

**Manchester City Council
Report for Resolution**

Report to: Executive – 15 November 2023
Subject: Capital Programme Monitoring P6 2023/24
Report of: The Deputy Chief Executive and City Treasurer

Summary

This report informs members of:

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

Recommendations

The Executive is requested to:

- 1. Approve, and recommend that Council approve, the budget changes to the Council's capital programme detailed in section 7.3 and set out in Appendix D.
 - 2. Note the other contents of the report.
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Wards Affected: All

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

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

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

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

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

All revenue consequences are included in the current Revenue Budget.

Financial Consequences – Capital

The latest forecast of expenditure for 2023/24 for Manchester City Council is £401.0m compared to the current approved budget of £496.3m. Spend as of 30th September 2023 was £141.7m. The £923.2m 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 15th February 2023 – Capital Strategy and Budget 2023/24 to 2025/26.
- Report to the Executive 22nd March 2023 – Capital Programme Update Report
- Report to the Executive 31st May 2023 – Capital Programme Update Report
- Report to the Executive 28th June 2023 - Capital Programme Outturn 2022/23
- Report to the Executive 13th September – Capital Programme Monitoring (P4)

1.0 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 six months to the end of September 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 P4 report to Executive in September.
- Appendix D – The adjustments to the capital budget being requested in this report.
- Appendix E – Prudential Indicators as at September 2023.

2.0 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, Back of Ancoats Mobility Hub and Public Realm, Our Town Hall Refurbishment, This City Housing Delivery Vehicle, Public Sector Housing Programme, 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 P6	Variance to current budget	
	£'m			£'m
Highways	42.1	39.3	-2.8	15.2
Neighbourhoods	46.6	42.8	-3.8	15.1
The Factory International and St John's Public Realm	54.4	54.4	0.0	32.9
Growth and Development	107.3	91.3	-16.0	21.9
Our Town Hall Refurbishment	79.7	64.3	-15.4	23.4

Housing – General Fund	42.9	28.4	-14.5		8.0
Housing – Housing Revenue Account	73.6	42.6	-31.0		13.0
Children’s Services	39.3	28.4	-10.9		10.2
ICT	5.1	4.2	-1.0		1.0
Corporate Services	4.3	4.3	0.0		0.9
Total (exc. contingent budgets)	495.4	400.1	-95.3		141.5
Contingent Budgets	0.9	0.9	0.0		0.2
Total	496.3	401.0	-95.3		141.7

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

Manchester City Council Programme	2023 /24	2024 /25	2025 /26	2026/27	Total All Years	All Years Variance to Current Budget
£'m						
Highways	39.3	20.5	4.8	4.4	69.0	-1.7
Neighbourhoods	42.8	11.7	2.8	0.0	57.4	-0.7
The Factory International and St John’s Public Realm	54.4	0.0	0.0	0.0	54.4	0.0
Growth and Development	91.3	76.9	14.3	0.0	182.5	-0.7
Town Hall Refurbishment	64.3	86.2	20.4	0.0	170.8	0.0
Housing – General Fund	28.4	45.8	11.4	0.0	85.7	0.0
Housing – Housing Revenue Account	42.6	85.7	32.5	4.4	165.2	0.7
Children’s Services	28.4	29.7	1.0	0.0	59.1	0.0
ICT	4.2	1.3	0.0	0.0	5.5	0.0
Corporate Services	4.3	0.5	0.5	0.0	5.3	0.0
Total (exc. Contingent budgets)	400.1	358.2	87.7	8.9	854.9	-2.4
Contingent Budgets	0.9	40.9	23.7	0.0	65.5	0.0
Total	401.0	399.1	111.4	8.9	920.4	-2.4

- 2.3 The report also shows an overall underspend of £2.9m against the programme. This includes:
- A £1.5m underspend on Manchester Cycleway, more information can be found in paragraph 7.4.
 - A £0.5m underspend on Abraham Moss Leisure Centre
 - A £0.6m underspend on House of Sport
 - Other underspends totalling £0.3m,
- 2.4 There are a number of projects which are currently forecast to require reprofiling over years. Budget amendments will be made as part of the Outturn report.
- 2.5 A more focussed look at the top 10 projects is provided in Appendix A. These projects cover 49% 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, and the budget for inflationary 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 when making capital financing decisions.

