

Manchester City Council Report for Resolution

Report to: Executive – 22 July 2022

Subject: Capital Programme Update

Report of: Deputy Chief Executive and City Treasurer

Summary

In February each year the Executive receives a report on the capital budget for the forthcoming five financial years and approves a series of recommendations to Council for the approval of the capital programme. Proposals for the capital budget were presented to the Executive on 16th February 2022.

Throughout the year new and emerging projects are brought forward, as well as changes to on-going projects which require investment. The Capital Update Report informs members of these requests to increase the capital programme, seeks approval for those schemes that can be approved under authority delegated to the Executive and asks the Executive to recommend to Council proposals that require specific Council approval.

Recommendations

- (1) To recommend that the Council approve the following changes to Manchester City Council's capital programme:
 - Neighbourhoods – Manchester Aquatic Centre. A capital budget virement of £2.930m is requested, funded by borrowing via the Inflation Budget and a further capital budget increase of £0.070m, funded by borrowing.
 - Neighbourhoods – Indoor Leisure – Abraham Moss. A capital budget virement of £1.4m is requested, funded by borrowing via the Inflation Budget
 - Growth and Development – Hammerstone Road Depot. A capital budget virement of £2.320m is requested, funded by borrowing via the Inflation Budget and a further capital budget increase of £4.280m, funded by borrowing.
- (2) Under powers delegated to the Executive, to approve the following changes to the Council's capital programme:
 - Private Sector Housing – Housing Affordability Fund (HAF). A capital budget increase of £9.111m is requested, funded by £1.997 External Contribution – S106 and £7.114m Capital Receipts.

- Growth and Development - Essential Remediation Works at the City Art Gallery and Queens Park Conservation Studios. A capital budget increase of £4.5m is requested funded by Capital Receipts, also a capital budget virement of £1.950m funded from the Asset Management Programme (AMP) budget.
- ICT - Resident and Business Digital Experience (RBDxP). A capital budget decrease of £0.651m is requested and approval of a corresponding transfer of £0.651m to the revenue budget, funded by Capital Fund.
- ICT – Legal Services Case Management Replacement. A capital budget decrease of £0.450m is requested and approval of a corresponding transfer of £0.450m to the revenue budget, funded by Capital Fund.
- Public Sector Housing – Silk Street. A capital budget increase of £0.500m is requested, funded by HRA Reserve.
- Growth and Development – House of Sport. A capital budget reduction of £1.256m is requested funded by borrowing on an invest to save basis. A funding switch is also requested with £0.183m External contribution, £0.533m Invest to Save (Waterfall Fund) and £1.990m Capital receipts from a virement from Asset Management Programme (AMP) offsetting £2.706m of Borrowing on an invest to save basis.

(3) Executive is also asked to note:

- The virements in the programme of £3.249m as a result of virements from approved budgets
- The assurances the Deputy Chief Executive and City Treasurer will be required to provide as part of the proposed Levelling Up Fund bid.
- The update on This City, and the use of the existing revenue budget to continue to develop proposals for a second site.
- The change to the applicable mortgage rate, as detailed in section 7.

Wards Affected - Various

<p>Environmental Impact Assessment - the impact of the decisions proposed in this report on achieving the zero-carbon target for the city</p>
<p>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.</p>

Our Manchester Strategy outcomes	Contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	Contributions to various areas of the economy including investment in ICT services, Housing, and leisure facilities.
A highly skilled city: world class and home-grown talent sustaining the city's economic success	Investment 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	Improvements to services delivered to communities and enhanced ICT services.
A liveable and low carbon city: a destination of choice to live, visit, work	Investment in cultural and leisure services and housing.
A connected city: world class infrastructure and connectivity to drive growth	Through investment in 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 revenue budget of the City Council will increase by £1.101m, if the recommendations in this report are approved.

Financial Consequences – Capital

The recommendations in this report, if approved, will increase Manchester City Council's capital budget by £14.114m across the financial years as detailed in Appendix 1.

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Background documents (available for public inspection):

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

- Report to the Executive 16th February 2022 – Capital Strategy and Budget 2022/23 to 2024/25
- Report to the Executive 16th March 2022 - Capital Programme Update
- Report to the Executive 1st June 2022 – Capital Programme Update
- Report to the Executive 29th June 2022 – Capital Outturn Report

1.0 Introduction

- 1.1 This report outlines the requests for changes to the capital budget from 2022/23.

