for Mayfield Park, Public Sector Decarbonisation Scheme which has funded part of the Council's carbon reduction programme to reduce the carbon output of our operational estate, Active Travel, Social Housing Development Fund, HNIP grant contribution to Civic Quarter Heat Network)
- **£41m** from the GMCA (including Active Travel, GM Mayors Challenge Fund)

- **£4.3m** from the European Union (including ERDF funded Unlocking Clean Energy, Horizon 2020 funding for West Gorton Park, URBACT C-Change and Zero Carbon Cities projects and e-cargo bikes).
- **£4.3m** from partners (including One Manchester contribution to the Social Housing Decarbonisation Fund)
- **£1.1m** from the Manchester Climate Change Agency (including Zero Carbon Communities and Climate Resilience

4.9 There will also be specific investment required with the forecast additional projects identified in this report including:

- moving to a sustainable transport system across the City, including investment in cycle lanes and electric charging points;
- continued investment in the Corporate Estate to improve energy efficiency given the estate accounts for roughly 70% of the Council's carbon emissions;
- investment in a solar farm (directly or via a PPA) to provide zero carbon electricity to the Council's estate;
- retrofit works to the Council's housing stock to move towards it being carbon neutral; and
- further investment in green energy solutions.

4.10 Capital investment aimed at reducing carbon must focus on projects which will make the biggest difference in order to make the most effective use of our resources.

5 Governance and Asset Management Planning

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

5.2 Potential capitalisation flexibilities including the use of capital receipts to support revenue expenditure for service transformation, have not been utilised. This will be continue to be reviewed in the light of the ongoing revenue budget challenge and the significant changes the Council is expected to deliver.

5.3 The capital expenditure and investment decision making process has five distinct stages to cover project initiation, project design and costs, democratic process, capital expenditure approval and monitoring/review. The process is shown at Appendix 1. For any project seeking capital expenditure approval a business case must be drafted, covering:

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

the project, including legal issues.

- ***Outcomes to be delivered:*** what the project will achieve, and the benefits that will be realised. This includes social value, and impact on the low carbon strategy.

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

5.5 Any capital investment proposal is peer reviewed and within the Council there are commercial and public sector professionals who carry out this work. Where required external advice is commissioned to perform due diligence or to support the creation of the business case. External advisors are also used for material projects that have a level of risk associated with them.

5.6 The capital programme is managed on a rolling basis and updated as new schemes are developed or there are material changes to existing schemes. The Strategic Capital Board receives monthly updates from each directorate board detailing financial forecasts, risks, and expected outcomes. The Executive receives monthly reports to approve any changes and a quarterly monitoring report.

5.7 The approved capital programme includes several asset management programmes for the operational estate, housing, highways and schools. The Council also holds assets for expected future regeneration projects. Work is undertaken to ensure that these assets are maintained. Some assets, such as land, could also gain or lose value in the intervening period, but the overarching aim is to release the value in the asset, which will be wider than purely financial considerations, once the regeneration has been completed. Work is being completed to review the use of the corporate and investment estate to ensure an appropriately scoped Asset Management programme and the value from the estate is maximised.

5.8 There remains a strong focus on achieving value for money. The Capital Programmes function was peer reviewed in 2021 by PWC, which identified several opportunities for improvements to governance and accountability. An action plan is being developed to implement changes across the capital approval process, following work with our advisers, Future Gov.

6 Changes to the Capital Programme

6.1 In line with the strategic objectives set out above, there are a number of schemes which have been developed and are ready for inclusion in the capital programme. These are summarised below and have been prioritised because they support annual business as usual investments, specifically continuing the investment in highways maintenance and road safety, the continuation of the asset management plan to ensure that the Council's assets are maintained, and the effective use of ICT to support the Council in being well-managed.

6.2 A summary of the schemes, funding and profile of spend can be found at appendix 2 and are summarised below. The total increase to the programme would be £44.1m. These schemes are included in the proposed programme shown in section 8 and are affordable within existing and forecast capital resources.

For Executive approval:

- ICT: Platform Compliance 2. This scheme will fund three projects to enable the continued effective operation of core systems for the Revenues and Benefits service. This includes replatforming Academy, migrating Information@Work and installing and upgrading Email Connect. A capital budget decrease of £0.246m is requested funded from borrowing along with a corresponding revenue budget increase of £0.246m funded from Capital Fund.

- ICT: Corporate Recruitment Solution. The recruitment process is bureaucratic and frustrating for managers and the current ICT system is not fit for purpose and out of contract in 2022. As part of the Future Shape programme work is underway to streamline this including investment in a new corporate recruitment solution. A capital budget decrease of £0.240m is requested funded from borrowing along with a corresponding revenue budget increase of £0.240m funded from Capital Fund.

- Highways: HS2 Highways Support. This request is for funding for resources required to effectively respond to the HS2 proposals currently under consultation. A capital budget decrease of £0.310m is requested and approval of a corresponding transfer of £0.310m to the revenue budget, funded by Capital Fund.

For Council approval:

- Highways – Investment Plan additional year. It is recommended that the investment plan is extended by a further year prior to the completion for the full business case for what will be required to support the council's road network for the next 3-5 years. This includes funding for road and footwork improvements (£14.129m), drainage repairs (£2m), to develop preliminary designs for funding bids for infrastructure development funding, eg active travel, (£1.5m). A capital budget increase of £17.629m is requested in 2022/23. This will be funded from estimated government grant of £4m and borrowing of £13.629m. Once the final government grant is known the budget will be adjusted accordingly.

- Growth – Asset Management Plan additional year. To fund an additional year of funding for the asset management programme to enable capital replacement and improvement works across the Council's operational and heritage assets and buildings where the Council has landlord responsibilities. A budget increase of £9.4m is requested funded from capital receipts.

- Growth – Strategic Acquisitions additional year. To enable the Council to make acquisitions of land and property which are of strategic importance, a budget increase of £3.0m in 2022/23 is requested, funded from the Capital Fund reserve.

