Manchester City Council
Report for Information

Report To:	Executive – 15 February 2023 Resources and Governance Scrutiny Committee – 27 February 2023 Council – 3 March 2023
Subject:	Capital Strategy and Budget 2022/23 to 2025/26
Report of:	Chief Executive and Deputy Chief Executive and City Treasurer

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Summary

The purpose of the report is to present the 2022/23 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 Council 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 2022/23.

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 2022/23 to 2025/26 prior to their submission to Council for approval, subject to no changes being made to the overall estimated total cost of each individual project.

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 (£443.8m in 2022/23, £426.8m in 2023/24, £199.7m in 2024/25 and £34.1m in 2025/26) which will require prudential borrowing of £551.8m 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 2022/23.

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 2023/24 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	The capital programme includes substantial

and home-grown talent sustaining the city's economic success	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 as presented will require £551.8m (all non-HRA) of prudential borrowing over the period 2022/23 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 2022/23 is £443.8m, including new projects included in this report, of which £255.8m is forecast to be funded from borrowing. Across the forecast period 2023/24 to 2025/26, the forecast is £660.6m, of which £296.0m 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: Commercial Finance Lead
Telephone: 0161 234 3459
E-mail: tim.seagrave@manchester.gov.uk

Name: Kirsty Cooper
Position: Group Finance Lead – Capital and Treasury Management
Telephone: 0161 234 3456
E-mail: kirsty.cooper@manchester.gov.uk

Attachments

Appendix 1: Capital Approval Process
Appendix 2: Proposed Amendments to the Capital Budget

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 Council 4 March 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
Report to the Executive 22nd July 2022 – Capital Programme Update
Report to the Executive 14th September 2022 - Capital Programme Update
Report to the Executive 19th October 2022 – Capital Programme Update
Report to the Executive 16th November 2022 – Capital Programme Update
Report to the Executive 16th November 2022 – Q2 Capital Monitoring report
Report to the Executive 14th December 2022 – Capital Programme Update
Report to the Executive 18th January 2023 – 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 2022-26. This report details the latest position on the Strategy and the governance process.

1.2. The capital strategy provides the medium to long term context in which capital investment decisions are made, and the governance arrangements. The approach to non-treasury investments is included in the broader Treasury Management Strategy 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.

1.4. The Capital Strategy provides the framework for the capital budget priorities and investment decisions. The Capital Strategy and Budget should be read in conjunction with the Medium-Term Financial Plan which sets out the priorities for the Revenue Budget.

2. Strategic Context

Economic Context

2.1. The Capital Strategy has been prepared during a time of economic uncertainty. The UK economy continues to be adversely affected by the ongoing impact of the COVID-19 pandemic, the UK's withdrawal from the European Union and the single market, the fallout from the brief tenure of the Truss government and the war in Ukraine. At the time of writing, the ONS's most recent estimate of consumer price index inflation was 9.3%, down slightly compared to earlier in the year but still markedly increased from circa 6% earlier in 2022. The Bank of England base rate increased to 4.0% in February, the 10th increase over the previous twelve months. The UK narrowly avoided recession at the end of 2022, with growth estimated at 0.2% for the month of November 2022, though the Bank of England predicts 2 years of negative growth over 2023 and 2024. At the same time there are some more positive trends forecast over the coming year. The Bank of England expects CPI inflation to fall sharply later in 2023 and return to trend by 2024.

2.2. The pressures on the capital programme are somewhat different to the last year when the sector was still recovering from the impact of COVID lockdowns. This year, inflationary pressure is significantly affecting project costs, and while labour cost increases are still a concern, the most pressing issue is around materials cost increases which are still running at over 20%. Similar to CPI forecasts, construction cost inflation is expected to fall sharply and return to trend over 2023 and into early 2024. Labour cost inflation may persist into 2024 but at a reduced rate of around 5%. The result is that tender prices are tracking inflation, increasing costs by over 10%, though conditions are now easing and again should return to trend, albeit at a higher base.

2.3. More positively, supply and materials issues have largely resolved and no longer appear significant across the industry. While there are some limited exceptions associated with the production of materials requiring high energy cost inputs, as well as increasing costs of transportation and storage, materials supply is generally less of an issue than over the previous year which will contribute to easing inflation. Market conditions forecasts produced by the BCIS (Building Cost Information Service) show that the impact of the latest crises have been less severe than following the 2008 financial crisis, with construction output and pipeline in Manchester remaining relatively strong.