2.0 Background

- 2.1 In February each year the Executive receives a report on the capital budget for the forthcoming five financial years and approves a series of recommendations to Council for the approval of the five-year capital programme. Proposals for the capital budget were presented to the Executive on 16th February 2022.
- 2.2 The capital programme evolves throughout the financial year, and as new projects are developed, they will be reviewed under the current governance framework and recommendations made regarding whether they should be pursued.
- 2.3 The following requests for a change to the programme have been received since the previous report to the Executive on 29th June 2022. The impact of changes to the Capital Budget from previous reports are detailed in Appendix 2.
- 2.4 The capital programme budget was reset for 2022-23 and future years as part of the Capital 2021-22 Outturn report which came to Executive at the end of June.
- 2.5 Note that where requests are made in the report to switch funding from capital to revenue and to fund the revenue spend from the Capital Fund, this is a funding switch from within the capital programme and will not have a negative impact on the Fund itself.
- 2.6 For the changes requested below, the profile of the increase, decrease or virement is shown in Appendix 1 for each of the projects.

3.0 City Council's Proposals Requiring Specific Council Approval

- 3.1 The proposals which require Council approval are those which are funded by the use of reserves above a cumulative total of £10.0m, where the use of borrowing is required or a virement exceeds £1.0m.
The following proposals require Council approval for changes to the capital programme and are all for major schemes which will require funding from the inflation contingency to complete. As reported to the previous Executive, construction inflation is currently running at c. 20.2% which along with supply chain constraints, is placing considerable pressure on the capital programme. The following schemes have been fully reviewed prior to coming to committee with a request for additional funding.
- 3.2 Neighbourhoods – Manchester Aquatic Centre. Refurbishment works at the centre are currently ongoing. The cost plan has been further developed following detailed design work, the outcomes of surveys and investigation works, and returns from the supply chain for work packages. Costs have increased in the in the MEP (Mechanical / Electrical / Plumbing) package and across internal

finishes including the tiling and render packages. Costs for preliminaries and enabling works have also increased.

Following the successful application to host the World Para Swimming Championships in 2023, the programme has been rephased to enable this to happen, lengthening the programme from 108 weeks to 144 weeks with an associated increase in costs of £0.070m, particularly for preliminaries.

The total increase in costs is £3m. This will bring the total scheme cost to £33.455m. A capital budget virement of £0.996m in 2023/24, £1.934m in 2024/25, funded by borrowing via the Inflation Budget. A capital budget increase of £0.070m in 2025/26 is also requested, funded by Borrowing.

- 3.3 Neighbourhoods – Indoor Leisure – Abraham Moss. The provision of new indoor leisure facilities at Abraham Moss is a £24.7m approved scheme. The discovery of piles under site has created a 17-week delay and exposed the project to further inflation risk. The main contractor is procuring the construction packages in line with the procurement programme but the delay is resulting in additional inflation costs in labour and materials. A capital budget virement of £0.980m in 2022/23 and £0.420m in 2023/24 is requested, funded by borrowing via the Inflation Budget.

- 3.4 Growth and Development – Hammerstone Road Depot. The development of the Hammerstone Road depot is based on the need to consolidate the Council's depot facilities, with other depot sites expected to be released, reduce the maintenance costs associated with the sites, and provide carbon savings. The depot is a site with multiple users.

The Hammerstone Road depot is a key operational site due to its geographic location within the city. It is used to deliver a significant proportion of the waste and street cleansing services and is essential to the effective and efficient delivery of this and other operational services across the city. There are no viable alternative sites for the delivery of these services.

The development of the site also provides scope for expansion of the waste fleet to enable the Council to meet the anticipated requirements and changes within the national waste strategy.

The current depot is in a poor condition with issues arising that potentially compromise the effective day to day delivery of services. The scheme was projected to cost £25m. The cost plan and detailed design has now been progressed and have identified the requirement for some further works to the façade, roof and drainage. The combination of the change in scope, increased works required alongside inflationary pressures means that the budget will need to be increased as follows:

- Scope changes valued at £0.870m to cover improved low carbon / M&E specifications, additional planning requests and office changes
- The investigative works and surveys have identified a further £3.410m for the works to the façade, roof and drainage.
- Inflationary cost pressures of £2.320m.

A capital budget virement of £2.267m in 2023/24 and £0.053m in 2024/25 is requested, funded by borrowing via the Inflation Budget. A capital budget increase of £4.280m in 2024/25 is also requested, funded by Borrowing.

