

**Manchester City Council
Report for Information**

Report to: Resources and Governance Scrutiny Committee – 6 December 2018

Subject: Major Capital Projects Update

Report of: The City Treasurer

Summary

The purpose of the report is to update the Committee on the budgets for the City Council's major capital projects.

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

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

None.

Financial Consequences – Capital

The report provides details of capital budgets.

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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 At the last meeting of the Resources and Governance Scrutiny Committee in November 2018, members requested a report on the progress of the City Council's major capital schemes totalling £10m and over, and specifically the progress against the original budget for the scheme.
- 1.2 The City Council's capital programme currently totals £1,475.6m for the period 2018/19 to 2023/24 and is summarised in the table below:

	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
Manchester City Council Programme							
Highways	41.5	64.5	34.3	27.9	0.0	0.0	168.2
Neighbourhoods	13.0	31.2	19.4	3.1	0.0	0.0	66.7
Growth	143.8	121.6	70.6	14.3	0.0	0.0	350.3
Town Hall Refurbishment	11.6	26.5	73.2	107.8	68.1	14.2	301.4
Housing – General Fund	25.3	26.6	29.1	8.2	0.0	7.5	96.7
Housing – HRA	24.5	37.6	45.3	25.7	3.1	0.0	136.2
Children's Services (Schools)	45.2	83.6	5.0	3.0	0.0	0.0	136.8
ICT	8.4	17.3	15.3	6.4	0.0	0.0	47.4
Adults, Children's and Corporate Services	134.7	16.4	15.1	5.7	0.0	0.0	171.9
TOTAL	448.0	425.3	307.3	202.1	71.2	21.7	1,475.6

- 1.3 This report focuses on those schemes which remain ongoing within the capital programme. However, it specifically excludes those included within the Highways Maintenance, ICT and HRA Housing programmes as these are intended to be the subject of future pieces of work. It also excludes major projects such as Factory and the Life Sciences development as these have either been recently considered by this committee and/or will feature on the future work programme. Similarly, although included, the Town Hall will feature on a further work programme.
- 1.4 The table below summarises the financial position for the projects included within this report with the detail attached as Appendix 1. Prior year spend is included, where relevant, for individual projects which remain ongoing within the programme.

	Prior Year Spend to 2017/18 £000	2018/19 Current Forecast £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000
Neighbourhoods								
Highways Stand Alone Projects	42,850	20,703	18,977	100				82,630
Environment	5,067	523	5,910					11,500
Leisure and Sports	598	1,251	24,729	19,374	5,370	43		51,365
Strategic Development								
Corporate Estates	4,444	52,186	28,289	20,040	9,607			114,566
Strategic Acquisitions	-	15,914	3,000	3,000	3,000			24,914
Development	74,300	31,478	19,301	8,415				133,494
Private Sector Housing	60,017	13,058	10,312	19,340	8,184			110,911
Children's Services								
Schools	77,625	14,092	81,701	4,138	3,000			180,556
Corporate								
Town Hall	3,811	11,565	26,520	73,198	107,834	68,046	14,230	305,204
Integrated Working - Gorton Health Hub	0	1,400	10,150	8,627	2,619			22,796
TOTAL	268,712	162,170	228,889	156,232	139,614	68,089	14,230	1,037,936
<i>Note: Where prior year spend is related to a programme rather than a single project then it will not be included.</i>								

2 Context

- 2.1 The definition of capital expenditure is expenditure incurred to create an asset which will have a useful economic life of over a year, and is accounted for differently from revenue expenditure. The City Council has a capital programme which contains a large number of projects, and a number of these schemes are expected to require investment exceeding £10m in total.
- 2.2 Large capital projects tend to be complex in nature, and any project which creates a long term asset will require long term planning. This means that

projects may need to be agreed before there is cost certainty, and with a degree of risk accepted. As a project develops from initiation through design to build and completion and more information becomes known about the project, the costs associated with it may change.

- 2.3 Budgeting for a capital project at the initiation stage therefore requires a degree of estimation. Whilst project officers can benchmark to other similar projects either managed by the Council or other parties, each project is different.
- 2.4 If projects do require a budget amendment once the project has begun, under the Council's constitution approval is required. In the vast majority of cases such amendments will require Executive or Council approval, with only some able to be approved under delegated powers.

