

**Manchester City Council  
Report for Resolution**

**Report to:** Executive – 13 September 2023  
**Subject:** Capital Programme Monitoring P4 2023/24  
**Report of:** The Deputy Chief Executive and City Treasurer

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**Summary**

This report informs members of:

- (a) Progress against the delivery of the 2023/24 capital programme to the end of July 2023.
- (b) The latest forecast of capital expenditure and the major variances since the Capital Programme Outturn report submitted in June 2023.
- (c) The proposed financing of capital expenditure for 2023/24 and affordability of the Capital Programme.

**Recommendations**

The Executive is requested to:

- (1) To approve, and recommend that Council approve, the budget changes to the Council's capital programme detailed in section 7.2 and set out in Appendix D.
  - (2) Note the other contents of the report.
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**Wards Affected:** All

<b>Environmental Impact Assessment</b> - the impact of the decisions proposed in this report on achieving the zero-carbon target for the city
Under the governance process for capital expenditure decision making, zero and low carbon measures are a key component. All capital projects are reviewed throughout the approval process with regard to the contribution they can make to Manchester being a Zero-Carbon City. Projects will not receive approval to incur costs unless the contribution to this target is appropriate.

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

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

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

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

**Financial Consequences – Revenue**

All revenue consequences are included in the current Revenue Budget.

**Financial Consequences – Capital**

The latest forecast of expenditure for 2023/24 for Manchester City Council is £454.0m compared to the current approved budget of £473.7m. Spend as of 31<sup>st</sup> July 2023 was £91.9m. The £897.6m multi-year programme is subject to continual review to establish whether the forecast remains achievable. Whilst the intention is for the City Council to progress the programme as stated, some projects and their sources of funding may require re-profiling into future years.

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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 15<sup>th</sup> February 2023 – Capital Strategy and Budget 2023/24 to 2025/26.
- Report to the Executive 22<sup>nd</sup> March 2023 – Capital Programme Update Report
- Report to the Executive 31<sup>st</sup> May 2023 – Capital Programme Update Report
- Report to the Executive 28<sup>th</sup> June 2023 - Capital Programme Outturn 2022/2

## 1. Introduction

1.1 The purpose of the report is to:

- Provide an update to members on the progress of the global capital programme in the four months to the end of July 2023, including activity, benefits realised, financial implications and risk;
- Provide a more detailed update on the major projects within the programme;
- Confirm that there are adequate levels of resources available to finance the capital programme.

1.2 Attached to the report are the following appendices:

Appendix A – An update on the major projects within the capital programme.

Appendix B – Details of other material variations in the programme in 2023/24.

Appendix C – Changes to capital budget since the outturn report to Executive in June.

Appendix D – The adjustments to the capital budget being requested in this report.

Appendix E – Prudential Indicators as at July 2023.

## 2 Capital Programme Forecast 2022/23

2.1 The latest forecast of expenditure for the Manchester City Council Capital Programme in 2023/24 is shown in the table below. The main variances relate to Asset Management Programme, Hammerstone Road Depot, Campfield Redevelopment, Our Town Hall Refurbishment, Home Upgrade Grant, Social Housing Decarbonisation Fund and Varley Street SEND Secondary School. These variances mostly relate to timing differences meaning reprofiling will be required.

Manchester City Council Programme	2023/24			Spend to Date
	Current Budget	Forecast at P4	Variance to current budget	
	£'m			£'m
Highways	41.9	36.4	(5.5)	8.2
Neighbourhoods	46.6	46.3	(0.3)	15.5
The Factory International and St John's Public Realm	32.2	54.4	22.2	23.7
Growth and Development	106.3	99.6	(6.7)	10.1
Our Town Hall Refurbishment	79.7	78.1	(1.6)	14.2

Housing – General Fund	43.9	40.4	(3.5)		4.0
Housing – Housing Revenue Account	73.6	60.5	(13.1)		9.0
Children’s Services	39.2	28.4	(10.8)		6.2
ICT	5.1	4.8	(0.3)		0.4
Corporate Services	4.3	4.3	0.0		0.6
<b>Total (exc. contingent budgets)</b>	<b>472.8</b>	<b>453.1</b>	<b>(19.7)</b>		<b>91.9</b>
Contingent Budgets	0.9	0.9	0.0		0.0
<b>Total</b>	<b>473.7</b>	<b>454.0</b>	<b>(19.7)</b>		<b>91.9</b>