4.0 Proposals Not Requiring Specific Council Approval

- 4.1 The proposals which do not require Council approval and only require Executive approval are those which are funded by the use of external resources, use of capital receipts, use of reserves below £10.0m, where the proposal can be funded from existing revenue budgets or where the use of borrowing on a spend to save basis is required. The following proposals require Executive approval for changes to the City Council's capital programme:
- 4.2 Private Sector Housing – Housing Affordability Fund (HAF). Following the Council's approval of the Housing Affordability Policy Framework in December 2016, in October 2017 the Council's Executive agreed to establish the Housing Affordability Fund (HAF) to bring together in one place a range of funding streams targeted at the provision of affordable homes across a range of tenures. The HAF is to support schemes to enable them to be delivered by providing GAP funding, supplementing any existing grants, and funding already in place to get them off the ground and or deliver more quickly. The funding will be used as a form of 'top-up' for schemes that are still marginal due to low rental and sales values, with a goal to utilising the time limited Housing Receipts the council has received.
- 4.3 To date the fund has supported seven projects, contributing to the delivery of 139 affordable homes across a range of tenures, targeting different households, such as new build homes targeted for affordable home ownership and large properties purchased for families living in temporary accommodation. It is anticipated that this latest increase to the HAF will deliver further homes for families and individuals living in temporary accommodation. The scheme will regularly report back to the Housing Board to ensure the fund delivers maximum impact in terms of return, such as number of units to be delivered. A capital budget increase of £9.111m is requested, funded by £1.997m External Contribution – S106 and £7.114m Capital Receipts.
- 4.4 Growth and Development - Essential Remediation Works at the City Art Gallery and Queens Park Conservation Studios. The Council's Asset Management Plan earmarked £2m in 2022/23 to maintenance costs which were subject to the detailed design and survey works being carried out, including to ensure fit for purpose storage capacity at Queens Park (QP) and City Art Gallery (CAG). The building surveys have now been completed and a more extensive programme of safety and remediation works are required to continue to maintain both buildings as operational assets. The works required will be the most significant carried out since the last major refurbishment in 2000 and include addressing basement damp/water ingress, replacing electrical and mechanical parts (including CAG lifts), critical stone repairs and design (CAG) and roof works (QP).
- 4.5 The works will be critical in continuing to secure Galleries assets and maintaining public safety. Approval is sought to progress the feasibility works and to develop

a composite programme of works. As work progresses a second phase of works will be brought forward to address stone works.

A capital budget increase of £4.5m is requested in 2022-23 funded by Capital Receipts, also a capital budget virement of £1.950m funded from the Asset Management Programme (AMP) budget. 4.6

- 4.6 ICT - Resident and Business Digital Experience (RBDxP). In July 2021 Council approved a project budget of £5.228m to progress the RBDxP project which will transform the way the Council interacts with residents, businesses, and partners whilst improving efficiency. This will enable a more strategic approach to be taken to the replacement the business legacy applications that underpin critical statutory, resident facing services and have reached end of life, including the Customer Relationship Management System (CRM). Following an open tender process, the 'Technology and Implementation Partner,' and the 'Consultancy partner' have been selected. The original figures submitted to have been updated to reflect the actual costs through the procurement exercise. A capital budget decrease of £0.651m is requested and approval of a corresponding transfer of £0.651m to the revenue budget, funded by Capital Fund.
- 4.7 ICT - Legal Services Case Management Replacement. This project was originally approved in 2019 but the procurement process was put on hold whilst corporate consideration was being given to alternative systems (including the move from Google to M365) with which the system would need to integrate. Funding is now being sought, ahead of the renewed procurement exercise to progress the scheme. The Legal Case Management solution is deemed a business-critical system and will provide a resilient and secure system that will improve efficiency. It should be noted that the current system will no longer be supported from Jan 2023. A capital budget decrease of £0.450m is requested and approval of a corresponding transfer of £0.450m to the revenue budget, funded by Capital Fund
- 4.8 Public Sector Housing – Silk Street. The £12.8m project has seen increased cost pressures to labour rates, mechanical and electrical works and superstructure work packages. Although work has been done to mitigate the increased costs, due to the current market the project is still seeing an impact. A capital budget increase of £0.109m in 2022/23, £0.238m in 2023/24 and £0.153m in 2024/25 is requested, funded by HRA Reserve.
- 4.9 Growth and Development – House of Sport. There have been some changes to the scope of this project since the project was first approved at £8.420m. The scope changes were as a consequence of the scheme being reduced in scale in response to the impact of the Covid-19 Pandemic on new ways of working. This has resulted in some of the tenants reducing their office requirements and scaling back their operational needs. Accordingly, some of the office expansion plans have reduced in scale resulting in the overall cost of the scheme reducing to £7.164m.
- 4.10 A capital budget reduction of £1.256m is requested funded by borrowing on an invest to save basis. A funding switch is also requested with £0.183m External

contribution, £0.533m Invest to Save (Waterfall Fund) and £1.990m Capital from a virement from Asset Management Programme (AMP) offsetting £2.706m of Borrowing on an invest to save basis.

