

**Manchester City Council
Report for Resolution**

Report to: Executive – 3 June 2020

Subject: Capital Programme Update

Report of: Deputy Chief Executive and City Treasurer

Summary

This report informs members of requests to increase the capital programme, seeks approval for those schemes that can be approved under authority delegated to the Executive and asks the Executive to recommend to the City Council proposals that require specific Council approval.

Recommendations

1. To recommend that the Executive approve, under the emergency provision of the Council Decisions on 25th March 2020 - “Constitutional Amendments and Other Matters for Council Business Continuity - Part 7”, the following changes under to Manchester City Council’s capital programme:
 - a) Highways Services - Planned Maintenance carriageway works 2020/21. A capital budget virement of £0.999m is requested, funded by Highways Project Delivery fund budget.
 - b) Children’s Services - Schools Capital Maintenance Programme for 2020/21. A capital budget virement of £5m is requested, funded by Unallocated Schools Capital Maintenance budget.
 - c) Growth and Development – The Factory. A capital budget virement of £10m is requested, funded by unallocated Inflation.
2. Under powers delegated to the Executive, to approve the following changes to the City Council’s capital programme:
 - d) Children’s Services – Coop Academy North Expansion. A capital budget virement of £0.488m is requested, funded by Unallocated Education Basic Needs budget.
 - e) Growth and Development – Alexandra House Additional Funding. A capital budget virement of £0.200m is requested, funded by the Asset Management Programme budget.
 - f) Highways Services - Planned Maintenance carriageway works 2020/21. A capital budget increase of £5m is requested, funded by Department of Transportation Challenge Fund Grant.

- g) Growth and Development - St Johns Public Realm. A capital budget increase of £2m is requested, funded from Business Rates Reserve.
3. To note increases to the programme of £1.331m as a result of delegated approvals.

Wards Affected - Various

Environmental Impact Assessment - the impact of the decisions proposed in this report on achieving the zero-carbon target for the city

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.

| Our Manchester Strategy outcomes | Contribution to the strategy |
|---|---|
| A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities | Contributions to various areas of the economy including investment in ICT services, Housing, and leisure facilities. |
| A highly skilled city: world class and home grown talent sustaining the city's economic success | Investment 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 | Improvements to services delivered to communities and enhanced ICT services. |
| A liveable and low carbon city: a destination of choice to live, visit, work | Investment in cultural and leisure services and housing. |
| A connected city: world class infrastructure and connectivity to drive growth | Through investment in ICT and the City's infrastructure of road networks and other travel routes. |

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

Equal Opportunities Policy

Risk Management

Legal Considerations

Financial Consequences – Revenue

The recommendations in this report, if approved, will increase Manchester City Council's revenue budget by £2m across financial years, but with a corresponding revenue contribution to capital outlay (RCCO). The overall impact on the revenue budget will be net nil.

Financial Consequences – Capital

The recommendations in this report, if approved, will increase Manchester City Council's capital budget by £7m across the financial years as detailed in Appendix 1.

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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 12th February 2020 – Capital Strategy and Budget 2019/20 to 2023/24

Report to the Executive 11th March 2020 - Capital Programme Update

1.0 Introduction

- 1.1 This report outlines the requests for changes to the capital budget from 2020/21.

2.0 Background

- 2.1 In February each year the Executive receives a report on the capital budget for the forthcoming five financial years and approves a series of recommendations to the City Council which then constitute the approval of the five-year capital programme. Proposals for the capital budget were presented to the Executive on 12th February 2020.
- 2.2 The capital programme evolves throughout the financial year, and as new projects are developed they will be reviewed under the current governance framework and recommendations made regarding whether they should be pursued.
- 2.3 The following requests for a change to the programme have been received since the previous report to the Executive on 11th March 2020.
- 2.4 Note that where requests are made in the report to switch funding from capital to revenue and to fund the revenue spend from the Capital Fund, this is a funding switch from within the capital programme and will not have a negative impact on the Fund itself.
- 2.5 For the changes requested below, the profile of the increase, decrease or virement is shown in Appendix 1 for each of the projects.

