

**Manchester City Council
Report for Resolution**

Report to: Executive – 14 February 2024
Subject: Capital Programme Monitoring P9 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 December 2023.
- (b)
- (c) The latest forecast of capital expenditure and the major variances since the Capital Programme Monitoring report submitted in November 2023.
- (d) The proposed financing of capital expenditure for 2023/24 and affordability of the Capital Programme.

Recommendations

Executive are asked to note the report.

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.
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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 £403.5m compared to the current approved budget of £506.4m. Spend as of 31st December 2023 was £226.0m. The £940.4m 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)
- Report to the Executive 15th November– Capital Programme Monitoring (P6)

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 nine months to the end of December 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 P6 report to Executive in November.

Appendix D – Prudential Indicators as at December 2023.

2 Capital Programme Forecast 2023/24

2.1 The latest forecast of expenditure for the Council's Capital Programme in 2023/24 is shown in the table below. The main variances relate to Our Town Hall Refurbishment, This City Housing Delivery Vehicle, Public Sector Housing Programme, Social Housing Decarbonisation Fund, Asset Management Programme, Back of Ancoats Mobility Hub and Public Realm 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 P9	Variance to current budget	
	£'m			£'m
Highways	45.2	40.7	-4.5	25.9
Neighbourhoods	47.6	42.3	-5.3	20.8
The Factory International and St John's Public Realm	54.4	54.4	0.0	41.2
Growth and Development	111.0	96.2	-14.8	46.3
Our Town Hall Refurbishment	79.7	63.8	-15.9	39.8
Housing – General	43.3	28.6	-14.7	13.7

Manchester City Council Programme	2023/24			Spend to Date
	Current Budget	Forecast at P9	Variance to current budget	
	£'m			£'m
Fund				
Housing – Housing Revenue Account	73.6	40.3	-33.3	22.1
Children’s Services	41.4	29.4	-12.1	14.1
ICT	5.2	2.7	-2.5	1.1
Corporate Services	4.3	4.4	0.1	1.0
Total (exc. contingent budgets)	505.8	402.8	-102.9	226.0
Contingent Budgets	0.6	0.6	0.0	0.0
Total	506.4	403.5	-102.9	226.0

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	2027/ 28	2028/ 29	Total All Years	All Years Variance to Current Budget
	£'m							
Highways	40.7	21.8	5.5	3.9	0.0	0.0	71.9	-0.2
Neighbourhoods	42.3	13.8	2.8	0.0	0.0	0.0	58.9	-0.1
The Factory International and St John’s Public Realm	54.4	0.0	0.0	0.0	0.0	0.0	54.4	0.0
Growth and Development	96.2	78.8	12.5	0.0	0.0	0.0	187.6	-0.5
Town Hall Refurbishment	63.8	84.5	22.5	0.0	0.0	0.0	170.8	0.0
Housing – General Fund	28.6	53.4	15.2	0.0	0.0	0.0	97.3	-0.9
Housing – Housing Revenue Account	40.3	55.8	37.2	20.6	6.9	4.7	165.5	0.8
Children’s Services	29.4	35.2	1.4	0.0	0.0	0.0	65.9	0.0
ICT	2.7	2.9	0.0	0.0	0.0	0.0	5.6	0.0
Corporate Services	4.4	0.5	0.5	0.0	0.0	0.0	5.4	0.1
Total (exc.	402.8	346.8	97.7	24.5	6.9	4.7	883.3	-0.8

Manchester City Council Programme	2023 /24	2024 /25	2025 /26	2026 /27	2027/ 28	2028/ 29	Total All Years	All Years Variance to Current Budget
	£'m							
Contingent budgets)								
Contingent Budgets	0.6	24.6	31.0	0.0	0.0	0.0	56.3	0.0
Total	403.5	371.4	128.7	24.5	6.9	4.7	939.6	-0.8

2.3 The report shows an overall underspend of £0.8m against the programme.

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.

3 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	119.6	84.9	37.5	0.0	242.1
Contributions	20.9	21.9	2.6	3.9	49.3
Capital Receipts	39.1	53.2	18.4	0.0	110.7
Revenue Contributions to Capital	24.1	39.4	32.4	20.6	116.5
Capital Fund	4.6	1.0	1.3	0.0	6.9
Borrowing	195.2	170.9	36.5	0.0	402.6

	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
Total	403.5	371.4	128.7	24.5	928.1

- 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 in 2024/25. 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 Council will not dispose of land at sub-optimal prices, and this can mean that the timing of capital receipts can be changeable. During this financial year some receipts have not progressed as expected, and therefore the expected receipts will be re-profiled into future years. Where land is not sold it will remain an asset on the Council's balance sheet. It is important to state that if the disposal of land has been delayed it does not result in a diminution in value of the assets the Council is disposing of, and in general the in-year disposals are at, or ahead of, the projected receipts.
- 3.5 The current forecasts for the Council's Prudential indicators, compared to those included in budget reports to Executive and Council, are shown at Appendix D.

4 General Programme Risks

- 4.1 Inflation in the UK in the 12 months to December 2023, as measured through CPI, is currently 4.0%, which was 0.1% higher than November 2023, but down from a recent peak of 11.1% in October 2022. This is the first time the rate has increased since February 2023, and the figure remains relatively elevated.
- 4.2 The December 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 (-24.4%), Gravel, sand, clays & kaolin (including aggregate levy) (-12.4%), and fabricated structural steel (-22.0%). This figure does however include price increases for some construction materials, such as metal doors and windows (17.5%), pipes and fittings (flexible) (23.8%) and ready-mixed concrete (14.6%).

- 4.3 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.
- 4.4 Although inflation is falling, the impacts of a sustained inflationary period can still be seen in the construction sector. Annual average for all construction works remains 1.2% higher than the average from the previous year, and 20.5% higher than the average for 2021.
- 4.5 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.
- 4.6 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.
- 4.7 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 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 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. 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 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 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. Projects that have been brought forward for approval since the previous report to Executive can be found in the Capital Strategy 2024-25 elsewhere on the agenda. If approved, these projects will be added to the Capital budget and the latest forecast reported in the next monitoring report to Executive in June 2024.
- 7.2 Details of approvals from the last Executive report in November 2023 and approvals granted by the Deputy Chief Executive and City Treasurer under delegated powers since the last report to Executive can be found at Appendix C.

8 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 For both metrics Manchester is higher than the English median for similar authorities but is not an outlier. The debt levels and associated financing costs for the authority remain affordable and are closely monitored throughout the financial year.
- 8.4 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.
- 8.5 The outcome of the consultation, and the final statistics, will be reported to

members once they are published.

9 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 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.