2.4. Manchester is taking advantage of funding opportunities to drive development. It is disappointing that Manchester was not successful in the bid for £20m Levelling Up Funding towards the redevelopment of Wythenshawe Civic Centre. The Council is continuing to seek to maximise grants including the impact of funds such as the Public Sector Decarbonisation scheme.

2.5. Manchester's rising population, boosted by the occupation of new high-quality accommodation around the city centre, continued over the year and Manchester remains one of the fastest growing cities in England with the 2021 census stating a total population of 552,000, although this is likely to be an underestimate with the council's own population model suggestion a population of nearer 587,500. The diversity of our population continues to be driven by a strong and diverse labour market, a growth in city centre living, and Manchester's strong international reputation as a good place to live, work, study, and visit.

2.6. At the same time the economic context described above continues to negatively impact many residents and businesses in the city, with the cost-of-living crisis eroding the resilience of some households, driving up demands on services. Development and capital investment should form part of our response to these conditions, by creating new learning, training and employment opportunities, new services for local people and enhancing public realm and the built environment.

The Greater Manchester Context

2.7. 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.

2.8. A fully refreshed Greater Manchester Strategy was 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

2.9. 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 refreshed 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.

2.10. 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

2.11. 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.

2.12. Manchester's overall strategic aims remain the same, and 2023 will see some significant progress against these objectives:

- Creating a more inclusive economy – capturing the benefits of our growth and connecting more of our residents to the city's success. In 2023 we will develop a new economic strategy for the city that sets out our approach on this agenda.
- Tackling poverty and inequality – the Making Manchester Fairer Action Plan and Manchester's new Anti-Poverty Strategy will start to be delivered over 2023, linking closely to the economy strategy described above.
- Housing – Manchester's new Housing Strategy sets out how we will increase the supply of affordable housing and diversify tenure.
- Climate change and zero carbon – the refreshed climate change action plan sets out how we will achieve our ambition of being a zero-carbon city by 2038.

3. Priority areas for capital programme

3.1. The Council's capital investment priorities reflect the Our Manchester Strategy, and are:

3.2. ***Investment into neighbourhoods and communities***

- to support new and expanded high quality primary and secondary school facilities for a growing population. The provision of schools, expansion for additional places and maintenance are funded by government grant.
- sustaining core community assets such as parks, leisure facilities, community facilities and libraries for Manchester residents. There are a

number of existing funding programmes for investment such as the Parks Development Plan.

- to support businesses and residents to create thriving district centres with appropriate retail, amenities and public service offer;
- to enable invest to save investment within Homelessness and social care provision and market intervention where required.

3.3. ***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, 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

3.4. ***Delivery of the Zero Carbon Action Plan*** and achieving net zero carbon 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 and incorporated into all the Council's investment priorities and maximise all available funding sources.

3.5. ***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.

3.6. ***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. The highways and road safety programmes are largely funded by government grant with additional investment from borrowing to deliver a more comprehensive maintenance programme.

3.7. ***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. Accessing grant funding has been key to the delivery of the active travel priorities.

3.8. The above sets out ambitious priorities. As referenced above a significant proportion of the funding available to deliver the Our Manchester ambitions is from external funding and grants and through maximising the use of capital receipts and leveraging value of land assets, as shown in the graph in paragraph 10.11. The internal resources available must be used sustainably and Council must set a capital budget which is affordable within its revenue budget and some difficult prioritisation decisions will be required.

4. Financing the Capital Strategy

4.1. 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 and/or where 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 £10,000 which fulfils these criteria.

4.2. Potential capitalisation flexibilities including the use of capital receipts to support revenue expenditure for service transformation have not been used, but this position will continue to be reviewed in the light of the significant changes the Council is expected to deliver.

4.3. The existing programme represents significant investment in the city and contains projects at all stages of development and build. The volatility in inflation and financial markets has led to increased construction and financing costs and whilst the current approved programme remains affordable, these pressures have restricted future borrowing capacity, available for new investment.

4.4. The following principles will be followed to ensure that the limited capital resources available are prioritised to achieve best value for money:

- 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. The Prudential Code and Public Works Loan Board (PWLB) criteria will be followed.