- Public Sector Housing: Sprinkler Systems – Tower Blocks PFIs. The scheme will commence the programme of works to tower blocks within the Miles Platting and Brunswick PFI areas. The work will cover 11 tower blocks and the adjoining extra care scheme. A capital budget increase of £0.786m in 2021/22, £1.754m in 2022/23 and £1.474m in 2023/24 is requested, funded by HRA Reserves, also £0.147m in 2022/23 funded by Capital Receipts.

7 Inflation

7.1 Inflation continues to pose a significant risk across the capital programme particularly where contracts are not yet agreed. There are options available, such as entering fixed price agreements or elevating risk costs, but the inflationary risk is likely to be priced in on a prudent basis. Existing projects have contingency budgets, but these may not be fully able to accommodate the current high level of construction inflation and additional funding for some schemes may be required.

7.2 There is an inflation contingency budget of £17.3m for the whole programme which can be accessed if inflationary pressures are greater than the contingency budgets in the existing cost plans. Given the scale of inflation in the construction industry and the likelihood that it will remain high for some time, it is proposed that an additional £10.7m is added to the inflation budget, funded from borrowing to ensure existing budget provision exists if schemes are affected by inflation.

8 Proposed Capital Programme from 2021/22

8.1 The capital programme 2021/22 to 2024/25 includes existing programme and approved schemes only. The pipeline priorities and externally funded programmes will be added as they are approved. The programme is based on that forecast as at the end of December 2021, which is reported elsewhere on the agenda, and the proposed schemes noted above. Details of the potential pipeline schemes are also contained below.

8.2 The forecast spend for 2021/22 is £329.0m. The profile of capital expenditure will be updated as projects develop through the design stage or if the resource position changes and will be reported to Executive in the regular Capital Update and Monitoring reports.

8.3 The proposed forecast programme is summarised in the table below:

Forecast Budgets	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**Total**	***Total 22/23-24/25***
	£m	**£m**	**£m**	**£m**	**£m**	***£m***
Manchester City Council Programme						
Highways	40.9	64.7	0.6		**106.2**	***65.3***
Neighbourhoods	35.7	62.7	15.5	0.9	**114.8**	***79.1***
The Factory and St John’s Public Realm	42.7	46.4			**89.1**	***46.4***
Growth	64.3	95.7	61.3	5.0	**226.3**	***162.0***
Town Hall Refurbishment	53.8	86.1	68.1	42.2	**250.2**	***196.4***

Housing – General Fund	17.1	27.4	37.0	2.7	**84.2**	***67.1***
Housing – HRA	24.7	39.4	31.9	14.6	**110.6**	***85.9***
Children's Services (Schools)	31.1	37.1	1.0		**69.2**	***38.1***
ICT	6.4	6.8	1.0		**14.2**	***7.8***
Corporate Services	12.3	11.0	0.6	0.5	**24.4**	***12.1***
Total (exc. Contingent budgets)	**329.0**	**477.3**	**217.0**	**65.9**	**1,089.2**	***760.2***
Contingent Budgets	0.0	55.8	38.1		**93.9**	***93.9***
Total Programme	**329.0**	**533.1**	**255.1**	**65.9**	**1,183.1**	***854.1***

8.4 The proposed programme is large and complex, with over 180 schemes to be delivered across the next three years, in the context of a challenging delivery market, particularly due to supply issues and inflation. On a project-by-project basis there will be optimism bias with regards to how quickly projects can progress and be delivered, which means that the forecast for 2022/23 is highly ambitious.

8.5 Historically, excluding financial support classed as capital expenditure, the Council has capital expenditure of around £200-250m on an annual basis. A highly focussed review of the programme will be undertaken before the outturn report, when the budget will be re-profiled to take into account re-profiling required from 2021/22, to seek to remove elements of the optimism bias and forecast a reasonable level of capital expenditure over the next three years.

8.6 The programme contains some contingent budgets reserved for a particular purpose, such as Education Basic Need funding, the ICT Fund and the budget for inflation pressures. These will be allocated when the individual schemes are approved through the Council's capital approval process.

8.7 Further details of the major schemes included are set out in this report and a full list of the projects and the forecast split by financial year is shown at appendix 3.

9 Highways

9.1 The Highways capital programme consists of the investment in the City's highways network, including road safety works, work on bridges and cycle paths. The programme is forecast to be £65.3m between 2022/23 and 2024/25 and the primary schemes within the programme are detailed below.

9.2 The Highways Maintenance Investment Programme (£29.4m) will continue. The programme will seek to implement longer term preventative maintenance measures, which would result in the Council's highways assets being improved and reducing maintenance costs. This includes works to drainage systems, large patching works, carriageway works and repairs to footpaths.

9.3 The Bridge Maintenance programme (£2.7m) will continue to ensure that the Council's bridge assets across the highways network are maintained according to statutory guidelines.

9.4 The significant capital investment programme will improve road safety as wherever possible the changes to the highway are made to support it, for example the Accident Reduction and Local Community Safety scheme and projects for highway improvements around schools (£3.1m) where accident prevention is a key aim of the project. Similarly, the programme of cycling and walking improvements funded through the GM Mayor's Challenge Fund will see significant road safety benefits from better road crossings, segregated cycle lanes and additional pedestrian facilities.

9.5 The Chorlton Walking and Cycling Scheme (£4.3m) has completed a number of phases and onsite for the remaining phases of the route with the final section designed and awaiting GMCA approval. All works are programmed to complete in 2022/23 creating a safe 5 km route from Chorlton Park and linking with existing routes into the city centre. The Northern Quarter Scheme (£7.3m) has completed works on a number of key locations across the scheme including Tarriff Street and Thomas Street. Further sections of the scheme are progressing with designs to create an east/west walking and cycle route between Piccadilly Station and Victoria Station via the Northern Quarter. Works will make the streets safer, greener and better for everyone, especially for those on foot or bicycle. Other externally funded walking and cycling schemes include the Fallowfield Loop and Yellow Brick Road (Manchester Cycleway), Victoria North and Eastern Gateway route and the Levenshulme and Burnage Active Neighbourhood improvements have all delivered initial works with full scheme delivery following in 2022/23.