	Draft Funding 2023/24 £m	Draft Funding 2024/25 £m	Draft Funding 2025/26 £m	Draft Funding 2026/27 £m	Draft Funding All Years £m
Grants	113.7	84.8	31.8	0.0	230.4
Contributions	17.0	19.6	1.5	4.4	42.6
Capital Receipts	41.4	39.4	18.7	0.0	99.4
Revenue Contributions to Capital	24.0	75.1	29.4	4.4	132.8
Capital Fund	4.6	1.0	1.3	0.0	6.9
Borrowing	200.4	179.2	28.8	0.0	408.3
Total	401.0	399.1	111.4	8.9	920.4

- 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 start to be drawn down 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 September 2023, as measured through CPI, is currently 6.7%, which was static from August 2023, but down from 6.8% in July 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 relatively elevated.
- 4.2 The September 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 2.3% 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 (-28.0%), imported sawn or planed wood (-19.2%), and fabricated structural steel (-29.3%). This figure does however include price increases for some construction materials, such as metal doors and windows (20.4%), screws etc (25.3%) and ready-mixed concrete (20.1%).
- 4.2 It has previously been reported that many projects in the capital programme have faced an extremely challenging 2 year 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.
- 4.3 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.
- 4.4 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.

- 4.5 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 and are therefore not included in the forecast position above. If approved, these projects will be added to the Capital budget and the latest forecast reported in the next

monitoring report to Executive in February 2024. 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:

- Children's Services - Levenshulme High School for Girls – 2024 Expansion. The project will deliver an additional 100 places of secondary education for Manchester residents at Levenshulme High School, increasing the total capacity of the school from 1,000 to 1,100 places. Additional places are required in response to rising demand in the city influenced by in-year growth, higher retention rates, declining movement to neighbouring LAs at transition, and the desirability of Manchester secondary schools. The works will be commissioned by the Academy Trust, where a grant agreement will be developed by MCC Commercial Legal which the Trust will agree to, enabling the drawdown of funding as costs are incurred. Growth in schools is funded by the Education Basic Needs Government Grant which will be utilised for this scheme, the next allocation of the grant is not anticipated until 2025/26, therefore approval is sought to cash flow expenditure for works through use of Borrowing. The Council will be reimbursed when the grant is received, and there is little, or no risk identified through this approach due to the ongoing receipt of grant funding. A budget increase of £2.5m is requested, funded by Borrowing.
- Children's Services – Chorlton High School (CHS) South – 2024 Expansion. The project will deliver an additional 150 places of secondary education for Manchester residents at CHS South by creating additional classrooms within a new teaching block. Additional places are required in response to rising demand in the city and declining movement to neighbouring LAs at transition, and the desirability of Manchester secondary schools. The works will be commissioned by the Academy Trust, where a grant agreement will be developed by MCC Commercial Legal which the Trust will agree to, enabling the drawdown of funding as costs are incurred. Growth in schools is funded by the Education Basic Needs Government Grant which will be utilised for this scheme, the next allocation of the grant is not anticipated until 2025/26, therefore, to achieve these outcomes and benefits in the timeframe required, approval is sought to cash flow expenditure for works through use of Borrowing. The Council will be reimbursed when the grant is received, and there is little, or no risk identified through this approach due to the ongoing receipt of grant funding. The academy trust will receive £4.2m of Basic Need capital grant provided to the Council by the DfE to create additional school places. A budget increase of £4.2m is requested, funded by Borrowing.
- Growth & Development - Carbon Reduction Programme 2024-25. The Council has embarked on a journey of carbon reduction since the climate emergency was declared in 2019. To date, 18 of the largest

and highest energy consuming buildings have had works completed, however, the corporate estate comprises of over three hundred buildings and although there has been significant decarbonisation through larger properties, there is still a considerable challenge for carbon reduction works. To ensure continued decarbonisation of the estate to meet the zero-carbon target by 2038, the project will allow for further surveys to be commissioned to allow the creation of a 15-year fully costed roadmap to zero carbon, so that the planning required to reach that goal and the full extent of what the funding ask may be over those 15 years can be determined. A budget increase of £0.5m is request, funded by borrowing on a invest to save basis.

7.3 For Executive approval:

- ICT – Next Generation End User Experience. The scheme will upgrade all end user devices to windows 11, which is required as windows 10 will be at end of life in 2025, and the intention is to improve user experience by bringing in other elements of Microsoft tooling to enhance the experience and improve security. To do this, the project will introduce a digital platform that enables the Council to modernise and improve the way that end user devices are managed and secured. The platform will initially bring a collection of Microsoft cloud-based tools in to use in the most efficient way to enable positive changes to the way in which end users interact with their device, applications, and data by simplifying the look and feel whilst enabling workflow efficiencies. This request is for additional capacity to carry out the necessary upgrades through a mixture of external consultants and internal resources, and will cover the initial stage of work, that of building and evaluating the platform to identify the solution that will be released to the entire organisation. A revenue budget increase of £0.068m is requested, funded from the Capital Fund reserve.
- Private Sector Housing – Disabled Facilities Grant (DFG). The Council has been awarded additional DFG by DLUHC for home adaptations for people with disabilities. The DFG is capital funding for the provision of home adaptations to help eligible older and disabled people to live as independently and safely as possible in their homes. Local Authorities are encouraged to use this additional funding in an agile and responsive way to supplement the core delivery of DFG, as set out in their local Housing Assistance Policies. In addition to this allocation, there is a residual carry-forward capital receipt income from Register Providers', (social housing providers), voluntary contributions towards the cost of adaptations and carry-forward of reserves that are being requested at this time. The increase will give the programme an overall approved budget across years of £14.3m. A capital budget increase of £3.166m is requested, funded by £0.740m Government Grant and £2.426m External Contribution.
- Growth and Development - New Smithfield Market. In 2022, the Council completed the disposal of c. 7 acres of land at New Smithfield Market to two existing tenants, to enable them to develop new