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

<b>Manchester City Council Programme</b>	<b>2023 /24</b>	<b>2024 /25</b>	<b>2025 /26</b>	<b>2026/27</b>	<b>Total All Years</b>	<b>All Years Variance to Current Budget</b>
£'m						
Highways	36.4	18.2	7.9	8.2	70.7	0.0
Neighbourhoods	46.3	7.8	2.8	0.0	56.9	0.4
The Factory International and St John’s Public Realm	54.4	0.0	0.0	0.0	54.4	22.2
Growth and Development	99.6	70.4	12.2	0.0	182.2	0.2
Town Hall Refurbishment	78.1	76.3	16.4	0.0	170.8*	0.0
Housing – General Fund	40.4	38.4	10.6	0.0	89.4	0.0
Housing – Housing Revenue Account	60.5	80.2	19.1	1.1	160.9	0.0
Children’s Services	28.4	29.6	1.0	0.0	59.0	0.0
ICT	4.8	0.3	0.0	0.0	5.1	0.0
Corporate Services	4.3	0.5	0.5	0.0	5.3	0.0
<b>Total (exc. Contingent budgets)</b>	<b>453.1</b>	<b>321.7</b>	<b>70.6</b>	<b>9.3</b>	<b>854.7</b>	<b>22.8</b>
Contingent Budgets	0.9	41.3	23.5	0.0	65.7	0.0
<b>Total</b>	<b>454.0</b>	<b>363.0</b>	<b>94.1</b>	<b>9.3</b>	<b>920.4</b>	<b>22.8</b>

\* Town Hall budget as per report to Executive in July, subject to Full Council approval in October.

- 2.3 The report also shows an overall overspend of £22.8m against the programme. This includes:
- A total of £23.6m budget increases for Aviva Studios, Home of Factory International, Piccadilly Gardens and Manchester Aquatics Centre as requested in paragraph 7.2.
  - £0.2m underspend for Leisure Development Opportunity.
  - £0.6m underspend for House of Sport.
- 2.4 There are a number of projects which are currently forecast to require reprofiling over years, which will be reflected in the Outturn report.
- 2.5 A more focussed look at the top 10 projects is provided in Appendix A. These projects cover 47% of the total programme. Appendix B provides details of any other material changes relating to other parts of the programme.
- 2.6 The programme contains some budgets yet to be allocated to specific projects but reserved for a particular purpose, such as Education Basic Need funding, Housing Affordability Fund, ICT Investment Plan and the budget for inflation pressures. These will be allocated once the specific schemes are progressed and approved, or in the case of inflation the business case showing the impact of inflationary pressures on a scheme completed. They are then subject to approval through the Council's capital approval process.
- 2.7 The most significant risk facing the programme and major projects overall is the continued high levels of inflation being experienced, as set out in Section 7 of this report.

### 3.0 Capital Resources

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

	<b>Draft Funding 2023/24 £m</b>	<b>Draft Funding 2024/25 £m</b>	<b>Draft Funding 2025/26 £m</b>	<b>Draft Funding 2026/27 £m</b>	<b>Draft Funding All Years £m</b>
Grants	112.0	81.5	31.9	0.1	225.5
Contributions	18.5	17.2	0.3	8.1	44.1
Capital Receipts	59.7	25.5	16.6	0.0	101.8
Revenue Contributions to Capital	44.6	68.3	16.0	1.1	130.0
Capital Fund	4.7	1.6	0.5	0.0	6.8
Borrowing	214.5	168.9	28.8	0.0	412.2
<b>Total</b>	<b>454.0</b>	<b>363.0</b>	<b>94.1</b>	<b>9.3</b>	<b>920.4</b>

- 3.2 Modelling the Council's future cash flow based on the funding assumptions and anticipated changes to working capital provides an assessment of the ongoing affordability of the forecast capital programme. The current forecasts show that the financing costs remain affordable within the revenue budget available including reserves. The capital financing reserves will be required to meet the costs associated with the borrowing by 2026/27. The model is based on a significant number of assumptions, including the timing of future borrowing and forecast future interest rates and the position is subject to change.
- 3.3 All capital financing decisions are made to maximise the resources available to the Council and fund in the most efficient way.
- 3.4 The current forecasts for the Council's Prudential indicators, compared to those included in budget reports to Executive and Council, are shown at Appendix E.