9.6 Traffic Free Deansgate Permanent works (£1.2m) funding is being used to promote the road closures and include for automatic bollards and any other infrastructure to support a safe and secure scheme.

9.7 The Public Realm programme (£0.7m) will support the maintenance and development of the Council's public realm assets.

9.8 The Street Lighting Private Finance Initiative (PFI) project (£0.8m) is continuing to deliver the procurement and installation of modern, state of the art, low energy light emitting diode (LED) street lighting technology. The scheme will provide revenue savings due to reduced energy charges, and lower maintenance costs for the Council's street lighting, and contribute to reducing the Council's carbon emissions.

Potential Future Investment

- A significant proportion of the Highways Capital programme is funded from government grant. An estimate has been included in the budget increase above and will be confirmed once the funding has been allocated.

- Further investment in Highways, following the end of the original Highways Investment Plan, will form part of the prioritisation process noted above with a business case for further investment to continue to improve the highways and footways network, which can complement the government grant funding.

- Following the public consultation of the City Centre transport strategy, feasibility studies will be conducted for the design of the key transport corridors across the City Centre, with further investment funded from the existing budget for other highways improvements.

- The closure of Deansgate has been progressed, with the permanent traffic orders expected to be published soon. Work on a linked scheme at King Street is expected, followed by a new bus gate on New Bailey Street.

- Ongoing review of accident prevention and local community safety measures. A budget of £2m was included in the programme for 2021/22 and any unused resources will be carried forward into 2022/23.

- 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 and feed into proposals established between MCC and TfGM as part of City Regional Sustainable Transport Settlement plans agreed between government and the sub-region. This will establish the future programme of highways schemes including the development of several key corridor routes into the city, the Streets for ALl Programme, and city centre bus connectivity.

- Investment to support the further works on several major projects where highways infrastructure will play a key role. Currently proposals include consideration of HS2, Etihad Campus, the Ancoats Mobility Hub, Victoria North and the Airport and the Bee Network along with localised pinch points and corridors.

10 Neighbourhoods

10.1 The Neighbourhoods capital programme includes the investment required to support the City's neighbourhoods and well-being, such as libraries and leisure centres. The programme is forecast to be £79.1m between 2022/23 and 2024/25, as shown in the table below, and the primary schemes within the programme are also detailed below:

	2021/22 budget	**2022/23 budget**	**2023/24 budget**	**2024/25 budget**	**Total**
	£m	£m	£m	£m	**£m**
Environment and Operations	11.6	2.8			**14.4**
Leisure	23.3	58.1	14.0	0.9	**96.3**
Libraries	0.8	1.8	1.5		**4.1**
Total Neighbourhoods	**35.7**	**62.7**	**15.5**	**0.9**	**114.8**

Environment and Operations

10.2 As part of the waste and street cleaning contract, a loan will continue to be available to the contractor to upgrade vehicles (£0.4m), including to make them clean air compliant, on a spend to save basis. The loan will be repaid through reduced service costs.

Leisure, Libraries, Galleries and Culture

10.3 The Parks Investment Programme (£9.2m) will focus on improvements to the quality of the community and local parks, green spaces and allotments across Manchester.

10.4 Investment will continue at Abraham Moss leisure centre and library (£15.7m). These works will reduce revenue costs associated with the upkeep of the building and provide long-term savings to the Council.

10.5 The refurbishment of the Manchester Aquatic Centre (£25.2m) will return the building to a compliant venue for all current uses, to modern standards, and will incorporate carbon reducing technologies.

10.6 National Cycling Centre refurbishment (£18.6m) has commenced and will fulfil the Council's maintenance obligations and ensure the building is fit for purpose, incorporating carbon reducing technologies.

Potential Future Investment

- Recognising the importance of culture to the economic recovery of Manchester, potential investment to support cultural and creative industries, particularly where such investment can be leveraged against external funding.

- The development of New Smithfield Market with work continuing to understand the scope of such works and the implications for the Council.

- Investment to update crematoria, and other markets.

- The continued development of the leisure estate, with the introduction of new leisure assets as well as large scale improvements to existing facilities which will also contribute to the low carbon aims of the Council. The funding will be mixed with the management of Council funds jointly controlled with Sport England, the ability to access other national funds and some use of City Council resources. This is expected to include the Hub at Hough End.

- Further investment in the library estate, including the self-service systems, to ensure that communities can continue to have wide access to library services

- Parks investment linked to the approval of the Parks Development Plan. Funding is already held against this programme and details of individual schemes will continue to be brought forward.

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

11 The Factory and St John's Public Realm

11.1 The Factory and St John's Public Realm programme is for the creation of the Factory cultural facility, and the public realm works required in the surrounding area. The programme is currently forecast to be £46.4m between 2022/23 and 2024/25 with planned spend currently £42.7m in 2021/22.

12 Growth & Development

12.1 Growth & Development includes the programme for the Council's property assets, and investment in neighbourhood development and cultural facilities. The programme is forecast to be £162.0m between 2022/23 and 2024/25, as shown in the table below, and the primary schemes within the programme are also detailed below:

	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget	Total
	£m	£m	£m	£m	£m
Corporate Property	33.0	35.5	15.5	5.0	**89.0**
Development	31.4	60.2	45.8		**137.4**
Total Growth & Dev't	**64.3**	**95.7**	**61.3**	**5.0**	**226.3**

Corporate Property

12.2 The Asset Management Programme (£13.7m) will ensure that the Council's assets, including its elite sporting assets, are well-maintained.

12.3 In addition to this programme the Hammerstone Road Depot project (£19.4m) will continue. This investment will allow other sites to be released and reduce the maintenance costs associated with these sites.