3 Major Capital Schemes

- 3.1 For the purposes of this report, a major capital scheme has been defined as a single scheme with total budget of more than £10m. A full list of all the schemes that meet that criteria in the existing capital budget is shown at Appendix 1.
- 3.2 Detailed below for each directorate are the relevant projects, their original budget compared to their current budget with the rationale for any difference, as well as the current total spend as at the end of September 2018. Activity to date is also described. Where available, progress against anticipated delivery dates are also shown.

4 Highways

- 4.1 The Manchester/Salford Inner Relief Road (MSIRR) project was introduced into the capital programme at £0.3m in 2014/15, and is now a £13.9m project. The budget has been increased incrementally, to match the approval process for the funding source for the project which is Growth Fund grant. The scheme is on site and is currently expected to finish ahead of programme finishing in 11 months rather than 12 and be within budget.
- 4.2 The budget for the Street Lighting PFI project, to replace existing bulbs with LEDs, was set in 2014 at £32.8m and is unchanged. Work has progressed well on the project, with the programme ahead of schedule but some slowing down is expected when the project begins to replace conservation style lanterns which require additional design work. Some opportunities have been taken to reinvest some savings into the lighting of Rochdale Undercroft as a safety measure alongside the canal to improve safety.
- 4.3 The South East Manchester Multi Modal Strategy (SEMMMS) is a programme of works around the A6, the Manchester Airport Relief Road and the A6 to M60 link. This project is funded by Transport for Greater Manchester, and is undertaken by Stockport MBC. The Council recognises work completed on assets it owns to maintain the asset register, and is notified by Stockport MBC

as to the value of these works. Therefore the budget has changed since the project began, but this is not an area the City Council has control over.

- 4.4 The original budget allocation to the Bus Priority - Oxford Road scheme was based on a proportion of the allocation to the City for the bus priority programme from GM and was set at c£17.8m. However, this overestimated the allocation to the City Council and the budget was subsequently revised to £13.2m. This project has been completed within budget and has won a national award for its design.

5 Neighbourhoods

- 5.1 The Waste Contract capital budget of £11.5m was approved by Executive as part of the 2016/17 budget, and the budget remains the same. The loan has been used by the contractor to replace vehicles, and is repaid through savings on the contract. Spend to date is £5.4m.
- 5.2 The Parks Improvement Plan budget of £20.5m was approved as part of the 2017/18 budget, and was combined with smaller existing parks capital budgets which were aligned with the principles of the plan, creating the £21.3m budget in the current forecast. Spend to date is £0.4m. A submission has been made to draw down funding to progress the feasibility studies to inform how the investment will be deployed and this is pending approval through the Council's Capital Approval process. The feasibility work will establish the options available for capital projects, which can support the overarching parks business plan. Once these studies are complete business cases for the projects will be developed.
- 5.3 As part of the 2016/17 budget, the project to complete works at the Abraham Moss Leisure Centre was introduced for £8m. Based on initial surveys, the budget assumed that the leisure centre could be refurbished. Following more detailed surveys following the budget approval it became apparent that a refurbishment was not the most advantageous solution, and that a new build would deliver the Council better value for money. Consequently, the budget was increased to £17.1m. During 2016/17 officers were asked to undertake a through site options review for the development of the Leisure Centre, which concluded the existing site as the preferred option. As a consequence of the review, the project timeline has extended and the final cost is currently being determined and could be higher due to inflation on construction costs. This will be reported in due course. Spend to date is £0.3m.
- 5.4 The Manchester Football Hubs project was introduced to the budget as part of the 2016/17 budget. The project has not yet secured the external investment from the Football Association required to take this forward. Work is underway to secure the investment and this project will not progress until the funding is confirmed so no expenditure has been incurred as yet.