#### **4.0 General Programme Risks**

- 4.1 Inflation in the UK in the 12 months to July 2023, as measured through CPI, is currently 6.8%, down from 7.9% in May and from a recent peak of 11.1% in October 2022. Whilst this shows a downward trend which is expected to continue, the figure remains elevated.
- 4.2 The July 2023 statistics of building materials and components from the Department for Business and Trade (formerly BEIS) noted that the price index for all construction works was 2.0% lower than the same month the previous year. As previously reported, some prices have started to come down from their elevated levels with some significant price decreases for example concrete reinforcing bars (-29.4%), imported sawn or planed wood (-28.8%), and fabricated structural steel (-27.9%). This figure does however include price increases for some construction materials, such as thermal or acoustic insulating materials (27.9%), screws etc (24.8%) and ready-mixed concrete (19%).
- 4.3 It has previously been reported that many projects in the capital programme have faced an extremely challenging 18-month period with intense pressures on cost due to extraordinary levels of inflation and unprecedented pressure on the supply chain (labour and materials availability). These pressures continue to be seen and remain a significant risk across the capital programme.
- 4.4 The impact of inflation on the capital programme will continue to be managed, monitored and reported to members. The unallocated inflation budget is currently £30.0m.
- 4.5 The Capital Budget is prepared on the best estimate of the start date and spend profile for each scheme which is likely to change as the scheme develops. The project cash flow will be variable throughout the life of a project, and therefore the forecast expenditure in each financial year will also vary. This report therefore considers the total life and cost of schemes and the

risks associated with their development. All projects carry risk such as delivery risk, third party risk and market risk, including build cost and inflation.

- 4.6 Where funding sources for the programme are time-limited, such as the Public Sector Decarbonisation Scheme, officers will continue to monitor progress against these schemes to seek to maximise the level of grant funding used.

## **5.0 Contributing to a Zero-Carbon City**

- 5.1 Capital expenditure business cases are required to include carbon measures for both during the project progression stage and the ongoing lifecycle post completion. The intention is that the carbon footprint of a scheme is considered as part of the decision-making process. This work is ongoing and will reflect the decisions taken by the Council on how it will meet the future carbon reduction targets in order to become carbon neutral by 2038.
- 5.2 In February 2021 Executive agreed to the adoption of the Manchester Low Carbon Build Standard for future capital projects, and this has been implemented. Work is ongoing to develop specific measurable carbon metrics across the capital programme, for both during and post-acquisition/construction phases of a project, that will enable comprehensive reporting on the intended and achieved carbon reductions created through the programme. It is intended that this will form part of these monitoring reports.
- 5.3 Carbon reduction continues to be a focal point for the 2023/24 capital programme, with projects such as Public Sector Decarbonisation scheme, the purchase of electric refuse vehicles and tree planting all continuing.

## **6.0 Social Value**

- 6.1 Every capital project is required to consider the social value which could be realised, either through procurement or other routes, through the creation of the asset. Capturing the expected social value benefits allows projects to monitor their social value output on an ongoing basis. In some cases, for example with the Northwest Construction Hub, this is done on an aggregate basis rather than project by project.

## **7.0 Capital Programme Budget changes**

- 7.1 The capital programme continues to be updated on a rolling basis throughout the financial year with new schemes brought forward through the Capital Approvals Process. The following projects have been brought forward since the previous update to Executive. A summary of the schemes, funding and spend profile can be found at appendix D and are set out below:
- 7.2 For Council approval:
- Aviva Studios, Home of Factory International- The July reports to the Resources and Governance Scrutiny Committee (RGSC) and the Executive detailed the revised expected completion dates and requested



additional funding to enable the project to reach static completion in July. The report highlighted that a further budget increase would be required to reach practical completion, detailed the works required, and committed to providing the final estimated costs to Scrutiny and Executive in September/October once the project has completed and the final risks have been closed out.

The Capital Monitoring has been updated to reflect the additional costs incurred due to the revision of the completion date to September and the additional cost pressures flagged in July. These include prolongation including staffing costs, storage and contractor claims, acceleration measures, additional works and crystallisation of risk items and contingency spend. These are forecast to be £15.7m. The additional contingencies and risk allowances required are estimated at £5m, and client-side fees relating to the retention of key project delivery staff of £0.8m. Further, there are a number of additional risk items under negotiation for which an allowance has been made of £0.7m.

In order to provide the financial approvals to complete the work a capital budget increase of £22.2m is recommended, funded by borrowing. The income the Council receives from the naming rights will be applied to the capital financing costs of the project over its life and details of the potential income, in addition to the current naming rights arrangement, were included in the July 2023 Report to RAGOS. This income is not guaranteed, but all funding received will be fully utilised to support the costs of the additional borrowing, over and above that already committed to on the original invest to save proposals.

A detailed budget report will therefore be brought back to RGSC and Executive at the point practical completion is achieved, the negotiations surrounding the contentious items are concluded, and final accounts have been completed. This report will also provide an update on the success of the venue to date, progress on commercial and sponsorship income, and the social value delivered. The venue continues to generate a considerable amount of excitement, raises the profile for the city and has already become an important landmark.