12.4 The continuing Carbon Reduction Programme (£19.0m) will be used to develop schemes to reduce carbon emissions including the use of combined heat and power plant, solar photovoltaic panels, and the use of LED lighting within the Council's estate.

12.5 Funding remains set aside (£2.7m) for maintenance works at priority Early Years Tendered Daycare sites, fulfilling the Council's duty to oversee sufficient day-care for preschool children across Manchester.

Development

12.6 The Sustaining Key Initiatives (£7.7m) investment provides the Council with the capacity to intervene to ensure key commercial, operational and mixed-use development priorities are secured in the city. It is expected that any intervention would be done primarily on an investment basis.

12.7 The Victoria North investment plan (£14.4m) will lead to significant residential growth in the neighbourhoods of New Cross, Red Bank and Collyhurst through land assembly and the provision of core infrastructure, with the regeneration completed with Far Eastern Consortium who are the Council's joint venture partner. Alongside this, works will progress on the grant-funded Housing Infrastructure Fund (£46.8m) which will support land remediation, investment in utility networks, the first phase of a new City River Park, river improvements and flood mitigation works, and new roads, footpaths and cycleways to prepare the Red Bank neighbourhood area for development. This will create a development platform for approximately 5,500 new homes which will be delivered over a 10-15 year period.

12.8 Works will continue on the refurbishment of the existing National Squash Centre to create the House of Sport (£4.4m).

12.9 Public realm investment will continue in the city centre with the ongoing design, survey and demolition works at Piccadilly Gardens (£1.4m), and the procurement of a design team which will support the future planned improvement to the gardens.

12.10 The Civic Quarter Heat Network (£1.4m) project provides a heat network throughout the Council owned property estate in and around the Town Hall complex and to developments owned by the private sector in the vicinity of the Town Hall. This will reduce energy costs and help achieve the City's aim of reducing carbon emissions.

12.11 Campfield Redevelopment will utilise Levelling Up Government funding (£17.5m) to repair, restore and fit out two Grade II listed historical market building assets for future the expansion of the existing Exchange tech hub located in the Bonded Warehouse, together with the environmentally sustainable refurbishment of Middle Campfield (Castlefield House) which is being undertaken by the developer. The buildings will be targeted towards the media, tech and creative sectors. Funding is also available (£3.8m) to acquire the freehold interest in Castlefield House.

12.12 Further Levelling up funding (£1.9m) will be used for the Home Arches. The Project will transform three railway arches situated between HOME's building and Whitworth Street West into a talent development centre for artists of all ages, disciplines and stages of their careers

Potential Future Investment

12.13 The programme includes the Asset Management Programme (AMP) which is kept under review to ensure it is a comprehensive programme for all Council assets and which, as noted above, will form part of the prioritisation process for capital investment. The asset based will also be reviewed as part of a Strategic Asset Management Plan, with the intention being that this will be conducted on a cyclical basis to ensure that the Council makes best use of the assets it holds.

12.14 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. 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 continue to be actively explored in line with the Council's Climate Change Action Plan.

12.15 The Growth and Development pipeline is wide and varied and the 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. Proposals include:

- Investment opportunities in key strategic areas including the Etihad Campus, Victoria North, Eastern Gateway, and other areas for development such as Wythenshawe Town Centre and other district centres.

- Investment in public realm, particularly in the city centre, to drive economic growth and attract new investment, will focus on the pipeline highlighted in the Economic Recovery and Investment Plan, including Mayfield, Piccadilly Gardens and active travel hubs. It may also include other public realm schemes currently being considered through feasibility studies. These include Deansgate/Blackfriars and Stephenson Square which are benefitting from active travel funds but which require corresponding public realm improvements.

- Proposals for the former Central Retail Park are expected to be progressed.

- Work on proposals to develop a mobility hub in Ancoats are continuing, with ongoing discussions with Homes England regarding funding for the hub and adjacent public realm, with some funding for the latter already secured through the Brownfield Land Fund. The mobility hub would support a reduction in general traffic in the neighbourhood, and a travel modal shift towards cycling, public transport and electric vehicles.

- Further investment in the Council's digital asset base.

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

13 Town Hall Refurbishment

13.1 The Town Hall and Albert Square Refurbishment programme is for the full refurbishment and upgrade to modern standards of the Town Hall and the associated costs for Albert Square. The programme is currently forecast to be £196.4m between 2022/23 and 2024/25 with planned spend currently £53.8m in 2021/22.

14 Housing – General Fund

14.1 The Housing General Fund capital programme includes works to support housing regeneration schemes, such as the Council's housing Private Finance Initiative (PFI) schemes, and the regeneration of Collyhurst. It also includes funding for disabled facilities and energy efficiency schemes. The programme is forecast to be £67.1m between 2022/23 and 2024/25 and the primary schemes within the programme are detailed below.

14.2 Funding remains set aside within the programme for commercial and residential acquisitions (£6.0m) which will support the existing Brunswick and Collyhurst schemes.

14.3 Funding is expected to be available (£8.1m) for major adaptations for people with a disability, to private owner-occupiers, non-City Council owned social housing, and the tenants of privately rented properties, where eligible. Funding is through government grant and agreed voluntary contributions from social landlords.

14.4 This City Housing Delivery Vehicle (£33.0m) aims to build a mixed development of market and accessible rent properties, initially through the Council before transferring to a Council-owned company during the build.

14.5 Further investment plans include support for the development of Extra Care accommodation within Manchester (£2.4m).

14.6 Funding remains available, through the government's Marginal Viability Fund, to support the delivery of new homes on the New Victoria (£2.2m) site by addressing infrastructure works.

Potential Future Investment

- 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 Housing Revenue Account and Housing Affordability Fund. The development of the This City, with a view to creating multiple phases of delivery and relationships with Registered Housing Providers will be key, along with the commitment to leveraging the Council's land and property assets.