6 Development

- 6.1 The Asset Management Programme funds works to the Council's corporate estate and is an annual rolling programme. The current budget is £37.1m for the period 2018/19 to 2021/22, which is higher than the £34.5m approved by Executive due to the underspend carried forward from the 2017/18 programme. Spend to date this year is £3.4m with a total forecast spend of £9.5m against the 2018/19 budget of £16.2m. This is a planned underspend, which is to accommodate some major repair and maintenance works planned for 2019/20. Historically the Asset Management Programme budget was not allocated and spent according to planned and evidential need, resulting in unresolved issues and backlog maintenance. Since the introduction of the Corporate Landlord model a more rigorous approach has been adopted, with Stock Condition Surveys being undertaken and a planned and programmed approach to works based on empirical data, priority and risk. The service has recognised that it is still experiencing a greater level of slippage than desired and is amending processes to address this issue. The key change required is to bring forward the approvals process by circa 6 months to allow for design and procurement work to be undertaken, and have projects designed and contractors in place at the start of the financial year.
- 6.2 The Strategic Acquisitions Programme is a budget which rolls forward, if unspent, to provide funding for the Council to acquire sites across the city which are strategically important to support the City's priorities. The timing of any acquisitions is difficult to predict as it depends on such sites being available, and then successful negotiations with third parties, which means that the spend profile for the Strategic Acquisitions budget can only be indicative. An example of this is that the negotiations for the Spire Hospital site took longer than anticipated, and therefore the budget allocated to it in 2017/18 was slipped into 2018/19. Spend to date against the 2018/19 budget of £15.9m is £9.9m. Commitments of a further c£3m are in detailed negotiation. Experience is that not all transactions are likely to be completed within the profiled timescales.
- 6.3 Works at the Hammerstone Road depot were included in the budget for 2016/17 at £15m, and this budget remains unchanged. Originally intended to complete in 2018/19, works have been delayed and spend to date is £0.1m. The delays were as a result of the procurement of a construction partner, but that activity has now been completed. The scheme is in the design stage and is scheduled to start on site in Q2, 2019 and to be completed circa Quarter 1 2021.
- 6.4 Budget proposals to refurbish Heron House were introduced as part of the 2016/17 budget process at £12m. There have been several changes to the budget since then, and the current budget for the project is £18.5m, now including the refurbishment of the Registrar's offices. These changes in budget have been due to a number of factors, identified through the pre-construction programme and construction phase. Examples would be the introduction of air conditioning, presence of asbestos and associated cost of removal, along with other tenant requirements.

- 6.5 The Civic Quarter Heat Network budget was originally £14.0m when it was introduced in the 2016/17 budget, but this has increased to £26.0m due to changes in design and specification. This has been offset by some additional external funding, and is still affordable within the spend to save financial model for the project. More detail on the project was reported to Resources and Governance Scrutiny Committee at its November meeting. Final work is being completed on the legal structure of the project, and spend is then expected to be incurred.
- 6.6 Within the 2017/18 capital budget the Estates Transformation programme was included, recognising that significant work was required within the Council's estate to allow for the refurbishment and upgrade of buildings, particularly given the works at the Town Hall. The original budget was £19.0m, and this is now £18.0m following a transfer to cover revenue costs associated with the programme. Spend to date is £1.3m, with works onsite at Hulme District Office and expected to complete in Q1 2019.
- 6.7 The Space Project was introduced to the capital budget in March 2016 at a value of £14.0m. The budget is currently £15.4m following a budget increase during 2016/17. This budget increase was sought to fund tenant fit-outs, which are to be recouped through increased rents. Spend to date is £14.3m and the project is now complete, subject to reconciliation of the final project account.
- 6.8 In June 2016/17 a budget increase of £5.3m was approved for the Digital Asset Base – One Central Park project, which increased the project budget to £8.97m following detailed design work. This budget is now £10.8m following a budget increase in November 2018, to fund improvements to the external facade that were previously excluded from the scope of the project and an allowance to fund tenant fit out. The latter element may not be utilised as this will only be required to attract specific occupiers. The additional resources were funded on a spend to save basis. Spend to date against this project is £2.9m.
- 6.9 The Sustaining Key Initiatives budget was introduced in the 2017/18 budget at £25.0m to allocate funding to support projects throughout the City that may need Council support. The current budget is £13.6m, following approved virements to the Lincoln Square public realm, Factory and Heron House projects.
- 6.10 Proposals for a budget for the Eastern Gateway were agreed as part of the budget process for 2017/18 at £47.6m. The current budget is £45.6m, due to a transfer of £2.0m to revenue to cover the holding costs for the Central Retail Park. The budget has been used to acquire the retail park and to complete works to New Islington Marina. Spend to date is £37.4m
- 6.11 As part of the same budget process, a similar programme was agreed for the Northern Gateway at £25.0m. This budget is unchanged, and spend to date is nil as work progresses in establishing the Joint Venture (JV) with Far East Consortium (FEC) which will deliver the regeneration of the Gateway area. To date, a Draft Strategic Regeneration Framework (SRF) to inform and guide

future development activity has been prepared and has formed the basis for an extensive public consultation process undertaken in the autumn of 2018. A final version of the SRF together with a plan of activity for the first phases of delivery will be brought back to a future meeting of the Executive. Land assembly and the provision of core infrastructure will be a key requirement for the successful delivery of the initiative and a bid for Housing Infrastructure Fund will be submitted to Government in March 2019 for additional resources to augment planned investment from the City Council and its Joint Venture partner.