- Corporate Services - Our New Finance & HRODT System. The project is to replace the Council's existing HR and Finance System, which was originally implemented in 2006. The existing technology platform it operates on will no longer be supported after 2027. Previous funding approvals have supported the pre-development work necessary to understand the Council's requirements for the procurement specification, including soft market testing and process mapping, and the first stage of procurement is underway. The project will procure a new system, support the build and configuration of the new system for the Council, through to implementation and operation. It is expected that the project will generate savings for the Council but, until the new system is selected, they are not yet quantifiable. A revenue budget increase of £17.4m is requested, to be spread across 4 financial years, and funded from the Capital Fund

reserve. Longer term funding solutions for ICT schemes are being developed as part of the budget process.

- Neighbourhoods – Manchester Aquatic Centre (MAC). During phase 1 of the works programme, the contractor discovered significant building repair and maintenance works. This included essential fire protection works, repairs to roof, gutters and drains, re-building of walls following the presence of horizontal cracking, structurally unsafe plant deck and service risers, and structural concrete repairs to the main pool tank. These works were not identified from pre-construction surveys and therefore outside of original scope and budget. The additional works were deemed essential to address build health and safety issues and safeguard the MACs future operations and services, whilst also ensuring that the building remains complaint to host World-Class Events, including the World Para Swimming Championships held this summer.

The project has sought to accommodate these cost increases by pursuing value engineering initiatives and design changes across both the phase 1 and 2 scope of works but any additional value engineering and scope reduction at this stage could negatively impact the facility and users (including the British Para-Swim Team) and compromise the build operations, so additional funding is being sought to enable final completion. A capital budget increase of £0.640m is requested, funded by Borrowing.

- Growth and Development – Piccadilly Garden Design Phase. This is a request for further pre-construction Design Phase Fees. The additional funding will enable the project cost to progress to end of RIBA Stage 3 / submission of planning application. Works to this stage include demolition of the free-standing wall, Capital Programmes fees, pre-competition design fees, public consultation fees and costs and topographical surveys. A capital budget increase of £0.782m is requested, funded by Borrowing. Further work is being carried out on the final funding model for the full scheme.

### 7.3 For Executive approval:

- ICT - Digitising Registrars Certificates. The project will lead the implementation of imaging software to digitise birth, death and marriage certificates, enabling the Registrars service to streamline and automate the current copy certificate process, increase team efficiencies and improve the service offered to customers. A revenue budget increase of £0.244m is requested, funded from the Capital Fund reserve.
- ICT - Manchester ContrOCC Client Finance Portal (CFP) and Online Financial Assessments (OFA) Resources. The project will enable the implementation of the two ContrOCC portals; Client Finance Portal (CFP) and Online Financial Assessment Portal (OFA). The Client Finance Portal is a way for people receiving care and support from the Council, and their representatives, to access financial information held in the Council's

finance system. The OFA website enables individuals or their representatives to calculate their own contribution. A revenue budget increase of £0.092m is requested, funded from the Capital Fund reserve.

- ICT – Adults Care Management System. The scheme will implement a new care management system covering; rostering, care monitoring reporting, electronic medication administration record and mileage wizard for the Reablement and Disability Supported Accommodation Services (DSAS) teams within Adult’s Services. A revenue budget increase of £0.258m is requested, funded from the Capital Fund reserve.
- Public Sector Housing – Collyhurst. It is proposed to vire the existing budget within Private Sector Housing relating to the acquisition of properties in Collyhurst to the broader Public Sector Housing budgets delivering the regeneration scheme in the area. The existing budget is no longer required for its original purpose, and there is inflationary pressure in the wider regeneration scheme relating to the construction costs for new homes, a new park and associated infrastructure, and not all of this pressure can be mitigated through value engineering. Reallocating funding allows the wider regeneration scheme to progress, and therefore a budget virement of £3.693m funded from capital receipts, between the Private Sector and Public Sector Housing budgets is requested.

7.4 Details of Capital Budget approvals since the last report to Executive in June 2023 can be found at Appendix C.

## **8.0 Contributing to the Our Manchester Strategy**

### **(a) A thriving and sustainable city**

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

### **(b) A highly skilled city**

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

### **(c) A progressive and equitable city**

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

### **(d) A liveable and low carbon city**

Investment in all areas of the capital programme contributes towards this

community strategy, notably the investment in sustainable and affordable housing, building schools for the future, transport, environmental and major regeneration programmes.

**(e) A connected city**

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

**9.0 Key Policies and Considerations**

**(a) Equal Opportunities**

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

**(b) Risk Management**

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

**(c) Legal Considerations**

None.