- 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.

- Work will continue with colleagues in Greater Manchester to identify and access funding for energy conservation measures in private households.

- Further investment in affordable housing to support Homelessness, through either direct delivery or working with registered providers and other partners. This would include reviewing the role the HRA can play in creating new affordable housing.

- Investment in temporary accommodation either through direct ownership or through lease arrangements.

15 Housing – Housing Revenue Account (HRA)

15.1 The Housing – HRA capital programme consists of the investment in the Council's public sector housing estate, including acquisitions and capital works on existing Council housing assets. The programme is forecast to be £85.9m between 2022/23 and 2024/25 and the primary schemes within the programme are detailed below. The long term HRA business plan contains assumptions around future capital spend, and such projects will form part of the Council's capital programme once approved.

15.2 Provision is also made in the budget to reflect the delivery of new works in future years that will support the ongoing 30-year HRA asset management plan (£41.2m). The funds will be used to maintain the Decent Homes Standard within The Council's housing stock and, in addition, will support innovative climate change investment; essential health and safety works including the installation of sprinklers in multi storey blocks; public realm environmental works; and, where appropriate, it will support estate regeneration and re-modelling.

15.3 The Silk Street project (£11.0m) has commenced, building 69 high quality, low carbon social rent homes on a site in Newton Heath.

15.4 The programme includes funding for the ongoing regeneration works in Collyhurst (£28.7m), delivering 300 homes, including 130 social housing new builds.

Potential Future Investment

- The insourced capital programme for the properties formerly managed by Northwards Housing will continue to be reviewed to ensure there is the correct prioritisation and pace for works to deliver fire safety and decent homes.

- 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. This would also contribute to addressing fuel poverty.

- 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.

16 Children's Services (Schools)

16.1 The Children's Services capital programme is predominantly focused on the building of new schools and extension of existing schools, to meet school place demand, and investment in the fabric of the existing school estate. The programme is forecast to be £38.1m between 2022/23 and 2024/25 and the main schemes within the programme are detailed below. There is also an additional £24.3m of Basic Need grant funding shown as contingency, available to support further school place demand particularly in special schools and secondary phase.

16.2 The programme to increase the Special Educational Needs capacity (£3.6m) across the city will continue, with works to be undertaken at Melland High School

16.3 Work will continue work on Co-op Academy in Belle Vue (£21.0m) delivering a new 1,200 place secondary school with associated grounds and infrastructure works.

16.4 A new primary school in the City Centre, funded from grant and developer contribution, will progress (£6.0m). The project is intended to support the increased occupancy of city centre dwellings by families by providing the required infrastructure for their long-term settlement in the area

16.5 A Government grant-funded schools maintenance programme (£2.8m), to help maintain the Council's school assets, is included within the budget. Officers expect this funding stream to continue, however the annual budgets will be revised once confirmation of the level of funding is received.

Potential Future Investment

- Future school place demand will continue to be monitored, alongside any further Free School Programme approvals, to ensure that the Council meets its statutory duty to provide sufficient places. This may be in the form of new school builds or expansions to existing schools.

- 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.

17 Information and Communication Technology (ICT)

17.1 The ICT capital programme provides investment to the Council's ICT estate. The programme is forecast to be £7.8m between 2022/23 and 2024/25 and the primary schemes within the programme are detailed below. The remaining ICT Investment Plan funding (£5.4m) is currently unallocated and held as contingency, to allow projects such as those noted as potential future investment priorities below to continue to be developed. Once projects are approved, they will be funded from this budget allocation.

17.2 The Network Refresh Programme (£6.4m) will continue to progress, updating the Council's wider area network, local area network and wi-fi. This will also require works to the hardware used by the Council for communications.

17.3 With the changes to the way in which a significant element of the Council's workforce has been operating throughout the pandemic, the End User Experience project (£0.7m) will complete in updating the technology available to staff to allow them to undertake their roles more effectively.

17.4 It is expected that some of this budget may need to be transferred to revenue, depending on the type of work required, and this decision can only be made when the appropriate ICT solution has been identified. Such transfers will be proposed on a case-by-case basis and reported to members through the regular capital update reports.

Potential Future Investment

- 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 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. Further investment is also expected be required to support the outcomes from the Future Shape of the Council work.

18 Adults, Children's and Corporate Services

18.1 The Adults, Children's and Corporate Services capital programme provides investment for the health and social care work of the City Council, and strategic investments. The programme is forecast to be £12.1m between 2022/23 and 2024/25 and the primary schemes within the programme are detailed below.

18.2 To provide integrated health and community services the investment in the new facility at the Gorton District Centre (£10.7m) is ongoing. This is on an invest to save basis with the income from the leases to partners providing the funding to repay the build costs.

Potential Future Investment

- 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.

- 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 bought forward with a clear business case and due diligence process. Investment options for carbon efficient energy sources, as noted in a report to the Executive in January, are also being actively explored.

19 Contingent Budgets

19.1 The unallocated inflation contingency budget is currently c.£28.0m for the period 2022/23 onward. This will be allocated to projects if inflationary pressures cannot be contained within existing contingency budgets.

19.2 The approved loan support to Manchester Airport (£36.2m) will continue to be available.

20 Capital Financing

20.1 The Council has several funding streams available to fund capital expenditure. Alongside external grants and contributions, revenue funding, capital receipts and prudential borrowing can also be used. Capital receipts are generated through the sale of assets. These receipts are ring-fenced, under legislation, to fund capital expenditure and cannot be used to fund the revenue budget.

20.2 There are restrictions around the use of certain capital funds, some statutory and some at the Council's discretion.

20.3 The Housing Revenue Account (HRA) is a restricted fund and can only be used to fund capital expenditure on HRA assets.

20.4 The Council also operates the following fund restrictions:

- Housing capital receipts (both Housing General Fund and Housing Revenue Account) are reserved for use on new Housing projects;
- General Fund capital receipts will be used in the first instance to support the Asset Management Programme.
- Grants received will be used for the specific purpose intended, even if the terms of such grants are not restrictive, unless alternative use promotes the same aims.