- 6.12 The budget for St Peter's Square was £23.4m in 2014/15. Works have included the Cenotaph relocation, Library Walk and the water feature, and will be completed with the Peterloo Memorial. Spend to date is £22.1m as the majority of the project has been completed for some time, with the Memorial being the final works.

7 Our Town Hall

- 7.1 Budget provision for the Our Town Hall project was included in the 2017/18 budget at £306.1m, and this has subsequently reduced to £305.2m as some of the project costs have been identified as revenue in nature and therefore the budget has transferred.
- 7.2 The project is overseen by a Strategic Board which is chaired by the Deputy Leader and which includes the Leader, Lead Member for Finance and Human Resources, Chief Executive, City Treasurer and City Solicitor. A robust governance structure is in place, which was updated and signed off by the Strategic Board on 1 August 2018. The revised structure has added an additional level of governance (the SMT Sub-Panel) to sit between the Project Board and Strategic Board. A schedule of delegated authorities is agreed in accordance with the Council's constitution, and the project calendar has been updated to reflect a routine cycle of reporting that is based on a 4 weekly flow of information upwards from the project into the governance structure.
- 7.3 The project is approximately 50% of the way through RIBA Stage 3 design (Developed Design). The core consultant team was appointed in 2017, and has been expanded progressively as further additional specialist advice is required. The team currently comprises in addition to the core team, a buildability consultant, fire engineer, acoustician, security strategy consultant, planning consultant and creative producer. To date, 150 staff have been inducted into the project office (Council and consultant staff) working side by side in the Town Hall building. A programme of intrusive surveys to validate the assumptions made during RIBA Stage 2 (Concept) Design is underway and making good progress.
- 7.4 The procurement process for the management contractor is due to conclude before Christmas 2018.
- 7.5 Within the budget there are significant contingencies to cover inflation, scope gap and unforeseeable issues. The combined contingency for all three

elements of contingency (GAP, Contingency and Inflation) is currently 36% of the total capital Budget of £305m, which is considered to be appropriate for this project at this stage in its development. Allocations from contingency are utilised in line with the agreed governance framework for the project. The project remains on target for the building reopening in March 2024. Spend to date is £5.5m.

8 Private Sector Housing

- 8.1 The Disabled Facilities Grant has been received by Local Authorities for a number of years to fund adaptations designed to support residents in their homes. For 2018/19 the capital allocation was £27.8m, and the current budget is now £27.5m as some of the budget was accelerated into 2017/18 as spend had progressed more quickly than anticipated. This was primarily due to increased flexibility in the use of grant. Current spend against the 2018/19 budget is £4.05m. Funding is spent in accordance with the conditions of the grant, which will include the financial years up to which the relevant spend should take place.
- 8.2 Phase 2 of the Redrow development has been in the budget since before 2013/14. The funding arrangements involved the development of 6 sites with proceeds from the sale of homes to be split between the Council and the developer. Since completion of the development the Council has received income from every house sale, but the accounting treatment for this requires recognition of the gross income alongside the Council paying the developer their share. The budget therefore includes the payment to Redrow Homes of their share of the income. The current budget is £32.2m, of which nearly all has been spent as the final units are expected to be sold this year.
- 8.3 The regeneration project at Ben Street was approved in March 2016 with a budget of £15.6m, and this has remained unchanged. The project was anticipated to complete in 2017/18, but has been delayed due to the need to acquire three properties where the owners are untraceable, which will require a Compulsory Purchase Order. It is expected that the total spend for the project will not exceed £10m. Spend to date is £6.1m.
- 8.4 In May 2018 a budget of £10.1m was created, funded from the government's Marginal Viability Fund, to support housing development at New Victoria. This budget remains unchanged. The Council is not directly involved in the delivery of the scheme, but is the funding link between government and the developers. The scheme is now in receipt of the grant offer for the funding with a deadline date of 31 January 2019 for acceptance. The Council will work with the developers to ensure that the terms are acceptable and can be complied with. The scheme is yet to commence but should all terms be acceptable and the developer is on site in 2019, it is anticipated that completion will be in 2021.