- Assets will be reviewed to identify assets to realise capital receipts to support future investment priorities.

- If projects support corporate priorities, including both low carbon and social value, then they will be supported if:

    - The project is fully funded by external grants and contributions;
    - The project generates additional capital receipts to the Council, so the impact on resources is minimal; or
    - The project will generate a robust net income stream or revenue savings that is sufficient to meet the associated capital financing costs and therefore be funded on an invest to save basis.

- Schemes will also have a stronger chance of progressing if they bring additional grants and contributions, can support the realisation of additional capital receipts for investment and they are funded through invest to save proposals.

- Additional borrowing will only be considered if there are no other funding available and the project is of critical importance. The impact on the

Council's revenue budget will form part of the decision making. Work will continue to identify how other income sources such as the use of external grants can be maximised, including how fragmented government funding streams can bought together to complement investment proposals.

4.5. The Capital Strategy has been developed to ensure that capital expenditure and investment decisions are taken in line with Council priorities and to take account of stewardship, value for money, prudence, risk, sustainability, proportionality and affordability. It will be ensured the decisions are within the economic powers of the Council and are underpinned by strong governance arrangements that underpin decision making.

4.6. The Council's Capital Financing Requirement required to deliver the capital programme is forecast to be £2.2bn by 2025/26. This ranks as one of the highest levels of borrowing amongst local authorities in absolute terms and as c. £4k per head. Steps have been taken to ensure that this is prudent and affordable, including the establishment of the capital financing reserve to ensure that the increased borrowing for the Our Town Hall project does not become an additional burden on the revenue budget.

5. Development of the Capital Programme

5.1. The Capital Programme for 2023/24 will be developed within the priority areas outlined above. The programme will predominately include the continuation of existing schemes and commitments but will also include the following investment.

5.2. The inclusion of government grant and external funded maintenance programmes and schools for Highways and Schools.

5.3. The Council will continue to bid for external funding to support the delivery of key priorities including supporting climate change, growth and regeneration and housing ambitions. The first phase of This City is underway, and the delivery of an affordable housing offer remains a key priority.

5.4. Alongside the current funding in the programme for libraries, parks, culture and leisure there will be a continued focus on service delivery and community assets. This will be supported by £5m capital per annum borrowing for service and community assets and the establishment of £700k funding for urgent small capital/revenue improvements - such as additional bins and broken swings. The criteria is being finalised for the small fund so prompt and equitable access can be achieved.

5.5. A rolling Highways and Corporate Estates programme with a further one-year investment budget in addition to government grant funding. Schemes for inclusion in the capital programme are set out below to support the annual business as usual for highways investment and road safety and delivery of the Council's asset management plan.

5.6. Provision to ensure there is flexibility for key strategic acquisitions that unlock developments.

5.7. Proposed investment in neighbourhood infrastructure, and recognition of new grant funding available to the Council to house refugees.

5.8. A summary of the schemes, funding and spend profile can be found at appendix 2 and are summarised below. The total increase to the programme would be £58.2m. These schemes are included in the proposed programme in section 6 and are affordable within existing resources.

For Council approval:

- Growth – Asset Management Plan. To fund a further year of 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 £15.0m is requested funded from capital receipts.

- Highways – Investment Plan. To fund a further year of the Highways investment plan, to support the Council's road (£8m), footway (£2.8m) and drainage network (£2m). External funding will be used to continue works on the patching programme, repairing actionable defects. A budget increase of £17.5m is requested, funded from £4.7m of government grant and borrowing of £12.8m. Once the final government grant is known the budget will be adjusted accordingly.

- Growth – Strategic Acquisitions. To set aside funding for potential strategic acquisitions that could support existing or future development and regeneration schemes. A budget increase of £3.0m is requested, funded from Capital Fund.

- Housing - This City. The first phase of This City will deliver the Council's commitment to build LHA rent homes within the City Centre. Increasing the supply of affordable housing is a key priority for the Council and this scheme will ease the pressures on temporary and dispersed accommodation budget. The Council is delivering the first phase through PWLB and capital receipts funding on an invest to save basis with 30% of the units being at LHA rent and is due to be completed in 2025, with the contract been let to the developer to build out the scheme.