Prudential Borrowing

20.5 The use of prudential borrowing allows the Council to spread the cost of funding the asset over its useful economic life. Using prudential borrowing as a funding source increases the Council's capital financing requirement (CFR) and will create revenue costs through interest costs and minimum revenue provision (MRP).

20.6 Where expenditure is funded through borrowing there is a requirement to make a minimum revenue provision towards the repayment of the debt. This ensures that the revenue cost of repaying the debt is spread over the life of the asset, similar to depreciation. The Council's MRP policy is contained within the Treasury Management Strategy Statement.

20.7 The estimated financing costs for the capital programme and existing debt have been calculated as part of the budget process. The proposed programme and the existing debt liabilities are affordable within the existing revenue budget. There is a finite level of borrowing that the Council can undertake to remain affordable and meet the Prudential Indicators (which are included in the Treasury Management Strategy). In line with the Prudential Code, the Local Authority must have explicit regard to option appraisal and risk, asset management planning, strategic planning, and achievability of the forward plan.

20.8 The Council continues to work to develop schemes which attract external funding or deliver a substantial return on investment. All schemes are reviewed so that the revenue consequences and capital financing costs are understood and budgeted for.

20.9 Borrowing decisions are taken separately for the General Fund and HRA. Each must determine whether proposals requiring borrowing meet the requirements outlined above, although for the HRA it is depreciation rather than MRP which is incurred.

20.10 It is proposed that the forecast capital programme for 2022/23 is funded as follows:

Fund	Housing Programmes		Other Programmes	**Total**
	HRA	Non-HRA		
	£m	£m	£m	**£m**
Borrowing	0.0	10.7	335.3	**346.0**
Capital Receipts	2.0	3.9	16.8	**22.7**
Contributions	0.0	0.4	30.8	**31.2**
Grant	0.0	10.6	72.9	**83.5**
Revenue Contribution to Capital Outlay	37.4	1.8	10.5	**49.7**
Grand Total	**39.4**	**27.4**	**466.3**	**533.1**

20.11 Based on the current forecasts for expenditure, prudential borrowing of up to £538.9m over the period will be needed to support the City Council programme in line with the new schemes and previous planning and profile approval. The breakdown over 2022-2025 is:

- 2022/23 - £346.0m
- 2023/24 - £144.8m
- 2024/25 - £48.1m

a. The Housing HRA programme will not require prudential borrowing at this stage, but it is likely that projects will be brought forward that will require HRA borrowing which will be reported to members. Schemes are currently financed through the use of the cash backed reserves within the HRA. At the point these reserves are fully utilised additional borrowing will be required with additional financing costs incurred.

b. The General Fund programme requires £538.9m of prudential borrowing which includes:

Scheme	**£m**
Highways Investment Plan	25.4
Bridge maintenance	2.7
Woodlands Road Emergency works	0.5
Highways Maintenance Challenge Fund	0.3
Great Ancoats Improvement Scheme	0.4
Mancunian Way and Princess Parkway NPIF	0.5
School Crossings and Accident Reduction	3.1
Street Lighting PFI	0.7
Traffic Free Deansgate Permanent Works	1.2
Waste Contract	0.4
Blackley Cremator and Mercury Abatement	0.4
Off Street Car Parks post JV project	0.6
Chester Road Roundabout Advertising	1.4
Parks Investment Programme	9.2

Wythenshawe Cycling Hub	0.8
Indoor Leisure Provision at Abraham Moss	15.7
Manchester Aquatics Centre	25.2
National Cycling Centre	16.5
Manchester Regional Area Changing Rooms	0.1
Libraries investment	1.5
The Factory	37.1
Hammerstone Road	19.4
Carbon Reduction	19.0
Estates Transformation	0.8
Sustaining Key Initiatives	7.7
Victoria North	14.4
Eastern Gateway	0.4
House of Sport	4.4
Piccadilly Gardens - Phase 1	1.4
Campfield Redevelopment	3.7
HOME Arches	1.9
Heron House & Registrars	0.3
Civic Quarter Heat Network	1.4
Refurbishment of the Town Hall and Albert Square	196.3
West Gorton Regeneration	1.3
Ben Street Regeneration	1.0
This City Housing Delivery Vehicle	33.0
MCMA Completion Works	0.7
ICT Investment Plan	13.2
Gorton integrated health development	10.7
Airport Loan	36.2
Inflation Fund	28.0

20.12 A number of these schemes will be on an invest to save basis and will generate revenue savings. The remainder are affordable within the existing capital financing budget.

20.13 Further “spend to save” investment opportunities may arise, and delegated authority is given to the Deputy Chief Executive and City Treasurer in consultation with the Executive Member for Finance and Human Resources to increase the capital budget accordingly. The delegation is restricted to an annual limit of £5,000,000. This is on the understanding that the costs of borrowing (interest and principal) of any additions are financed in full by additional income, revenue budget savings, or cost avoidance.

20.14 The proposed funding for the programme across the forecast period is shown below:

	2021/22 budget	**2022/23 budget**	**2023/24 budget**	**2024/25 budget**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Grant	86.0	83.5	63.5	0.0	**233.0**
External Contribution	25.3	31.2	0.2	0.0	**56.7**
Capital Receipts	16.0	22.7	13.1	2.7	**54.5**
Revenue Contribution to Capital Outlay	32.4	49.7	33.5	15.1	**130.7**

Borrowing	169.3	346.0	144.8	48.1	**708.2**
Total	**329.0**	**533.1**	**255.1**	**65.9**	**1,183.1**

20.15 The funding forecast includes use of capital receipts already received and a forecast of future receipts based on officer's views on when surplus assets may be sold and the likely market valuations. These forecasts are subject to change which may affect the future funding position.

