

Manchester City Council Report for Information

Report to: Resources and Governance Scrutiny Committee –
7 January 2020

Subject: Capital Investment Pipeline and Priorities

Report of: Deputy Chief Executive and City Treasurer

Summary

This paper provides a summary of the Council's proposed capital investment priorities, which will be included in the Capital Strategy report to Executive in February.

Recommendations

The Committee is asked to note and comment on the report.

Wards Affected: Various

Environmental Impact Assessment - the impact of the issues addressed 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 out 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.

Manchester Strategy outcomes	Summary of how this report aligns to the OMS
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 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

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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.

1. Introduction

- 1.1. This report seeks to provide the Committee with an update on the potential future projects which will be included within the City Council's Capital Strategy report which forms part of the City Council's suite of budget reports for 2020/21 to be reported to Executive in February, and then Council in March.

2. Background

- 2.1. The Council sets a capital budget each financial year, as part of the wider budget process across the Council. However, unlike revenue expenditure, capital expenditure by its nature is not usually cyclical as it relates to the creation of assets.
- 2.2. This means that the capital programme and associated budget is managed on a rolling basis, with approved projects added as and when required. The budget report reflects the programme at a specific point in time, but recognises that it is expected to change over time.
- 2.3. In recent years the Council has implemented a revised governance process for the approval of capital projects, to support decision making and budgeting. The capital budget represents all of the projects which have received funding approval.
- 2.4. It is important that the Capital Strategy, which will restate the approved programme, also provides some forward context and specifically looks at the potential future investment requirements. This report details this and it is proposed similar narrative will be included in the final Capital Strategy report. Any future investment will need to be approved through the existing governance process before it forms part of the Council's budget.

3. Context

- 3.1. The Capital Strategy is developed to ensure that the Council can take capital expenditure and investment decisions in line with Council priorities and properly take account of stewardship, value for money, prudence, risk, sustainability and affordability. The Strategy, therefore, sets out the longer term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and the impact on the achievement of priority outcomes.
- 3.2. The existing capital programme, based on the approved budget at the end of November, is shown below, and shown at project level in appendix A:

	2019/20 budget	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget	Total	Total 20/21 -24/25
	£m	£m	£m	£m	£m	£m	£m	£m
Manchester City Council Programme								
Highways	62.1	49.6	24.9	0.0	0.0	0.0	136.6	74.5
Neighbourhoods	14.5	14.8	6.6	3.0	3.0	0.0	41.9	27.4
Growth	116.6	90.4	52.9	13.5	0.0	0.0	273.4	156.8
Town Hall Refurbishment	21.9	75.4	71.6	91.4	32.5	0.0	292.8	270.9
Housing – General Fund	17.5	24.7	10.2	0.0	8.0	0.0	60.4	42.9
Housing – HRA	26.7	52.2	40.1	5.0	0.0	0.0	124.0	97.3
Children's Services (Schools)	13.7	43.4	51.9	0.1	0.0	0.0	109.1	95.4
ICT	5.9	6.6	10.6	8.9	7.7	0.0	39.7	33.8
Adults, Children's and Corporate Services	17.0	24.5	4.8	0.0	0.0	0.0	46.3	29.3
MCC TOTAL	295.9	381.6	273.6	121.9	51.2	0.0	1,124.2	828.3
Projects carried out on behalf of Greater Manchester	151.1	38.0	0.0	0.0	0.0	0.0	189.1	38.0
TOTAL	447.0	419.6	273.6	121.9	51.2	0.0	1,313.3	866.3

- 3.3. The table above gives some context to the scale of approved investment expected to take place across the City in the coming years. It is recognised that the achievement of the Council's strategic aims will require further investment, and therefore work has been undertaken to identify and explore the current investment priorities for the City Council.
- 3.4. Some of the pipeline activities will already form part of the existing budget approvals for future years such as elements of Highways, Parks, Leisure and ICT, however others will be new investments. All new investments will be expected to follow the existing approval processes for capital expenditure and will need to be affordable. This will be set out in further detail in the Capital Strategy report to Executive in February.