  The current budget approval is for £33.0m, for fees, design, construction and contingencies. The tender prices were significantly over the budget allocation with the housing market heavily impacted by inflation. After a significant programme of value engineering, whilst still protecting the integrity of the scheme including the LHA rented units and low carbon standards, the construction cost has been reduced to £45.0m. This is £12m above the current budget approvals. The tender price can only be held until mid-March and any further delays are likely to see costs increasing further. Work has been carried out to identify the most cost-effective funding package and it is proposed the scheme will be funded by £22m of capital receipts and £1m of Homes England grant funding, with a decrease in the previously approved borrowing of £11m. A budget increase of £12m funded by capital receipts is therefore requested.

The business plan and financial model has been reassessed in the light of the revised costs and funding package. Whilst a positive internal rate of return is still delivered, and the scheme is still financially viable it is recommended the business plan and proposed approach for future phases is bought back to Executive for approval.

- <u>Neighbourhoods – Infrastructure Renewal Fund.</u> Investment in neighbourhood infrastructure, specifically pathways, street furniture such as seating, fencing and signage, and children's play areas. The funding will be used across all Council wards. A budget increase of £5.0m is requested, funded from borrowing.

- <u>Housing – Local Authority Housing Fund.</u> The Government has provided grant funding of £3.267m, to be match funded by £3.408m from Council resources, to purchase homes to support the settling of refugees from Afghanistan and Ukraine to the UK. A budget increase of £6.675m is requested, funded from £3.267m of capital grant and £3.408m of borrowing.

6. The Capital Programme

6.1. The existing capital programme covers both the purchase of new long-term assets and improvements to existing ones, such as buildings, roads, and council housing. Each year we need to spend more money to ensure our assets are still suitable for use in the provision of services and to invest in new assets to meet our changing needs and requirements. The Council's estate is vast with multiple assets.

6.2. Each year the capital programme includes a number of schemes that relate to the routine upkeep of the Council's asset infrastructure. The assets maintained are diverse and are crucial to delivering services to residents across the city:

Public Sector Housing
- 12,528 properties (exc. PFI)
- 213 Homelessness bed spaces and 60 units

Schools
109 Maintained Local Authority Schools
75 Academies
53,235 Primary places
33,339 Secondary Places

Estate Asset Management
356 MCC operational buildings
(inc 17 Leisure Centres, 13 Libraries and 20 Hostels)
1,688 third party occupations including over 150 industrial units

Highways Services
- 1,368 kms of Highways
- 260 kms of bike lanes
- 350 bridges and structures
- 2,668 kms of Footways
- 118,800 drainage gullies

6.3. To meet statutory requirements and deliver Council priorities new long-term assets require ongoing investment. During 2022/23 the Council has delivered several new schemes including:

- Gorton Health Hub, a new Health and Care Hub in the heart of Gorton, including a GP practice, rooms for Manchester Adult Education services (MAES), Gorton Library, mental health services and a Job Centre Plus
- Co-op Academy Belle Vue Secondary school delivering 1200 new school places
- Wythenshawe Cycling Hub, including learn to ride area, 3.1km of family trails and 1.5km of skills trails
- Mayfield Park
- Blakely Cremator replacements

6.4. The capital programme 2022/23 to 2025/26 shown below includes the existing programme and approved schemes only. The programme is based on the forecast as at the end of December 2022, which is reported elsewhere on the agenda, and the additional proposed schemes noted above.

Forecast Budgets	2022/23	2023/24	2024/25	2025/26	Total	*Total 23/24-25/26*
	£m	£m	£m	£m	£m	*£m*
Manchester City Council Programme						
Highways	37.5	44.5	6.0	8.2	**96.2**	***58.7***
Neighbourhoods	73.3	34.3	5.8	2.1	**115.5**	***42.2***
The Factory and St John's Public Realm	60.9	18.5			**79.4**	***18.5***
Growth	84.9	118.5	35.9	3.7	**243.0**	***158.1***
Town Hall Refurbishment	68.7	86.4	46.6		**201.7**	***133.0***
Housing – General Fund	17.4	38.8	33.1	8.5	**97.8**	***80.4***
Housing – HRA	32.4	49.4	44.0	11.6	**137.4**	***105.0***
Children's Services (Schools)	43.6	23.3	3.6		**70.5**	***26.9***
ICT	4.3	2.6			**6.9**	***2.6***
Corporate Services	15.0	1.5	0.5		**17.0**	***2.0***
Total (exc. Contingent budgets)	**438.0**	**417.9**	**175.5**	**34.1**	**1,065.6**	***627.6***
Contingent Budgets	5.8	8.9	24.2		**38.9**	***33.0***
Total Programme	**443.8**	**426.8**	**199.7**	**34.1**	**1,104.4**	***660.6***