20.16 The final capital forecast will be reported to Council in March and will include any changes to the financing position alongside the impact of any changes in the delivery of the 2021/22 programme.

21 Investments and Liabilities

21.1 Capital investments are regularly reviewed to ensure they continue to perform as expected. With the increased national focus on council investment activities the Capital Strategy has been expanded to include relevant investments and liabilities.

Approach, Due Diligence and Risk Appetite

21.2 Council investments are managed in line with the Ministry of Homes, Communities and Local Government (MHCLG) investment guidance principles of security, liquidity and yield. The application of these principles will differ when considering capital investment rather than treasury management investment. The risk appetite for these two distinct types of investment may also differ as capital investments also consider the broader strategic and regeneration objectives and benefits.

21.3 Capital investments are considered in line with the Checkpoint process. Schemes could include lending to organisations with low credit ratings if the appropriate security over the organisations assets or guarantees from parent companies or organisations can be given. A key consideration is that income received from the investment covers the capital financing costs incurred.

Summary of material investments, guarantees and liabilities

21.4 The Council has the current historic investments on the balance sheet as at 31st March 2021:

	Value as at 31/3/21
	£m
Long-term Debtors	446.6
Long-term Investments	151.4
Investment Property	475.0
Total	**1,073.0**

21.5 Long-term debtors are loan finance provided by the Council, including the loans to Manchester Airport (£313.9m), Public Finance Initiative prepayments (£23.2m), and Manchester College (£27.1m), for which repayments have begun. These loans are regularly reviewed and would be impaired if there was a risk of default.

21.6 Long-term investments are equity investments held including Manchester Airport (£112.4m), a car park at Manchester Airport (£5.7m), Destination Manchester (£10.2m) which is the Council's investment in Manchester Central, Manchester Science Park (£6.2m) and Matrix Homes (£5.4m). Investments are valued on an annual basis.

21.7 Investment property is held on the basis that it will generate a revenue return, for example land at Manchester Airport and at Eastlands. Some of the properties are held for regeneration purposes but as they provide a return they have to be shown as investment property. Investment properties are independently valued on an annual basis.

21.8 The capital programme contains the following which will create either long-term debtors, investments or investment properties:

- Waste Contract - providing a loan to the contractor to upgrade vehicles.
- Civic Quarter Heat Network - creation of a heat network through a Council-owned company.
- Private Sector Housing Equity Loans - loans to residents to provide housing support.
- Victoria North – loans to support the Victoria North joint venture in acquiring land;
- Manchester Airport loan – loan funding for the Airport; and
- Biomedical Investment - loan to support the development of health innovation.

21.9 There may be other projects which become capital investments, such as to support the Eastern Gateway and Victoria North.

21.10 All investments are scrutinised via the capital approval process, including to Executive and Council as required, with independent financial, legal and other relevant advice sought.

21.11 Where investments provide a return through interest or dividends this can be used to support the revenue budget. For example, in 2021/22 c. £4.9m of dividends will be used within the revenue budget. Where investments are funded by borrowing the income received is used to fund the capital financing costs, for example the Airport Strategic Loan.

21.12 All investments are monitored regularly with the frequency based on risk, and any material changes are reported to the Deputy Chief Executive and City Treasurer at the earliest opportunity.

21.13 The monitoring has highlighted that there are two loans need to be written off as they will not be repaid, namely:

- EON Reality Ltd (£1.1m) - during the pandemic, EON Reality entered into administration and the liquidators have informed the Council that there are no assets available to repay the loan.

- Band on the Wall (£0.2m) - the loan was provided to the original owner of a dilapidated part of the Band on the Wall site to secure the structure of the building. This work has been successful, and the site has been acquired by the Band on the Wall and forms part of the redevelopment plan for the site, utilising Arts Council funding. Following review by officers and noting that the original owner made no profit on the sale of the site to Band on the Wall, it is proposed to write down the loan and consider it as the Council's contribution to the funding package for the redevelopment of the wider site.

Commercial Investments

21.14 Capital investments are made for strategic or regeneration purposes. The Council will not invest in capital schemes purely for yield, although some schemes will be financed all or in part from returns on investment. Usually, investment will be within the local authority area, although there may be exceptions if it is within the relevant economic area and meets a key regeneration or zero carbon objective.

21.15 It is worth noting that investment property is considered, under CIPFA's Prudential Code, as a commercial investment, and so the Council does have assets of a commercial nature on the balance sheet.

21.16 Following the consultation on the future of the PWLB and the introduction of new terms for accessing PWLB loans, local authorities are actively discouraged from investing in assets primarily for yield. All proposed capital investments will have to be reviewed against PWLB guidance to assess whether they are:

- Service spending;
- Investment in housing;
- Regeneration;
- Investment as preventative action; or
- Investment in assets primarily for yield.

21.17 The decision over whether a project complies with the terms of the PWLB is for the Council's Section 151 officer but may be reviewed by Treasury and external auditors. Where local authorities do invest in assets primarily for yield, irrespective of how such assets are financed, access to the PWLB for new debt will be removed apart from for refinancing existing debt.

21.18 The outcome of the consultation also requires local authorities to only invest within their economic area.

22 Treasury Management

22.1 There is a clear link between capital investment activities and treasury management activities, particularly regarding how the Council will repay debt and the impact on the revenue budget. The treasury management strategy for the Council is the subject of a separate report on the agenda and the principles are outlined below.

Long Term Planning (including the repayment of borrowing)

22.2 The Treasury Management Strategy provides the framework for treasury management decisions which have to be made with the longer-term impact in mind.

22.3 Under the Prudential Code, the Council must make an annual revenue provision for the repayment of debt, called the minimum revenue provision (MRP). This spreads the cost of repaying the debt for an asset over the useful economic life of the asset. It is a real cost and will impact the revenue budget position. The MHCLG MRP guidance is followed and principles applied. The following asset lives are used when calculating MRP, unless there are asset-specific reasons for deviating from them – such deviation will be guided by qualified valuers recommendations on maximum useful lives:

- Land: 50 years
- Property: 50 years
- Highways: 25 years
- ICT: 5 years

22.4 When making borrowing decisions the forecast MRP in each future financial year is considered. The policy is to seek to match actual debt repayments to MRP in each year as this is the most prudent approach, and equalises accounting entries and cashflows.