9 Children's Services

- 9.1 The Children's Basic Need programme is funded from government grant, and to progress a programme of works the Council has historically allocated monies to a project before contractor costs are fully agreed due to the need to ensure planning applications and legal issues are resolved in time to allow the build to complete and the Council fulfil the statutory duty to provide places. This means that the budgets for individual schools have had a tendency to change as the design progresses and site issues are understood.
- 9.2 The original budget for the Dean Trust secondary school at Ardwick was £24.0m, and was introduced to the budget in December 2014. The current budget is £28.3m, as the demolition budget for the site was subsequently added to the project, and spend to date is almost to budget. The school opened in September 2015 and moved to the new building in September 2016.
- 9.3 The secondary school built at Lytham Rd was budgeted at £25.1m and is now expected to cost £30.0m, due to additional ground works and highways work required. Spend to date is £29.7m. The school opened on time in September 2017.
- 9.4 The Co-op Academy Expansion was budgeted at £14.6m in June 2016, and is now forecast to cost £18.9m, as the design was altered to include an additional 30 places per year groups (150 places). Spend to date is £18.0m. The expansion is now completed and opened in September 2018.
- 9.5 The budget for a school on Matthews Lane was introduced in 2017 at £41.2m, following a budget allocation for some initial survey works. The current budget is £43.9m, and spend to date is £4.4m.
- 9.6 The unallocated Basic Need is the funding remaining as the grant award is allocated to school projects to create additional school places. If projects require budget increases, or find savings, this will impact on the unallocated funding available. For the 2018/19 budget the unallocated funding was £48.4m and this is currently £48.2m. Approximately £20m of this has been identified for increasing special school places and alternative provision across the City and the programme for this is currently being finalised. There has been no further allocations of basic need funding to the City for 2019/20 or 2020/21 so how and where the remaining unallocated funding will be used will be based on projected growth, the approval of any free schools in the City through recent free school application rounds and expansions of schools in areas where there is greatest demand on school places.
- 9.7 The unallocated School Maintenance budget works in a similar way to the unallocated Basic Need. The budget for 2018/19 was £13.1m, and now stands at £10.3m as additional maintenance projects have been identified and approved.

10 Corporate

- 10.1 The Gorton Health Hub project, intended to create a hub at which various public services can be provided, was budgeted at £22.8m as part of the 2017/18 budget, with an expectation that it would be completed by 2019/20. There have been challenges in terms of the design, and also with agreeing the financial model for the asset as the Council agreed to fund it on a spend to save basis, with the financing costs funded from lease income. This has delayed the project, however the budget remains unchanged at this stage; design is ongoing and completion is currently anticipated for 2021/22.

11 Capital Approval Process

- 11.1 The Capital Approval Process replaced the existing Capital Gateway process last year, as the governance mechanism for approving new capital projects. The Capital Approval Process has been designed to provide greater assurance around strategic fit, budget estimates and the intended outcomes.
- 11.2 Individual Portfolio Boards are required to lead on projects and actively monitor and manage their progress. The information is brought together and a summary is presented to the Strategic Capital Board on a monthly basis.
- 11.3 The Project Management Office (PMO), in conjunction with Finance, reviews all business cases for surety on process, deliverability, governance and budget availability prior to presentation to the Strategic Capital Board. In addition, the PMO reports to the Board on individual projects and larger approved programmes, and monitors performance against time, budget, cost, quality and outcomes based on the original business case. The report tracks activity to date against the original business plan, forecast to completion, variances to date, risks and issues that may affect achieving the stated outcomes.

12 Conclusions

- 12.1 The report details those projects which have a total budget of greater than £10.0m included within the current capital budget, and provides an update on how the projects have developed over time. A number of these projects were initiated many years ago, and there are clear lessons to be learnt from how they have developed.
- 12.2 As part of the governance arrangements Portfolio Boards have been established across the capital programme to allow service areas to review activity and monitor the projects for which they are responsible. For example, the Asset Management Programme is actively managed and reviewed by the Estates Transformation Board, and the Basic Need programme to deliver new school places is managed by the School's Organisational Strategy Board. All projects are required to be approved by their relevant Portfolio Board before they can be progressed.

12.3 The Capital Approval Process has been designed to promote Portfolio Boards reviewing their programmes regularly, to understand how and why budget and delivery changes have occurred. The intention is that this will create a virtuous circle, where lessons learnt on individual projects can be applied to new schemes, both within the portfolio area and across the Council. The changes to the capital monitoring reports to Executive, providing greater detail over activity, will support this.

13 Recommendations

13.1 The recommendations appear at the front of this report.

14 Key Policies and Considerations

(a) Equal Opportunities

14.1 None in this report.

(b) Risk Management

14.2 None in this report.

(c) Legal Considerations

14.3 None in this report.