Manchester City Council
Report for Information

Report to:	Resources and Governance Scrutiny Committee – 6 December 2018
Subject:	Process for Updating the Capital Strategy incorporating the P6 position
Report of:	The Chief Executive and City Treasurer

Summary

The purpose of this report is to provide an update on the 2018/19 capital programme and the process for developing the Capital Strategy for 2019/20 onwards.

Recommendations

The Committee is asked to note the report.

Wards Affected: All

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 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

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 capital programme report as presented will require £597.9m (all non-HRA) of prudential borrowing over the five year period 2019/20 to 2023/24, all for Manchester City Council projects. Provision has been made in the proposed revenue budget for the associated financing costs, and for the revenue contributions to capital outlay (RCCO) which are forecast to be received from the General Fund and HRA.

Financial Consequences – Capital

The latest budget, excluding projects for Greater Manchester, for 2018/19 is £448.0m of which £272.6m is forecast to be funded from borrowing. Over the longer term to 2023/24, the budget is £1,475.6m of which £870.5m is forecast to be funded from borrowing.

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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.

Executive, 7 February 2018 (Capital Strategy and Budget 2018/19 to 2022/23)
Council, 2 March 2018 (Capital Strategy and Budget 2018/19 to 2022/23)
Executive, 30 May 2018 (Capital Programme Monitoring 2017/18 – Outturn report)
Executive, 25 July 2018 (Capital Programme Monitoring – Q1)
Executive, 17 October 2018 (Capital Programme Monitoring – Q2)
Executive, 17 October 2018 (Capital Update)
Executive, 14 November 2018 (Capital Programme Update)

1 Introduction

1.1 The capital budget forms an integral part of the Council's annual budget process. This report updates the latest position on the forecast capital budget for 2019/20 and beyond following the period 6 (end September 2018) monitoring report.

2 Context

2.1 This report is based on the budget included within the period 6 Capital Monitoring report to Executive in October 2018, amended to include the proposals approved within the Capital Update report to Executive in November and to reflect proposals which have full Council approval. The final Capital Strategy will be updated to reflect the period 9 position at the end of December 2018 before being submitted to Executive in February as part of the suite of budget reports and Council in March.

2.2 The final budget proposals will be reported to Executive in February 2019 and will include further information on anticipated projects and programmes for 2019/20 and beyond.

3 Development of the Capital Strategy

3.1 The Capital Strategy is developed to ensure that the Council can make 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 return and the impact on the achievement of priority outcomes.

3.2 The Strategy for 2018/19 incorporated the existing capital budget, which had seen significant investment proposals introduced as part of the budget for the previous year. These proposals were developed with regard to the key priorities for the Council, including;

- residential growth, including housing affordability;
- high quality school facilities for a growing population;
- investment in cultural and sporting facilities;
- investment in transport infrastructure; and
- promotion of economic growth to support wider Council priorities.

3.3 The Council makes a clear distinction between capital investments, where the achievement of strategic aims will be considered, alongside affordability; and treasury management investments, which are made for the purpose of cash flow management.

3.4 Council investments, as opposed to pure cash flow management decisions, will be made in line with the Capital Strategy priorities which are set out in this document. These decisions are clearly within the economic powers of the

Council and there are strong governance arrangements that underpin the decision making. Longer term capital investment decisions will not be made purely on the basis of commercial decisions and chasing yield, however, inevitably some schemes will be financed all or in part from returns on investment. There may also be:

- externally funded programmes such as those for schools;
- schemes funded from ring-fenced resources such as those within the Housing Revenue Account (HRA); or
- schemes requiring investment from Council resources to support strategic priorities such as investment in the highways infrastructure, ICT and asset management.

3.5 All capital investment decisions will be underpinned by a business plan that ensures strategic fit with the Council's priorities and which sets out any expected financial return alongside the broader outcomes expected including economic and social benefits.

4 Governance

4.1 Capital expenditure is spent on the purchase or improvement of assets that have a long-term value to the Council, such as land and buildings. The Council and its residents receive a benefit from the capital expenditure invested in the assets for a long period of time (i.e. more than a year). It is the Council's policy to capitalise any expenditure, over a total value of £10,000, which fulfils this criteria.

4.2 The Council has revised the approval process for capital expenditure through the Checkpoint process. The process has five distinct stages and covers cover project initiation, project design and costs, funding approvals including key decisions, approval to spend and monitoring/review.

4.3 For any project seeking capital expenditure approval a business case must be drafted, covering:

- ***Strategic Fit:*** how the project links to the City Council's strategic priorities, social value, and any statutory requirements.
- ***Economic Value:*** what economic value the project will provide to the City.
- ***Financial Implications:*** funding model, with evidence of cost and capital and revenue implications
- ***Risk and Deliverability:*** timescale for delivery and identification of risks to the project, including legal issues.
- ***Outcomes to be delivered:*** what the project will achieve, and the benefits that will be realised.