3.0 City Council's Proposals Requiring Executive Approval under Emergency Provision

- 3.1 The proposals which require Executive approval, under the provision of the Council Decisions on 25th March 2020 - "Constitutional Amendments and Other Matters for Council Business Continuity - Part 7", are those which are funded by the use of reserves above a cumulative total of £2.0m, where the use of borrowing is required or a virement exceeds £0.5m. The following proposals require Executive approval, under the emergency provision, for changes to the capital programme.
- 3.2 Highways Services - Planned Maintenance carriageway works 2020/21. Annual maintenance surfacing works in 2020/21 will focus on main roads to take advantage of the reduced traffic flows in the city due to current government guidance. The overall programme required is £12.2m with £6.2m funded from within the Highways investment programme, £5m from Government Grant and £1m contribution from Manchester City Council to the DfT Challenge fund. A capital budget virement of £1m in 2020/21 is requested, funded by Highways Project Delivery fund budget.

- 3.3 Children's Services - Schools Capital Maintenance Programme for 2020/21. This programme of work is designed to address condition needs identified in the Council's estate of maintained schools which includes community, voluntary controlled and foundation schools. The programme of work for 2020/21 has now been agreed and work will include but not limited to, full rewires, roof renewals and renewal of fire alarm systems. A capital budget virement of £5m from the Unallocated Schools Capital Maintenance Budget is requested to fund the programme.
- 3.4 Growth and Development – The Factory. As part of the 2020/21 Capital Strategy it was recognised that major capital schemes did not have sufficient funding to cover the higher inflation rates in the Manchester Construction Market. Work is continuing on The Factory during COVID-19 and a virement from the inflation allowance is now requested. The detail is set out in section 7. Virements for other major schemes will be requested as works resume or start. A capital budget virement of £10m in 2020/21 is requested, funded by the unallocated inflation allowance.

4.0 Proposals Not Requiring Specific Council Approval

- 4.1 The proposals which do not require Council approval and only require Executive approval are those which are funded by the use of external resources, use of capital receipts, use of reserves below £2.0m, where the proposal can be funded from existing revenue budgets or where the use of borrowing on a spend to save basis is required. The following proposals require Executive approval for changes to the City Council's capital programme:
- 4.2 Children's Services – Coop Academy North Expansion. Work to be carried out on site to enable the school to increase capacity by 150 places to meet the demand for secondary school places in North Manchester to meet the demand from rising primary cohorts reaching transition. A capital budget virement of £0.488m in 2020/21 is requested, funded by the Unallocated Education Basic Needs budget.
- 4.3 Growth and Development – Alexandra House. Additional funding of £0.220m is required to replace the roof at Alexandra House as part of the current refurbishment scheme, after significant water ingress was discovered when removing ceiling fixings. The new roof will drastically improve the environmental performance of the building and result in additional carbon reduction savings. A capital budget virement of £0.200m in 2020/21 is therefore requested from the Asset Management Programme budget.
- 4.4 Highways Services - Planned Maintenance carriageway works 2020/21. Request for the grant funding associated with the annual maintenance surfacing works in 2020/21. A capital budget increase of £5m is requested in 2020/21, funded by Department of Transportation Challenge Fund Grant.
- 4.5 Growth and Development - St Johns Public Realm. Funding is required to deliver the Public Realm in St Johns which will include the creation of two new

squares, Festival and Factory Square, as well as delivering public realm works on Water St. A capital budget increase of £0.5m in 2020/21 and £1.5m in 2021/22 is requested, funded from the Business Rates Reserve.

5.0 Delegated budget Approvals

5.1 There have been increases to the programme totalling £1.331m as a result of delegated approvals since the previous report to the Executive on 11th March 2020. These are detailed at Appendix 2.