4. Investment Priorities

- 4.1. Through the existing capital programme and recent policy decisions there are already a number of overarching future investment priorities identified which are set out below.
- 4.2. With the recent declaration of the Climate Emergency by the City Council the Council has a clear target to at least **halve its carbon output over the next five years**. Investment plans and associated benefits must consider the effect on carbon and work is taking place to understand how investment can be classified in terms of carbon impact as well as financial. The costs of new build programmes to higher environmental standards and meeting the needs of the Local Plan and planning requirements need to be considered, running alongside investment in green spaces and places including trees and green walls which will require revenue resources for ongoing maintenance. In addition, the majority of the Council's carbon emissions are from its existing corporate estate and housing stock and significant investment will be required to bring this up to carbon efficient standards. This represents a major opportunity to both 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 exciting new careers.
- 4.3. The Council recognises the ongoing priority to **deliver new affordable housing stock** resulting in the decision to increase the delivery target from 5,000 Affordable Homes to a minimum of 6,400 Affordable Homes by March 2025.
- 4.4. A commitment to developing a more **inclusive economy**, both for the City and the Council, is vital and this ambition is set out within the Our Manchester Industrial Strategy. Achieving this ambition may require investments on an invest to save basis in existing Council assets, and will also require strategic investment to unlock wider developments, both commercial and residential. There is a major opportunity for new developments in the city such as the Northern and Eastern Gateways to become inclusive and zero carbon exemplars but they need to be adequately resourced to bring about the kind of social, economic and environmental benefits the city desires. The use of progressive procurement policies and social value will help to ensure the maximum benefit to residents from these new developments.
- 4.5. Regeneration in North Manchester, of which the Northern Gateway will play a crucial role, will continue to be an important part of the Council's capital strategy. Investment in the leisure centre at Abraham Moss, and the proposed investment at North Manchester General Hospital, are vital parts of the regeneration strategy.
- 4.6. Increasingly there will be a role for the Council to look at **market intervention**, where the existing market outputs do not support the Council's wider aims. This is likely to be focussed on areas such as health and social care and particular residential and intermediate care, and will require significant

partnership support. Such intervention may be short term in nature, to support the development of sustainable business plans, or interventions of a longer nature to support market change.

- 4.7. A key role for the future capital programme will be to ensure that the Council's ***corporate estate is fit for purpose***. The level of investment needs to increase to support the commitment to reduce the Council's carbon output and due to the current condition of the estate. This is particularly important for the leisure estate, where the assets developed for the Commonwealth Games are now nearly 20 years old, and also in the social care estate where the budget challenges faced by providers has led to a lower level of investment by them on maintenance than expected.
- 4.8. With the ongoing work around Our Transformation, there will be a continuing need to invest in ICT infrastructure as part of being a ***well-managed Council***. Increased digitisation, and the need to move from legacy ICT platforms, will mean investment is required, alongside work on ICT resilience, network capability, and key operating systems.
- 4.9. All capital investment decisions will be underpinned by a robust business plan that sets out any expected financial return alongside the broader outcomes including economic and social benefits.

5. Potential Investment Proposals

- 5.1. In developing the Capital Strategy, service areas were asked to identify potential projects, required to support the Council in achieving its strategic aims, which may require capital investment over the medium term. These are described in more detail below.
- 5.2. There are significant risks to the delivery of the existing capital programme. Construction inflation is relatively high as the Manchester construction market remains buoyant and this will impact on costs for existing and future projects and an allowance will need to be made for this. It is difficult to project the exact budget requirement but for the purposes of the Strategy it is proposed to include a total budget of £30m across all years of the programme, to be funded from borrowing.

Highways

- 5.3. To support the City's wider development and growth plans, and the delivery of the GM 2040 Transport Strategy and the emerging city centre transport strategy, work has been undertaken to look at how the funding allocated for project development can be utilised. A pipeline of schemes is being developed based on data which prioritises sites on the highway network based on a number of strategic principles. Business cases for schemes will be drawn up and brought forward on a priority basis.
- 5.4. Work will be ongoing with Transport for Greater Manchester to move forward on plans for a sustainable transport system, including reducing car journeys

together with supporting the expansion of electric vehicles through investment in charging points.

- 5.5. Investment is also expected to support the establishment and delivery of a number of major projects where highways infrastructure will play a key role. Currently proposals including the support of major developments such as consideration of HS2, Etihad Campus, Northern Gateway and the Airport and the Bee Network along with localised pinch points.
- 5.6. Investment which prioritises improvements to the network for cycling and walking will be pursued, with the development of a number of schemes approved through the GM Mayor's Challenge Fund. These works supplement other proposals which seek to promote sustainable forms of transport across the city.
- 5.7. The business case for investing in car park assets across the city in order to ensure stock is fit for purpose will be developed, and in particular the investment needed to meet additional requirements including the installation of electric charging points and cycle hire parking. Consideration to the future car parking capacity and policy for the city centre needs to be considered alongside the impact on existing revenue car parking income.
- 5.8. Work is also underway to review benefits achieved through previous Highways Investment Programmes. This will establish the rationale and outcomes for future potential investment needs.