4.4 The business cases must be agreed by the relevant directorate board, and approved by the Executive Member for that portfolio before being submitted into the process. Once submitted, the business cases are subject to peer review within the Council prior to being presented to the Strategic Capital

Board, chaired by the City Treasurer. The Board will discuss each submission and make recommendations to the Members at key stages of the checkpoint process.

4.5 Throughout the decision making process the progress and risks for each project are reviewed and revised, and form a key part of the monitoring of the capital programme. The Strategic Capital Board receive monthly updates from each directorate board on their part of the capital programme, detailing financial forecasts, risks, and expected outcomes. The Board will also review proposals for the use of Section 106 funding for capital projects, and make recommendations to members.

4.6 The governance process for approving capital investments, such as loans to third parties, is the same as that for the wider capital programme. As with any proposed capital expenditure, any investment is peer reviewed and the risks associated with the investment explored.

4.7 The capital programme is monitored monthly, with quarterly reports to Executive. Any changes to the programme in year are reported to Executive as part of specific Capital Update report, detailing the aims of the project, the source of the funding and the funding required.

5 New Proposals for 2019/20 onward

5.1 For projects to be included within the capital budget they must comply with the governance process above, and have a full business case approved by the relevant Portfolio Board, Strategic Capital Board, Executive members and following consultation with ward members where appropriate.

5.2 The basis for the 2019/20 Capital Strategy and Budget reported to Executive in February will be the continuation of the existing capital programme allowing for adjustments to the timing of the spend across years where known. For a new project to be included in the budget, the relevant approvals as detailed above will need to have been received by early 2019.

5.3 The governance arrangements for approving new projects mean that some may not be sufficiently developed and have evidence based costs, delivery routes and timescales to be included in the February report to Executive. It is therefore expected that projects will be approved throughout the financial year, as the information to support is developed to ensure that proposals are robust and deliverable.

6 Proposed Capital Programme from 2019/20

6.1 Based on the information as at Period 6 submitted to October Executive and projects approved by Executive and Council since then, the overall forecast capital programme 2019/20 to 2023/24 across Directorates is as summarised in the table below. The detail of the current capital programme relevant for each Directorate is also provided within Directorate Business Plans submitted to the relevant Scrutiny Committees.

6.2 The programme will need to be reviewed if the resource position changes from the indicative level. The funding resources available to the City Council are invested so that they focus on the key priorities for the Council and take a holistic view of all planned investment in a locality. Projects that will secure 100% external funding can be added to the programme if they fit strategically.

	2018/19 budget £m	**2019/20 budget £m**	**2020/21 budget £m**	**2021/22 budget £m**	**2022/23 budget £m**	**2023/24 budget £m**	**Total £m**	***Total 2019/20-2023/24 £m***
Manchester City Council Programme								
Highways	41.5	64.5	34.3	27.9	0.0	0.0	**168.2**	***126.7***
Neighbourhoods	13.0	31.2	19.4	3.1	0.0	0.0	**66.7**	***53.7***
Growth	143.8	121.6	70.6	14.3	0.0	0.0	**350.3**	***206.5***
Town Hall Refurbishment	11.6	26.5	73.2	107.8	68.1	14.2	**301.4**	***289.8***
Housing – General Fund	25.3	26.6	29.1	8.2	0.0	7.5	**96.7**	***71.4***
Housing – HRA	24.5	37.6	45.3	25.7	3.1	0.0	**136.2**	***111.7***
Children's Services (Schools)	45.2	83.6	5.0	3.0	0.0	0.0	**136.8**	***91.6***
ICT	8.4	17.3	15.3	6.4	0.0	0.0	**47.4**	***39.0***
Adults, Children's and Corporate Services	134.7	16.4	15.1	5.7	0.0	0.0	**171.9**	***37.2***
City Council TOTAL	**448.0**	**425.3**	**307.3**	**202.1**	**71.2**	**21.7**	**1,475.6**	***1,027.6***
Projects carried out on behalf of Greater Manchester	132.3	118.6	29.4	0.0	0.0	0.0	**280.3**	***148.0***
OVERALL TOTAL	**580.3**	**543.9**	**336.7**	**202.1**	**71.2**	**21.7**	**1,755.9**	***1,175.6***

6.3 The proposed programme budget represents the indicative profile of capital expenditure as forecast now. Over time it is likely that the profile will change, as projects develop both through design and on site. There are also risks within the programme around the timing of acquisitions, as whilst estimates can be made regarding when such acquisitions may be made it is dependent on negotiations being conducted to that timescale. Through the governance and reporting process described above, changes in the profile and the reasons for them will be reported to members.

6.4 Details of the major schemes included within the proposed programme will be provided as part of the full budget report to February Scrutiny and Executive.

The summary position is outlined in the table below:

Projects carried out on behalf of Greater Manchester

6.5 The capital programme for projects carried out on behalf of Greater Manchester consists of schemes where Manchester is acting as the lead body on behalf of the Combined Authority for schemes across the region. The funding was held by Manchester because the Combined Authority did not have the borrowing powers for economic regeneration that were required.