6.0 Delivery of the 2020/21 Capital Programme

6.1 The 2020/21 Capital Programme was already under review prior to COVID-19 and the 2020/21 Capital Strategy identified that the buoyant Manchester construction market created inflationary projects across the programme, for both existing and future projects. The Capital Strategy therefore included the creation of a £30m inflation fund to support the programme, to be allocated once funding pressures were identified.

6.2 As noted in a report to May's Executive, the programme has been affected to varying degrees by the COVID-19 pandemic with some major schemes stalling or slowing, mainly due to social distancing requirements on site, resources being redirected to COVID-19 and supply chain issues. The report also noted that the Town Hall and Factory projects would be directly affected. This report provides an update on the current position for those projects.

7.0 Update on The Factory and Town Hall Projects

7.1 The two major schemes in the Council's Capital Programme relate to Our Town Hall and The Factory and work is continuing on both schemes during the COVID-19 lockdown period. Works have been fully assessed for Health and Safety requirements and to ensure that social distancing can be maintained.

7.2 Both projects are also undergoing full cost and programme reviews, including an evaluation of the impact of COVID-19. The contingencies and risk allowances across both projects are being fully assessed as part of this review.

7.3 For the Town Hall the decision to progress to Notice to Proceed has been deferred until this work is completed. Some works are continuing on site based on a Pre Construction Works Order. The works that are ongoing are all COVID-19 safe, and include civils works in the Courtyard and in Albert Square, the construction of the site accommodation in the Square, and the installation of temporary electric in the building in preparation for the main works commencing.

7.4 For The Factory, work is progressing on site, albeit with more limited productivity, and remains operational. Works have slowed as the reduced, core on-site team enforce the safe working and distancing measures required to protect the workforce. The team has launched a safe working method to

restart the installation on the large precast concrete panels that form the inner and outer walls to the warehouse and panels are being stockpiled pending delivery to site. Remote factories and steelworks continue to operate. The remainder of the Factory client side team continues to work from home. The current critical path activity, including the likely planned letting of several major works packages due in June and July, is underway.

- 7.5 Both projects have also been considered in the light of the current construction market inflation rates. The Town Hall project was approved after the Factory Project and contains larger contingencies for gap, risk and inflationary funding.
- 7.6 Gardiner and Theobald (G&T), the project cost managers for The Factory, prepared their Stage 2 Cost in September/October 2016 based on the then draft programme completion of 2019 and the construction market at that time. This gave a cost plan inflation provision of £4.5m, assessed on a mid-construction calculation based on following annual percentages; 2016 – 3.5%, 2017 – 3%, 2018 – 2.5%, 2019 – 1.5%. It is now evident that general inflation in the NW construction market did not tail off in that period and in fact has increased due to the significant volume of construction work that took place (and continues to take place) in Manchester City Centre over the past 3–4 years.
- 7.7 Central Manchester has been experiencing a construction boom with a record number of sites under construction. This situation had been developing over the past five years and was predicted to peak towards the end of 2019 where the costs consultants noted it reached 6-7% in some instances. Whilst future inflation rates are hard to predict with certainty the best estimates are that it will remain at 4-5% per annum on average. The inflation for Manchester City Centre construction has remained at 4 - 5% per annum on average. Based on the current programme, the excess inflation allowance required is £10m.

8.0 Prudential Performance Indicators

- 8.1 If the recommendations in this report are approved the General Fund capital budget will increase by £7m, across financial years as detailed in Appendix 1.
- 8.2 This will also result in an increase in the prudential indicator for Capital Expenditure in corresponding years. Monitoring of all prudential indicators is included within the Capital Monitoring Report during the year.
- 8.3 There is no increase in the requirement for prudential borrowing, and therefore there is no impact on the City's Council Tax.

9.0 Contributing to a Zero-Carbon City

- 9.1 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.

10.0 Contributing to the Our Manchester Strategy

(a) A thriving and sustainable city

10.1 Contributions to various areas of the economy including investment in ICT services, housing, and leisure facilities.

