Manchester City Council
Report for Resolution

Report to:	Executive – 13 February 2019 Council – 8 March 2019
Subject:	Capital Strategy and Budget 2018/19 to 2023/24
Report of:	Chief Executive and City Treasurer

Summary

The purpose of the report is to present the 2018/19 capital programme and forward commitments, alongside the Capital Strategy for the City Council.

Recommendations

The Executive is recommended to:

1. commend the report to Council.

2. Note the capital strategy.

3. Delegate authority to the City Treasurer in consultation with the Executive Member for Finance and Human Resources to make alterations to the schedules for the capital programme 2018/19 to 2023/24 prior to their submission to Council for approval, subject to no changes being made to the overall estimated total cost of each individual project.

The Council is recommended to:

1. Approve the budget changes for the 2018/19 capital programme.

2. Approve the capital programme as presented in Appendix 3 (for £495.3m in 2018/19, £505.6m in 2019/20, £419.0m in 2020/21, £244.0m in 2021/22, £86.9m in 2022/23 and £39.0m in 2023/24) which will require prudential borrowing of £617.2m to fund non-HRA schemes over the five year period for which provision has been made in the revenue budget for the associated financing costs (within limits previously agreed).

3. Delegate authority to:

   a) The Chief Executive and Director of Highways in consultation with the Executive Member for Environment for the approval of the list of schemes to be undertaken under the Highways capital programme.

   b) The Chief Executive and Director of Highways to implement the Highways schemes in accordance with the Capital Approval process and after consultation with the Executive Member for Environment on the final details and estimated costs.

c) The City Treasurer in consultation with the Executive Member for Finance and Human Resources to add qualifying spend to save projects to the capital budget accordingly up to a maximum of £5m in 2019/20 and then £5m per year thereafter.

d) The City Treasurer, in consultation with the Executive Member for Finance and Human Resources to accelerate spend from later years when necessary within the programme subject to resource availability.

e) The City Treasurer in consultation with Executive Member for Finance and Human Resources to agree and approve where appropriate:
   i. The programme of schemes for the delivery of the corporate asset management programme; and
   ii. Proposals relating to Corporate Compulsory Purchase Orders

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Wards Affected: Various

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 £617.6m (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

For the City Council programme the latest budget for 2018/19 is £399.5m, of which £259.9m is forecast to be funded from borrowing. Across the forecast period 2019/20 to 2023/24, the budget is £1,110.0m, of which £617.6m is forecast to be funded from borrowing.

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Attachments

Appendix 1: Capital Approval Process flowchart
Appendix 2: Proposed Amendments to the Capital Budget
Appendix 3: Detailed Capital Programme 2018/19 – 2023/24
Appendix 4: Comparison of Capital Financing Requirement to External Debt and Internal Borrowing

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 7 February 2018 (Capital Strategy and Budget 2018/19 to 2022/23)
Report to Council 2 March 2018 (Capital Strategy and Budget 2018/19 to 2022/23)
Report to the Executive 30 May 2018 (Capital Programme Monitoring 2017/18 – Outturn report)
Report to the Executive 25 July 2018 (Capital Programme Monitoring – Q1)
Report to the Executive 17 October 2018 (Capital Programme Monitoring – Q2)
Report to the Executive 17 October 2018 (Capital Update)
Report to the Executive 14 November 2018 (Capital Programme Update)
Report to the Executive 12 December 2018 (Capital Programme Update)
Report to the Executive 16 January 2019 (Capital Programme Update)

1 Introduction

1.1 As part of the suite of budget reports submitted on this agenda, Executive and Council are recommended to approve the updated Capital Strategy for 2018-24. This report details the latest position on the Strategy, the governance process and progress on delivery.

1.2 The capital strategy provides the long term context in which capital investment decisions are made and the governance for those decisions, and also gives a summary of the Council's approach to investments and treasury management strategy which is elsewhere on the agenda. The Council's capital strategy also meets the new requirements in the CIPFA Prudential Code.