6.5. The above programme is large and complex, with around 300 schemes to be delivered across the next three years. Major schemes include:

- ***Highways Services –*** ongoing maintenance programme for carriageways, footways, drainage and structures, Active Travel Schemes and Road Safety schemes

- ***Neighbourhoods -*** Abraham Moss Leisure Centre, Hough End Football Hub development, Manchester Aquatics Centre Refurbishment, National Cycling Centre Refurbishment, Galleries Collection Housing & Remediation Works, and the Parks Development Programme.

- ***The Factory and St John's Public Realm***

- ***Growth and development –*** Asset Management Programme maintaining the Council's assets, Carbon Reduction Programme, Campfield Redevelopment and Home Arches utilising Levelling up Fund, and House of Sport.

- ***Town Hall and Albert Square Refurbishment programme***

- ***Housing –*** Major adaptations for people with disabilities through the Disabled Facilities Grant, This City Housing Delivery Vehicle, investment in the Council's public sector housing estate and regeneration works in Collyhurst.

- ***Children's Services –*** Basic Need programme providing additional school places to meet increasing pupil numbers, including the City Centre Primary School and Co-op Academy in Belle Vue Secondary school, Varley Street Special Educational Needs and Disabilities (SEND) school and the School Maintenance Programme.

- ***Information and Communication Technology (ICT) -*** Network Refresh Programme updating the Council's wider area network, local area network and wi-fi.

- ***Adults, Children's and Corporate Services -*** Gorton District Centre providing integrated health and community services

6.6. The phasing of schemes will be impacted by market challenges and, 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 2023/24 is highly ambitious.

6.7. 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.

7. Governance

7.1. The existing capital approval process has been in place for five years and has been reviewed to ensure it remains fit for purpose and reflects best practice. The changes will deliver a "top-down" as well as "bottom-up" approach to maximise the benefit that can be gained from the more limited capital resources. The process will build in a stronger approach to planning for place and have a greater focus on neighbourhoods and communities.

7.2. Key changes include:

- Focus on Prioritisation
- Creation of Forward Plan
- Capital Project Initiation Form (due diligence template)
- Improved Place Focus
- Improvements to Project Governance

Further details of the proposed changes can be found in Appendix 1

7.3. The capital programme will continue to be managed and updated on a rolling basis. The capital budget process is being refined. The priorities will be set each year as part of the budget cycle and the frequency of capital budget requests to Executive and Council will be reduced from monthly to quarterly.

8. The Strategic Asset Management Plan

8.1. The Council's Strategic Asset Management Plan (SAMP) provides a structured approach to the prioritisation of existing assets, potential acquisition, and identifying assets for disposal, ensuring a co-ordinated process for decision making. Capital receipts realised can be used to support the wider capital programme.

8.2. The Council's assets include those held for development, and the operational estate and community assets. The Council's operational estate comprises 369 buildings, including:

- The corporate estate comprises of 40 buildings, which includes 3 buildings of multiple occupancy (including Gorton Hub), 15 offices and 16 depots, plus a coroner's court and event space.
- There are many Neighbourhood Facilities, including 110 buildings in parks, 14 libraries, 17 leisure centres and 3 museums/galleries.
- The Council leases out 19 buildings to the Voluntary Community Sector
- The estate also includes 6 prestige buildings which comprise Manchester Aquatic Centre, The Velodrome, National Football Museum, Bridgewater Hall, HOME and Factory International.

8.3. Condition surveys are being commissioned for the community estate, including those where the properties are occupied by community and other groups rather than the council. This will provide a more comprehensive approach to neighbourhood assets. Investment priorities in the operational estate will be informed by condition surveys, and options will be reviewed to align any works and funding with zero carbon initiatives. The estate also includes larger assets such as Bridgewater Hall, where the Council has repairing responsibilities as landlord and the associated investment required will need to form part of the Asset Management Plan.