6.6 Borrowing powers have since been granted to the Combined Authority, and work is underway to novate the Fund across to the Authority. Due to the complexity of some of the existing loan agreements, the Council will be asked by the Combined Authority to retain some of the investments, and the Combined Authority will fund the Council at nil cost to do so.

6.7 This means that the forecast position is expected to reduce significantly, as any new loans will be issued by the Combined Authority and not the Council. The only capital expenditure activity that the Council would need to account for is if any existing loans are increased.

7 Capital Financing Strategy

7.1 The Council has several funding streams available to fund capital expenditure. Alongside external grants and contributions that the Council may be eligible to receive, the Council can also use revenue funding, capital receipts and prudential borrowing.

7.2 Capital receipts are generated through the sale of assets. These receipts are ring-fenced, under legislation, to fund capital expenditure and cannot be used to fund the revenue budget.

Restrictions around funds

7.3 The capital financing strategy is set in the context of restrictions around certain capital funds, some statutory and some which are at the Council’s discretion.

7.4 The Housing Revenue Account (HRA) is a restricted fund, and funding from the HRA can only be used to fund capital expenditure on HRA assets.

7.5 The Council also operates the following fund restrictions:

- Housing capital receipts (both General Fund and Housing Revenue Account) are reserved for use on new Housing projects;
- General Fund capital receipts will be used, in the first instance, to support the Asset Management Programme.
- Grants received will be used for the specific purpose intended, even if the terms of such grants are not restrictive, unless alternative use promotes the same aims.

Prudential Borrowing

7.6 The use of prudential borrowing allows the Council to spread the cost of funding the asset over its useful economic life. Using prudential borrowing as a funding source increases the Council's capital financing requirement (CFR), and will create revenue costs through interest costs and minimum revenue provision (MRP).

7.7 Where the Council has funded expenditure through borrowing, it is required to make a minimum revenue provision towards the repayment of the debt. This ensures that the revenue cost of repaying the debt is spread over the life of the asset, similar to depreciation.

7.8 As part of the budget process, the estimated financing costs for the capital programme and for existing debt have been calculated as part of the revenue budget, and this has determined that the proposed programme and the existing debt liabilities are affordable within the existing revenue budget.

7.9 In line with the Prudential Code requirements, the Local Authority must have explicit regard to option appraisal and risk, asset management planning, strategic planning, and the achievability of the forward plan.

7.10 The draft funding forecast for the current capital programme across all years is shown below, excluding the projects carried out on behalf of Greater Manchester:

	2018/19 budget £m	**2019/20 budget £m**	**2020/21 budget £m**	**2021/22 budget £m**	**2022/23 budget £m**	**2023/24 budget £m**	**Total £m**
Grant	81.3	149.1	48.1	11.1	0.0	0.0	289.6
External Contribution	20.8	27.9	13.7	3.7	0.0	0.0	66.1
Capital Receipts	34.6	22.8	27.8	7.8	0.0	7.5	100.5
Revenue Contribution	38.7	37.7	39.4	30.0	3.1	0.0	148.9
Borrowing	272.6	187.8	178.3	149.5	68.1	14.2	870.5
Total	**448.0**	**425.3**	**307.3**	**202.1**	**71.2**	**21.7**	**1,475.6**

7.11 Work will continue to confirm the position for the capital programme from 2018/19 to 2023/24 and, as discussed above, the final capital budget will be reported to Council in March. This will include the effect of any changes in the delivery of the current programme in 2018/19. It is expected that any such changes should simply require a re-profiling of the programme between financial years, with no overall change to the estimated total funding requirement for the Council.

8 Conclusions and Next Steps

8.1 This reports provides an overview of the capital budget for the period to 2023/24 based on the position as at P6 together with any further approvals since that time. The capital programme is affordable within the existing revenue budget based on the estimated capital financing costs associated with the programme.

8.2 There are risks associated with the delivery of the capital strategy, specifically regarding delays to the programme and requires robust treasury management; measures are in place to mitigate these risks through both the Strategic Capital Board and the treasury management strategy.

8.3 New proposals to be introduced to the budget, either before the report to Executive in February or after, will be scrutinised through the Capital Approval Process which includes strong member engagement as a requirement.

8.4 Any projects which are successful in the Approval Process will be introduced to the capital budget at the earliest opportunity.

8.5 The detailed capital strategy for 2019/20 and future years will be reported to Resources and Governance Scrutiny Committee and Executive in February 2019 for approval as part of the budget suite of reports. Council will be requested to approve the capital programme at its meeting in March 2019.

9 Key Policies and Considerations

(a) Equal Opportunities

9.1 The proposals have been drawn up in awareness of Council policy on equality.

(b) Risk Management

9.2 None in this report.

(c) Legal Considerations

9.3 None in this report