Neighbourhoods

- 5.9. There is a need to continue with the development of the City's leisure estate, with the introduction of new leisure assets as well as large scale improvements to existing facilities as the focus of investment. It is expected that any such proposals would contribute to the low carbon aims of the Council. The funding for these works will be mixed due to the joint management of Waterfall funding with Sport England and the ability to access other national funds as well as the requirement to access City Council resources. Leisure spend over this next period will include the National Cycling Centre refurbishment, Manchester Aquatics Centre refurbishment, Abraham Moss Leisure Centre and the Hub at Hough End.
- 5.10. The focus of Parks investment will be linked to the further development and approval of the Parks Development Plan. With funding already held against this programme, details of individual schemes and work packages will be brought forward, seeking to maximise investment across park assets.
- 5.11. Following the proposed investment by Government in the North Manchester General Hospital site, the Council will also look to invest in the area. Initially this may be focussed around Crumpsall Park, but could be wider. Such investment should be a priority for the Council against any source of regeneration finance that the Government may bring forward.

- 5.12. There are a number of potential library sites for investment over the next period as part of a wider estate management and the extension of customer self-service provision. Manchester Central Library has seen over 8 million visitors since reopening in 2014 and now welcomes 2 million visitors per year - there is a need to refresh the digital element of the library and also some other front of house areas including the children's library.
- 5.13. Manchester Art Gallery are developing proposals linked to the Platt Hall Gallery and other works to broaden their offer to residents and consider storage requirements for collections including Queens Park. There is also development work being undertaken for other venues which Manchester City Council own but are operated by other organisations. The Department for Digital, Culture, Media and Sport have recently announced a new capital funding scheme for which the details and application criteria are awaited.
- 5.14. To support the Council's low carbon agenda it is proposed that the waste management fleet is reviewed to explore potential electrification. Investment to "green the city" through tree planting and the use of green walls will be reviewed and considered.
- 5.15. The development of New Smithfield Market remains a significant potential investment opportunity, with work required to understand the scope of such works and the implications for the Council.

Growth

- 5.16. There is a need to review the ongoing annual level of investment in the Council's corporate estate to ensure that it is of good standard and meets the needs of users. This may include the incorporation of assets which currently sit outside of the current Asset Management Programme, such as City Council owned schools, and may also include the maintenance of previous Sure Start centres, with the arrangements with providers reconsidered to ensure the ongoing operation of the sites.
- 5.17. The corporate estate will also be a key conduit of measures to help reduce the Council's carbon footprint and bring the estate up to a minimum energy performance certificate (EPC) rating of C, and the estate asset management programme will form part of this work aligning works to the AMP repairs schedule where possible, alongside existing programmes such as the Carbon Reduction Programme and Civic Quarter Heat Network. There will also be the opportunity to explore investment opportunities into sustainable energy supplies for the City.
- 5.18. The Council will continue to explore and lead investment opportunities in key strategic areas of the City including the Etihad Campus, Northern Gateway, Eastern Gateway, and other areas for development such as Wythenshawe Town Centre and Moston Lane. Investment in Piccadilly Gardens will also be brought forward.

- 5.19. There may also be an opportunity to invest in primary/community care hubs, similar to that being developed in Gorton although perhaps smaller in scale, working closely with the Health Service. However, the financing of these arrangements and the potential limitations around Health capital allocations will be an obvious consideration.
- 5.20. Opportunities to support the development of strategic assets through direct purchases or loans to partner organisations and third parties are also being explored as part of a wider investment approach. This may be particularly important for specific sites, such as Mayfield, where the Council's involvement can help wider investment progress.
- 5.21. Proposals to establish a ring-fenced budget for the public realm in the St John's area of the City Centre, where the Factory project is a key development, funded from the expected growth in local taxation will be brought forward.
- 5.22. The Growth pipeline is wide and varied, and therefore consideration of appropriate investment strategies will be key. Understanding how projects interlink, when investments may be realised, and therefore the capacity to deliver both practically and financially will need to be key considerations.
- 5.23. There may be strategic investment opportunities where the capital financing costs are covered by an income stream from a third party. A separate report at Part B of this agenda sets out a specific strategic investment proposal for consideration. These should not have a negative impact on the Council's capital financing capacity, but will increase the Council's level of debt until they are fully repaid.

Housing – General Fund

- 5.24. The Council recognises the ongoing priority to deliver safe, secure and affordable housing stock resulting in the decision to increase the delivery target from 5,000 Affordable Homes to a minimum of 6,400 Affordable Homes by March 2025. There is limited capacity of the Council's Housing Revenue Account and the Council's Housing Affordability Fund to support new additional Affordable Homes in the city. Therefore, significant new Affordable Home delivery in the city is dependent alternative routes including robust partnership relationships with Registered Providers and leveraging the potential of the council's land assets.
- 5.25. As noted above, the Council will play a key role in bringing forward investment across the City, but particularly in the Eastern and Northern Gateways which will include additional homes. To achieve this within the financial constraints that the Council faces, the roles of developers and the Council will need to be considered on a case by case basis, and in particular the role of the HRA.
- 5.26. The City will also work with colleagues in Greater Manchester to identify and access funding for energy measures in private households.