(b) A highly skilled city

10.2 Investment 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

10.3 Improvements to services delivered to communities and enhanced ICT services.

(d) A liveable and low carbon city

10.4 Investment in cultural and leisure services and housing.

(e) A connected city

10.5 Through investment in ICT and the City's infrastructure of road networks and other travel routes.

11.0 Key Policies and Considerations

(a) Equal Opportunities

11.1 None.

(b) Risk Management

11.2 Risk management forms a key part of the governance process for all capital schemes. Risks will be managed on an ongoing and project-by-project basis, with wider programme risks also considered.

(c) Legal Considerations

11.3 None.

12.0 Conclusions

12.1 The Capital budget of the City Council will increase by £7m, if the recommendations in this report are approved.

13.0 Recommendations

13.1 The recommendations appear at the front of this report.

Appendix 1

Requests for Adjustments to the Capital Budget Provision June 2020 Executive

| Dept | Scheme | Funding | 2020/21 £'000 | 2021/22 £'000 | 2022/23 £'000 | Future £'000 | Total £'000 |
|---|---|------------------|------------------|------------------|------------------|-----------------|----------------|
| Council (by Executive) Approval Requests | | | | | | | |
| Highways Services | Planned Maintenance carriageway works 2020/21 | Borrowing | 1,000 | | | | 1,000 |
| Highways Services | Highways Project Delivery Fund | Borrowing | -1,000 | | | | -1,000 |
| Children's Services | Schools Capital Maintenance Programme 2020-21 | Government Grant | 3,000 | | | | 3,000 |
| Children's Services | Schools Capital Maintenance - unallocated | Government Grant | -3,000 | | | | -3,000 |
| Growth and Development | The Factory | Borrowing | 10,020 | | | | 10,020 |
| Corporate Services | Inflation | Borrowing | -10,020 | | | | -10,020 |
| Total | | | 0 | 0 | 0 | 0 | 0 |
| Executive Approval Requests | | | | | | | |
| Highways Services | Planned Maintenance carriageway works 2020/21 | Government Grant | 5,000 | | | | 5,000 |
| Children's Services | Coop Academy North Expansion | Government Grant | 488 | | | | 488 |
| Children's Services | Education Basic Need Grant Unallocated | Government Grant | -488 | | | | - 488 |
| Growth & Development | Alexandra House Additional Funding | Capital Receipts | 200 | | | | 200 |

| Dept | Scheme | Funding | 2020/21 £'000 | 2021/22 £'000 | 2022/23 £'000 | Future £'000 | Total £'000 |
|----------------------|----------------------------|------------------|--------------------------|--------------------------|--------------------------|-------------------------|------------------------|
| Growth & Development | Asset Management Programme | Capital Receipts | -200 | | | | -200 |
| Growth & Development | The Factory (Public Realm) | RCCO | 500 | 1,500 | | | 2,000 |
| Total | | | 5,500 | 1,500 | 0 | 0 | 7,000 |
| Grand Total | | | 7,000 | 0 | 0 | 0 | 7,000 |

Appendix 2

Approvals under authority delegated to the City Treasurer June 2020 Executive

| Dept | Scheme | Funding | 2020/21 £'000 | 2021/22 £'000 | 2022/23 £'000 | Future £'000 | Total £'000 |
|--|--|-----------------------|------------------|------------------|------------------|-----------------|----------------|
| Neighbourhoods | Mellands Project - Longsight ward | External Contribution | 330 | | | | 330 |
| Neighbourhoods | Mellands Playing Fields - Levenshulme | External Contribution | 164 | | | | 164 |
| Neighbourhoods | Gorton & Abbey Hey S106 | External Contribution | 292 | | | | 292 |
| Neighbourhoods | Manchester Aquatics Car Park LED | External Contribution | 229 | | | | 229 |
| Neighbourhoods | Manchester Aquatics Car Park LED | Invest to Save | 173 | | | | 173 |
| Highways Services | Culvert Trash Screens | Government Grant | 143 | | | | 143 |
| Total Delegated Approval Requests | | | 1,331 | 0 | 0 | 0 | 1,331 |