2 Strategic Context

2.1 Manchester is an ambitious city with a strong track record of delivery through partnerships and effective strategic leadership, improving the quality of life for residents and delivering a vision of making Manchester a world class city. As encapsulated in the Our Manchester Strategy the vision is for Manchester in 2025 to be in the top flight of world class cities:

- with a competitive, dynamic and sustainable economy that draws on its distinctive strengths in science, advanced manufacturing, culture, creative and digital business, cultivating and encouraging new ideas;
- with highly skilled, enterprising and industrious people;
- that is connected, internationally and within the UK;
- that plays its full part in limiting the impacts of climate change;
- where residents from all backgrounds feel safe, can aspire, succeed and live well; and
- that is clean, attractive, culturally rich, outward looking and welcoming.

2.2 To be internationally competitive the City Council has grasped the need to:

- deliver on meeting the need to reduce dependency and improve the productivity outcomes for residents;
- embrace the need to be a low carbon exemplar;
- invest in, and strengthen, the council's existing economic and infrastructure asset base;
- ensure that there is a diverse housing offer for the city including homes that are affordable to those households on low and average incomes; and
- support the City's cultural and sporting offer.

2.3 The Our Manchester Strategy demands an integrated approach to the deployment of revenue and capital spend against a clear set of priorities. The development of a longer term, five-year, Capital Strategy forms a critical part of the City Council's strategic and financial planning from 2018/19.

2.4 The last few years have witnessed a number of significant developments that have had, and will continue to have, a major influence on the future shape and approach to capital investment within the City. These include the “Our Manchester” Strategy, the Manchester Residential Growth Strategy, the proposals to strengthen policies on Affordable Housing in the city, new commercial development opportunities, and delivering on the outcomes of the reviews of the Highways Estate, the Operational Built Estate and the ICT Estate.

2.5 The challenge for the future is to maximise the capital resources available to the Council in order to deliver the priorities for the City. This will require continued investment for transformation to define Manchester as an attractive place to live and further improve the quality of life for residents. The following will be important to achieving this:

- to support employment growth through a strengthening and diversification of the economic base and efficient use of land;
- investment in new and upgraded transport infrastructure including delivering the Highways Investment Programme
- to provide an expanded, diverse and affordable housing offer, creating the conditions to increase the supply of affordable and social housing, and that all new homes in the city are supported by good local public services and an accessible public transport infrastructure;
- to support new and expanded high quality primary and secondary school facilities for a growing population;
- securing investment for an internationally competitive cultural and sporting offer and sustaining core assets such as parks, leisure facilities and libraries for Manchester residents
- to support businesses and residents to create thriving district centres with appropriate retail, amenities and public service offer; and
- to promote the role and continuing growth of the City Centre as a major regional, national and international economic driver.

2.6 Within a wider City Region and regional context the ambition is for Greater Manchester to become a financially self-sustaining region, sitting at the heart of the Northern Powerhouse with the size, the assets, the skilled population and political and economic influence to rival any global region.

2.7 Greater Manchester has been working hard, with Government, to turn that vision into a reality. The conurbation’s priorities around growth and reform are widely recognised to be distinctive, evidenced and wholly appropriate for the long term success of the area. The City Region is one of a few economic geographies capable of becoming a national engine of growth for the North and the UK as a whole, and in doing so, becoming a net contributor to the economy. Greater Manchester has made a strong, evidence-based case for the devolved, place-based management of local services, alongside innovative funding arrangements that remove unnecessary ring-fences to enable consistent prioritisation against Greater Manchester and Northern Powerhouse growth objectives.

2.8 Against this backdrop the new Greater Manchester Strategy “Our People, Our Place” sets out a Vision to make Greater Manchester one of the best places in the world to grow up, get on and grow old. The Plan sets out the ambitions for Greater Manchester and its population of 2.8 million. It covers health, well-being, work and jobs, housing, transport, skills, training and economic growth.

2.9 In early 2019 the Greater Manchester Combined Authority published a suite of strategic documents that translate the ambitions set out in the Greater Manchester Strategy into new development and growth for the next two decades. The Greater Manchester Spatial Framework, the Greater Manchester Transport 2040 Implementation Plan and the forthcoming Greater Manchester Housing Strategy provide the frameworks for future investment in the conurbation.

2.10 In parallel with and in advance of the work at a Greater Manchester level the City Council has advanced new policy directions in the areas of housing affordability, climate change, and green and blue infrastructure all of which will strongly influence our investment plans going forward.