warehousing on the site, for owner occupation. At the point of disposals, the existing land included a number of dilapidated industrial units which required demolishing to enable the redevelopment, it was agreed at the time that the incoming tenants would procure and deliver the clearance/remediation works. As part of the agreement, the Council agreed that should any unidentified remediation costs be identified during the demolition process, then it would consider any request for compensation to the tenants, to offset the additional cost of the works. Although this was not an obligation, the Council has recently been approached by the tenants' representatives following the identification of essential ground remediation works on the site, which it could not have identified ahead of demolishing the units due to it being underground. It is recommended the council contributes £0.248m towards this work as the tenants were carrying out works without being able to complete a full set of site investigation surveys. A Capital budget of £0.248m is requested, funded by £0.124m RCCO from the New Smithfield Market reserve fund and £0.124m Capital Receipts.

- Highways Services - Patching Defect Repairs 2023-24 additional funding. The programme of works will continue with the delivery of the patching programme to fulfil the Council's legal obligation to maintain the carriageway & footway network by repairing actionable defects identified during safety inspections. The scheme helps to improve the condition of our highway, utilising additional City Region sustainable Transport Settlement (CRSTS) funding received. A capital budget increase of £1.5m is requested, funded by External Contribution.

7.4 To note:

Manchester Cycleway update on funding

- In October 2021, Executive approved a budget for Manchester Cycleway Construction (Fallowfield Loop and Yellow Brick Road). The scheme would provide upgraded pedestrian and cycle facilities with improvements from a safety, access, lighting and ecological perspective on the Fallowfield Loop and Yellow Brick Road; bringing two of the busiest off-road cycle routes in Manchester up to Transport for Greater Manchester (TfGM) Bee Network standard. The Manchester Cycleway scheme had a total budget allocation of £4.9m to be funded from the Mayors Challenge Fund (MCF) for active travel improvements. The scheme was progressed to the end of outline design stage using £896,000 of the MCF funding.
- As reported in subsequent updates to Executive, following a review of the MCF programme, a reprioritisation exercise was undertaken, and it was agreed that the Manchester Cycleway scheme should be deprioritised from the programme, with a view to identifying alternative funding to progress the scheme later. In May 2023, Manchester City Council were advised that they had been successful with a bid for £2.52m funding from Tranche 4 of the Department for Transport

Active Travel Fund (ATF4). This funding will deliver further design, consultation and delivery of a replacement scheme, covering Yellow Brick Road and Wilmslow Road (cyclops) improvements.

- With the total funding for the project now £3.42m the new revised scheme has been developed to ensure the overarching objectives will continue to be delivered under the revised scheme, including reducing pedestrian collisions, creating inclusive entrances, increasing sustainable journeys and improving the urban realm along the route. This will include widening and resurfacing, introduction of lighting and improvements to access points of the Yellow Brick Road section of the route in Gorton and Abbey Hey and Clayton and Openshaw, and a Cyclops style junction upgrade at Wilmslow Road in Fallowfield. These works are due to be delivered by the end of Summer 24.

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

8.0 OFLOG and DLUHC statistics

8.1 In July the Office for Local Government (OFLOG) launched the Local Authority Data Explorer. This is an online tool which brings together a selection of existing metrics, aimed at providing data and analysis of the performance of local government.

8.2 Within the metrics there are two that relate to the impact of capital expenditure, specifically debt servicing costs as a percentage of core spending power, and total debt as a percentage of core spending power. The intention of these metrics is to compare an authority's debt and debt financing costs to its ability to repay them.

8.3 Further, the Department of Levelling Up, Homes and Communities (DLUHC) have consulted on the statistics intended to be used for the four metrics included in the Levelling Up bill, which are aimed at identifying capital risk at an authority level DLUHC.

8.4 The outcome of the consultation, and the final statistics, will be reported to members once they are published.

9.0 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.

10.0 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.