9. Zero Carbon Capital Investment

9.1. 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.

9.2. An approach to reducing carbon emissions has been embedded into all capital planning and investment. Changes in how buildings are operated alongside behavioural changes such as recycling are important but must be supported by capital investment aimed at reducing carbon.

9.3. The Council has an important leadership role working alongside the Manchester Climate Change Partnership and Greater Manchester Combined Authority (GMCA). This includes the development of the Local Plan and Manchester Low Carbon build standard for new developments planned for 2023, the delivery of the Green and Blue infrastructure plan and other related pieces of work. Our direct investment will include work such as rolling out the learning from West Gorton Park into new developments including Victoria North.

9.4. In 2021, 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.

9.5. A significant challenge remains the retrofit of the city's housing stock. The Council has produced some early proposals for retrofitting the city's housing stock, and work continues apace on this agenda

9.6. The majority of the Council's carbon emissions are from its existing corporate estate and own and partner managed housing stock. Significant investment will be required to bring these buildings up to carbon efficient standards which represents a major opportunity to 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.

9.7. 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. To date, the Council invested approximately **£227m** to deliver the 5-year Climate Change Action Plan. The breakdown of this is as follows:

- **£109.2m** via the Council (including investment in LED streetlighting, Civic Quarter Heat Network, Estates Carbon Reduction, purchase of Electric Refuse Collection Vehicles, Tree Planting, social housing new low carbon homes & retrofit, education setting summit and new climate change posts). Including additional revenue secured as part of 2022/23 budget setting to provide additional staffing capacity (12 new posts) to support delivery of the CCAP – more details on what these posts are delivering is provided in the table below
- **£70.1m** from UK Government (including funding for Mayfield Park, Urban Tree Challenge Fund, Public Sector Decarbonisation Scheme, Active Travel, Social Housing Development Fund, HNIP grant contribution to Civic Quarter Heat Network)
- **£35.4m** 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)
- **£3.6m** from the Manchester Climate Change Agency (including In Our Nature funding from the National Lottery).

9.8. 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 vehicle 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.

9.9. 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.

9.10. The Council is bidding for funding to explore place-based carbon intervention, which could leverage in external financing. Such partnerships will be critical in achieving the zero-carbon goal across the city, as the Council will not be able to fund all the investment required.

10. Capital Financing

10.1. There are a number of funding streams available to fund capital expenditure. These include external grants and contributions, revenue funding, capital receipts and prudential borrowing. Capital receipts are ring-fenced, under legislation, to fund future capital expenditure (or repay long term borrowing) and cannot be used to fund the revenue budget.

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

10.3. 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;
- Right to Buy receipts will be retained within the HRA unless there is a specific identified housing project outside of the HRA where they can be better applied
- General Fund capital receipts will be used in the first instance to support the Asset Management Programme although some receipts may be ringfenced for reinvestment if linked to specific development or project
- 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