The 2018/19 Capital Programme

2.11 The capital programme has progressed in line with the agreed approach to capital spend and delivery in 2018/19, and as part of the overall five year capital strategy.

2.12 The £100m Highways Investment Fund has continued to deliver improvement and preventative works across the network. Further major, standalone Highways projects have commenced including the Manchester / Salford Inner Relief Route, the continued delivery of the Street Lighting PFI and Chorlton Cycle Scheme to provide further improvements to Highways infrastructure.

2.13 The refurbishment of Moss Side Leisure Centre was completed in November 2018, and the contract to deliver Abraham Moss Leisure Centre has been awarded with a project completion date of 2022. Proposals for the Parks Development Programme, seeking to deliver investment in Heaton Park, Wythenshawe Park and City wide parks are currently being developed to commence within financial year 2019/20.

2.14 The management contractor for the Town Hall Refurbishment project has now been appointed, and the expenditure incurred this year has enabled early works to be delivered and ensure the programme is maintained. The management contractor will now commence the review and letting of work packages in line with the overall procurement strategy for the project.

2.15 Works have commenced on the Factory site with programme completion scheduled for 2021 as part of the MIF Festival taking place that year.

2.16 A series of projects to increase housing stock, including affordable housing, have been delivered or are currently in progress including the Brunswick PFI, North Manchester New Build phases 1 and 2 and Ben Street. Further commercial housing opportunities are currently under development as part of proposals for the Northern Gateway programme with approval of funding currently being sought from Homes England to support delivery of elements of the overall scheme.

2.17 Capital investment through Education Basic Need funding has delivered additional school places across the city in this financial year. For example, the Beaver Road expansion which opened in September 2018 doubled intake at the school to 1,050 pupils, with other expansions being delivered across a number of further sites to meet pupil demand.

2.18 The potential for the ICT service to have a continued significant operational impact within the Council, on service delivery and for residents is clear. ICT have worked with services and partners throughout the last year to aid in transforming processes, improve information flows and enhance the user experience when using the Council's ICT services.

3 Development of the Capital Strategy

3.1 The Capital Strategy has been 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 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.

3.3 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 or the Factory;
- schemes funded from ring-fenced resources such as those within the Housing Revenue Account (HRA); or
- required investment from Council resources, including capital receipts, to support strategic priorities such as investment in the highways infrastructure, ICT, asset management and the refurbishment of the Town Hall.

3.4 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.

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 does not currently exercise any of the capitalisation flexibilities potentially available to it, such as the use of capital receipts to support specific revenue expenditure related to service transformation. If such flexibilities supported Council strategy, this position would be reviewed.

4.3 The Council has revised the approval process for capital expenditure, and the new process strengthens the decision making criteria highlighted above. This strategy seeks to detail the framework in which those decisions are made, and the principles to which the Council adheres, in the context of the current capital budget. Work is continuing on improving and streamlining the process, including strengthening the links to the key decision process, and to support stronger decision making on funding sources, for example Section 106 contributions, to ensure that the use of such sources are maximised.

4.4 The capital expenditure and investment decision making process is the governance framework used by the Council when making decisions relating to the capital programme. The process has five distinct stages to cover project initiation, project design and costs, democratic process, capital expenditure approval and monitoring/review. The process is shown diagrammatically at Appendix 1.

4.5 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, including social value.
- ***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.

4.6 The business cases must be agreed by the relevant directorate board, and approved by the Executive member for the relevant portfolio before being submitted into the process. Once submitted, the business cases are subject to peer review within the Council and then discussed by the Strategic Capital

Board chaired by the City Treasurer. The Board will then make recommendations to members.

4.7 Throughout the decision making process the risks and rewards 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 each board's part of the capital programme, detailing financial forecasts, risks, and expected outcomes. By reviewing projects regularly, such monitoring can be used to support future actions, including the estimation of future costs and project development and development.

4.8 The governance process for approving capital investments is the same as that for the wider capital programme. As with any proposed capital expenditure, any investment is peer reviewed and the external and internal risks associated with the investment explored. Within the Council there are commercial and public sector professionals who are responsible for supporting investment proposals, and establishing investment structures which mitigate the risks such investments would create for the Council. There may be occasion when the nature of a particular proposal requires additional support, for example in performing due diligence or in supporting the creation of the business case. In these circumstances the Council will seek external advice.