5.0 Virements from Approved Budgets

- 5.1 Capital budgets approved for an agreed programme pending allocation can seek approval under delegated powers from the Deputy Chief Executive and City Treasurer.
- 5.2 Approval has been given for £0.526m to be allocated for SEND Expansions – Birches, Lancs & Rodney House from Unallocated Education Basic Need budget. This project will deliver 44 additional school places across the 3 locations.
- 5.3 An allocation from Education Basic Need funding of £2.4m was approved for Manchester Enterprise Academy – September 2022 Bulge Class. This project will create an additional 60 bulge class places at Manchester Enterprise Academy to meet demand for year 7 pupils in September 2022.
- 5.4 Approval has been given for £0.109m for Urgent Repairs to Heating System at St. John's Primary School funded from grant funding within the Schools Maintenance budget. The heating system to the main building was intermittently breaking down due to evidence of magnesium (sludge) in the heating system. This request is for works to refurbish and fix the boiler and system
- 5.5 £0.214m from the unallocated Schools Maintenance budget has been approved for Urgent Repairs to Hall/Dining Room Roof at Broad Oak Primary School. The request is to replace the roof in the Hall/Dining room. The original flat felt clad roofs at the school are in poor condition resulting in rainwater accessing the school following heavy rain.

6.0 Levelling Up Fund Bid

- 6.1 As noted in a report to June's Executive, the Council is preparing a Levelling Up Fund bid as part of a wider strategic regeneration programme for Wythenshawe Town Centre. The bid is due to be submitted in July, and if successful the grant funding agreement will require the Council, via a declaration signed by the S151 Officer, to confirm that the Council has sufficient budget to deliver the scheme, and that any costs over and above the grant funding will be met by the Council. Any revenue funding requirements associated with the scheme must also be met by the Council. It is expected that the bid will include match funding from the Council to progress the scheme. If the bid is successful, a request for funding will be submitted to the Council's capital approval process and will be reported to members for approval.

7.0 Update on This City

- 7.1 Work is progressing well on the Phase 1 development for This City, Rodney Street in Ancoats & Beswick Ward, with scheme proposals submitted to planning for determination in autumn. In parallel, work has begun on developing proposals

for a second site, Postal Street in Piccadilly Ward, and funding is required to allow design work to progress. It is to be noted that there will be a detailed report being presented to the Executive on This City in September.

- 7.2 The Executive approved the creation of a revenue budget in June 2020, funded from the Housing Investment reserve, to provide working capital to the This City project. With costs incurred for the development of the first site at Postal Street now capitalised, it is intended to allocate some of the working capital funding to continued development of the next site at Postal St, prior to the full reset of the business plan due in September. The Executive are asked to note this funding approach.

8.0 Interest on mortgage

- 8.1 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.
- 8.2 For the purposes of charging interest on mortgages that the Council has provided, from the 31st March 2022 the applicable interest rate is 3.23%, 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.

9.0 Prudential Performance Indicators

- 9.1 If the recommendations in this report are approved the General Fund capital budget will increase by £14.114m across financial years, as detailed in Appendix 1.
- 9.2 This will also result in an increase in the prudential indicator for Capital Expenditure in corresponding years. Monitoring of all prudential indicators is included within the Capital Monitoring Report during the year.

10.0 Contributing to a Zero-Carbon City

- 10.1 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.

11.0 Contributing to the Our Manchester Strategy

(a) A thriving and sustainable city

- 11.1 Contributions to various areas of the economy including investment in ICT services, housing, and leisure facilities.

(b) A highly skilled city

- 11.2 Investment 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

- 11.3 Improvements to services delivered to communities and enhanced ICT services.

(d) A liveable and low carbon city

- 11.4 Investment in cultural and leisure services and housing.

(e) A connected city

- 11.5 Through investment in ICT and the City's infrastructure of road networks and other travel routes.

12.0 Key Policies and Considerations

(a) Equal Opportunities

- 12.1 None.

(b) Risk Management

- 12.2 Risk management forms a key part of the governance process for all capital schemes. Risks will be managed on an ongoing and project-by-project basis, with wider programme risks also considered.

(c) Legal Considerations

- 12.3 The approvals set out in this report are in accordance with the Council's constitution.

13.0 Conclusions

- 13.1 The revenue budget of the City Council will increase by £1.101m, if the recommendations in this report are approved.
- 13.2 The capital budget of the City Council will increase by £14.114m, if the recommendations in this report are approved.

14.0 Recommendations

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