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

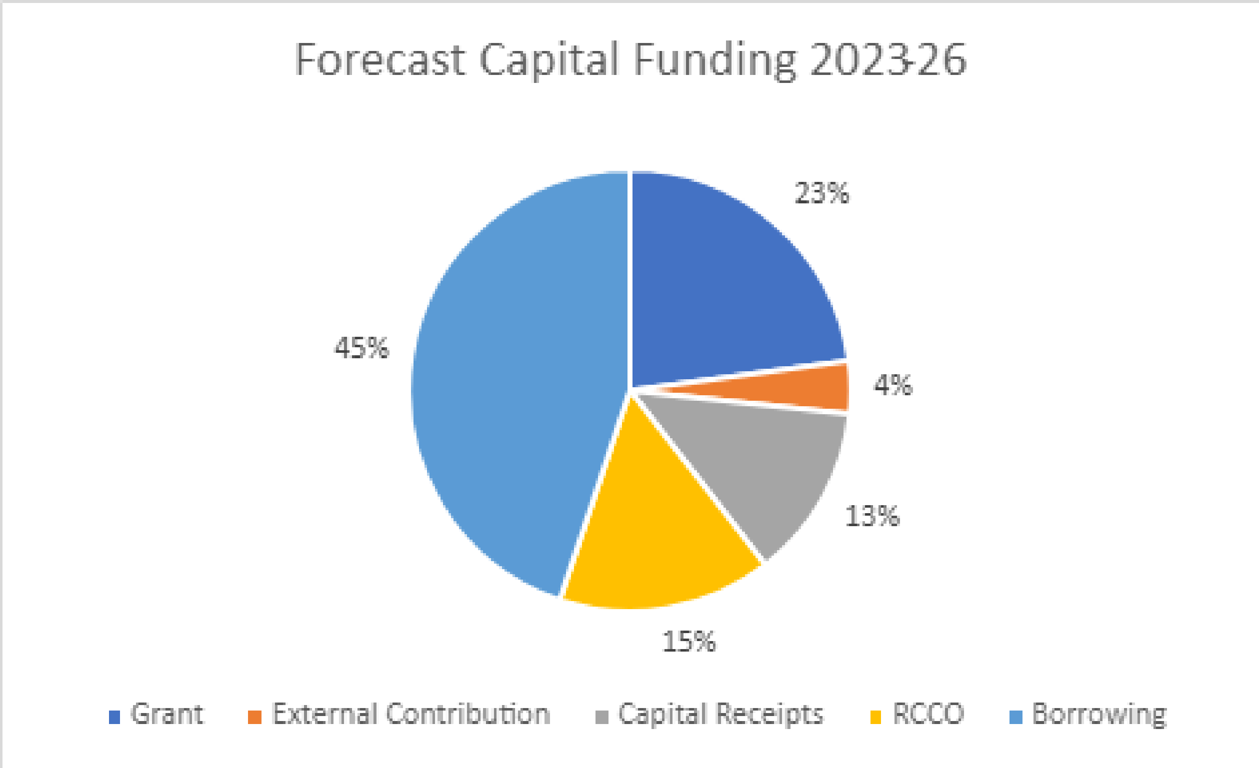
10.5. The estimated financing costs for the capital programme and existing debt have been calculated as part of the budget process. The proposed programme and the existing debt liabilities are affordable within the existing revenue budget. There is a finite level of borrowing that the Council can undertake 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. To achieve this the funding principles and governance arrangements set out in this report are applied and all schemes are reviewed so that the revenue consequences and capital financing costs are understood and budgeted for.

10.6. Borrowing decisions are taken separately for the General Fund and HRA. For the HRA it is depreciation rather than MRP which is incurred.

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

	2022/23 forecast	**2023/24 forecast**	**2024/25 forecast**	**2025/26 forecast**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Grant	94.4	110.6	36.7	3.6	**245.3**
External Contribution	26.6	17.4	0.8	7.0	**51.8**
Capital Receipts	31.0	43.2	32.7	8.6	**115.5**
Revenue Contribution to Capital Outlay	36.0	46.9	45.5	11.6	**140.0**
Borrowing	255.8	208.7	84.0	3.3	**551.8**
Total	**443.8**	**426.8**	**199.7**	**34.1**	**1,104.4**

10.8. The chart below shows the funding forecast for 2023-26, and highlights the required level of borrowing, as well as the reliance on external grants and contributions to fund capital activity.



10.9. 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.

10.10. The current Housing HRA programme does not require prudential borrowing, but it is likely that new schemes will, and this will be reported as part of the decision-making process. 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.

10.11. A number of the schemes in the approved programme are funded by borrowing on an invest so save basis and will generate revenue savings which also fund the financing costs. Further invest 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.

10.12. 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 2022/23 programme.

11. Prudential Indicators

11.1. The prudential indicators for the Council, including the treasury management indicators, are shown as part of the Treasury Management Strategy Statement elsewhere on the agenda. These will be monitored throughout the year and will be reported to members as part of the regular capital monitoring.

12. Conclusions

12.1. 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.

12.2. 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.

12.3. 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.

13. Contributing to a Zero-Carbon City

13.1. 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.

13.2. For some projects, the aim of the investment will be to reduce the City's carbon impact, as noted above.

14. Contributing to the Our Manchester Strategy

(a) A thriving and sustainable city

14.1. 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

14.2. 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

14.3. 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

14.4. 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

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

15. Key Policies and Considerations

(a) Equal Opportunities

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

(b) Risk Management

15.2. 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

15.3. None in this report.