22.5 The Capital Financing Requirement measures an Authority's underlying need to borrow or finance by other long-term liabilities for a capital purpose. It represents the amount of capital expenditure that has not yet been resourced absolutely, whether at the point of spend (by capital receipts, capital grants/contributions or from revenue income), or over the longer term by prudent Minimum Revenue Provision (MRP) or voluntary application of capital receipts for debt repayment etc. Alternatively, it provides a figure for the capital expenditure incurred by the Council but not yet provided for.

22.6 The long-term forecast for external debt is compared to the Capital Financing Requirement and shown at Appendix 4. This highlights the level of internal borrowing, where the council is using its own cashflow and cash backed reserves in lieu of external debt. At the 31st March 2021 internal borrowing was c. £750m, which is reasonable with the very low returns experienced on cash held. However, with the planned use of reserves to support the revenue and capital budgets means this position will change and further external borrowing will be required. External debt peaks as the forecast capital programme for approved schemes ends and will change as further projects are approved and the level of internal borrowing reduced.

22.7 The forecast profile for the Capital Financing Requirement is shown in the table below:

	2021/22	2022/23	2023/24	2024/25	2025/26
	£'m				
Opening CFR	1,648.8	1,785.3	2,115.4	2,217.6	2,221.2
Borrowing	169.3	346.0	144.8	48.1	0.0
Additional long-term liabilities[1]	0.8	20.9	0.8	0.7	1.3

[1] The additional long term liabilities are likely to increase following the introduction of International

MRP	(33.6)	(36.8)	(43.4)	(45.2)	(47.7)
Closing CFR	**1,785.3**	**2,115.4**	**2,217.6**	**2,221.2**	**2,174.8**

22.8 The principles the Council will follow when taking new debt, and how the debt portfolio will be managed, is set out in the Treasury Management Strategy Statement. This also includes the authorised limit and operational boundary for external debt, based on the forecast debt requirement.

Risk appetite, key risks and sensitivities

22.9 For treasury management investments and debt, the Council's risk appetite is extremely low with security of funds the primary concern. The Council seeks to invest surplus cash in instruments with high credit quality and for relatively short periods, and to have debt options available at all times.

22.10 The role of the treasury management team is to balance the risks associated with the management of cash, acknowledging that they cannot all be mitigated, and to seek optimum performance in terms of liquidity and return. The key sensitivities are changes in market conditions and the availability of debt. The team are in regular contact with brokers in the market and the Council's treasury management advisors to review market conditions and debt opportunities.

22.11 The Council's treasury management position and activities will be reported to Audit Committee throughout the financial year with any changes in market conditions or the Strategy highlighted to members.

23 Skills and Knowledge

23.1 Information, advice and training on the capital checkpoint processes is available for officers and Members. The Capital Programme team use their experience to evaluate new proposals. All proposals are reviewed by the Senior Management Team, including the Deputy Chief Executive and City Treasurer._Capital investments are reviewed under the same approval process with input from appropriately qualified and skilled Finance professionals and external advisors where required**.**

23.2 Since January 2018 the Markets in Financial Instruments Directive II (MiFID II) regulations are in force. For the Council to continue to invest as before it is required to opt up to become a "Professional Status" counterparty. Those with responsibility for the delivery of the treasury management function must be able to demonstrate that they have significant skills and experience of working in a market environment. The existing team fulfils this requirement, and the Council currently holds "Professional Status".

24 Prudential Indicators

24.1 The prudential indicators for the Council, including the treasury management indicators, are shown as part of the Treasury Management Strategy Statement

Financial Reporting Standard 16, due in April 2022. Work is underway to identify the impact of this, and it will be reported to members in due course, the estimate included in these figures is a c. £20m increase.

elsewhere on the agenda. These will be monitored throughout the year and will be reported to members as part of the regular capital monitoring.

24.2 CIPFA have published revised Prudential and Treasury Management Codes of Practice in December 2021, to be implemented for April 2023. Officers will review the codes and associated guidance and will provide an update on the indicators as part of the capital outturn report.

25 Conclusions

25.1 This capital strategy provides an overview of how capital expenditure, capital financing and treasury management activity support service delivery, and should be taken in context with the capital budget and the treasury management strategy statement.

25.2 The proposed capital programme described within the report is affordable within the existing revenue budget based on the estimated capital financing costs associated with delivering the programme.

25.3 There are risks associated with the delivery of the capital strategy, specifically regarding delays to the programme or treasury management risks. Measures are in place to mitigate these risks through both the Strategic Capital Board and the treasury management strategy. Reports will be provided throughout the year to Council, Executive and other relevant committees providing updates on the progress of the capital programme and the risks associated with its delivery and funding.

26 Contributing to a Zero-Carbon City

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

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

27 Contributing to the Our Manchester Strategy

(a) A thriving and sustainable city

27.1 The capital programme contributes to various areas of the economy, including investment in public and private sector housing, education and children’s social care, transport infrastructure, major regeneration activities, environmental, cultural and leisure services.

(b) A highly skilled city

27.2 The capital programme includes substantial investment in education and also provides opportunities for the construction industry to bid for schemes that could provide employment opportunities at least for the duration of contracts.

(c) A progressive and equitable city

27.3 The capital programme includes investment in adult and children's social care, education, housing and the environment, cultural and leisure services, all of which contribute towards the strategy.

(d) A liveable and low carbon city

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

(e) A connected city

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

28 Key Policies and Considerations

(a) Equal Opportunities

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

(b) Risk Management

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

(c) Legal Considerations

28.3 None in this report.