- 5.27. Work will be undertaken to review potential capital requirements for the development of supported and semi-supported housing options to address the needs of homeless people and young people at risk of homelessness.
- 5.28. There is also a further proposal to consider the establishment of a Council-owned temporary accommodation unit for homeless families. The delivery of either option would reduce the net cost to the city through reduced revenue spend on bed-and-breakfast and hotel accommodation.

HRA

- 5.29. The Council will consider options for retrofit works to make its existing housing stock zero-carbon. This could also help to contribute to addressing fuel poverty. Alongside this, there will be a continued focus on increasing the level of affordable housing across the City, either through models of direct delivery or through working with registered providers and other partners.
- 5.30. As noted above, the role of the HRA in providing new affordable housing will continue to be reviewed to seek business models which are sustainable and can achieve benefits for the HRA.

Children's Services (Schools)

- 5.31. The statutory requirement to provide sufficient school places across primary and secondary education continues to be monitored along with approvals as part of the Government's Free School programme to ensure places are able to meet demand.
- 5.32. Recent capital investment in the Education Portfolio has focused on the Special Educational Needs and Disabilities and Alternative Provision places in the city. There is the potential for further investment in this area as part of the next phase of the Capital Strategy.
- 5.33. The benefits of undertaking a programme of condition surveys across the Education Estate in order to take holistic decisions regarding the maintenance of school buildings will also be reviewed.
- 5.34. The ambition to deliver carbon efficient schools and the lack of easily developable sites within Manchester will mean that it is increasingly difficult to do this within the levels of DfE funding and unit cost.

ICT

- 5.35. Activity will focus on the strengthening of core ICT systems, and in particular the delivery of the next phase of Council's collaboration platform. This will inform the subsequent future capital investment requirements which are likely to include the delivery of a device replacement strategy.
- 5.36. The suite of budget reports to February Executive will also include the updated

ICT Strategy for the Council. This and the accompanying Technology Roadmap which will follow will provide the framework for future ICT investment decisions. The initial focus for the ICT investment plan will focus on collaboration, as this will underpin the corporate ICT approach - the subsequent ICT investment strategy will need to respond to the final collaboration approach, and therefore will be pursued once collaboration is substantially developed. This will include end user devices and telephony solutions. There is also a need to modernise and digitise many of the Council's core business processes which is being picked up through the Our Transformation work.

- 5.37. Whilst the main focus will be on collaboration, work will continue on supporting services across the Council in developing ICT solutions to their needs, and these will be brought forward on a case by case basis.

Adults, Children's and Corporate Services

- 5.38. Children's Services are currently developing a future estates strategy for their assets, aligning this to service plans. It is likely that capital investment will be required to support the ongoing provision of services to meet current and future needs.
- 5.39. This capital requirement is likely to include the maintenance of previous Sure Start centres, with the arrangements with providers reconsidered to ensure the ongoing operation of the sites and potentially an income stream to cover maintenance costs.
- 5.40. Adult Social Care have identified a potential need for investment to allow market intervention, enabling a response should market failure occur to ensure continuity of service. This may be short-term in nature, but could be of vital importance to limit the impact of such market issues on residents. By its nature this may need to be actioned quickly and efficiently in order to be successful, so appropriate budgets and approval routes will need to be considered.
- 5.41. Investment may also be needed to build capacity, and in particular creating capacity for specific care needs to ensure that there is appropriate provision for vulnerable residents. This may require new build facilities, or the acquisition of existing buildings which can be tailored to care models. This is likely to be closely linked to collaboration work with partners, such as the Health Service.
- 5.42. As noted above, there may also be an opportunity to invest in primary/community care hubs, similar to that being developed in Gorton although perhaps smaller in scale, working closely with the Health Service.
- 5.43. The Corporate Core needs to retain the ability to provide market intervention or allocate loans to third parties as part of a wider approach to investment which supports the achievement of strategic aims for the city and our residents. These are interventions which support the Council as a whole, and will be progressed on the basis of the business case for each.

- 5.44. There may also be a need to look into investment options regarding energy sources for the Council as a whole in order to achieve the Council's carbon aims, and this is likely to require a corporate approach.

6. Conclusion

- 6.1. The Capital Strategy will form part of the suite of budget papers to support the Council's budget for 2020/21. The Strategy will detail the existing approvals and governance, alongside the priorities for future investment and the potential projects.
- 6.2. The forward-looking element of the Strategy, as set out in this report, is vital to inform future decision making on capital investment, and to support the capital resources available to the Council being used to progress the Council's overarching strategic aims.

7. Recommendations

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