4.9 The capital programme is monitored monthly, with quarterly reports to Executive. Within that monitoring, new approved capital investment proposals will be included. Once an investment has been made, it will be reviewed regularly. As a minimum it will be reviewed annually as part of the accounts process, which will take into account any material changes to the standing of the investment.

4.10 The capital budget is reported to Executive and Council as part of the budget process each year, and quarterly monitoring reports are provided to Executive. New projects are reported to Executive in capital update reports, detailing the aims of the project, the source of the funding and the funding required.

5 Changes to the Capital Programme

5.1 All new capital proposals since 2017/18 have been assessed against the criteria above, highlighted at paragraph 4.5. The projects put forward within this report meet the criteria for inclusion around strategic fit, i.e. the contribution to support priorities around growth, reform and place.

5.2 There are some minor amendments to the capital programme, which have been assessed through the checkpoint process and are summarised below. A summary of the schemes, funding and profile of spend can be found at appendix 2:

- Sunbank Lane S278 – externally funded works to create a bus stop and associated works.
- Sharston Roundabouts SCOOT analysis – creation of design works to support the development of a dynamic traffic signal system for the

roundabouts. Funded by Highways England.

- Loan finance for the Contact Theatre – to support the redevelopment of the theatre with a proposed 10 year loan.
- GM Archives Web Portal – to replace the existing internet access to the GM Archives, funded by an external contribution from the National Archives.
- Additional Disabled Facilities Grant – to reflect in the capital budget the additional £0.9m Disabled Facilities Grant awarded by the Government.
- Booth St Car Park – to replace the expired entry and payment operating system at the car park, on an invest to save basis.

5.3 The Council’s revised capital budget for the 2018/19 and the next five years is set out below, including the new proposals discussed above. The proposed programme constitutes the expected capital activity required by the Council to support the achievement of the Council’s strategies and to maintain the operational estate.

6 Anticipated Additional Projects Within the Forecast Period

6.1 This report sets out the approved capital budget, with new projects to be approved as noted above. There are also pipeline schemes which may be submitted into the capital approval process during the forecast period of the capital programme. Details of these potential investments is contained within the programme information below.

6.2 The Capital Budget for 2018/19 and the following five years is set out below. It includes the expected capital activity required to support the achievement of the Council’s strategies and to maintain the operational estate.

7 Proposed Capital Programme from 2019/20

7.1 The capital programme 2019/20 to 2023/24 comprises the continuation of the existing programme. For continuing schemes the position is based on that as of the end of December 2018 as reported in the Capital Monitoring report also on the agenda. The narrative below also includes details of potential capital projects which will be included in the budget at a later date subject to the submission of a successful business case.

7.2 The budget for 2018/19 is £399.5m. In addition there are £95.8m relating to schemes hosted on behalf of the Greater Manchester combined Authority leading to a combined total of £495.3m. The profile of capital expenditure will be updated as projects develop through the design stage or if the resource position changes. This is reported through to Executive in the regular Capital Update and Monitoring reports.

7.3 The programme is summarised in the table below.

	2018/19 budget	2019/20 budget	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget	Total	*Total 19/20-23/24*
	£m	£m	£m	£m	£m	£m	£m	*£m*
Manchester City Council Programme								
Highways	37.8	57.2	45.8	30.8			**171.6**	***133.8***
Neighbourhoods	11.7	25.5	13.1	8.8	5.7	2.5	**67.3**	***55.6***
Strategic Development	123.0	127.1	81.7	36.2	4.9		**372.9**	***249.9***
Town Hall Refurbishment	11.1	24.4	67.7	103.3	65.9	29	**301.4**	***290.3***
Housing – General Fund	27.8	24.7	30.5	8.7		7.5	**99.2**	***71.4***
Housing – HRA	16.1	30.1	48.7	36.6	4.9		**136.4**	***120.3***
Children's Services (Schools)	31.9	39.0	62.3	4.1			**137.3**	***105.4***
ICT	6.1	11.3	14.6	10.1	5.5		**47.6**	***41.5***
Adults, Children's and Corporate Services	134.0	19.8	16.6	5.4			**175.8**	***41.8***
MCC TOTAL	**399.5**	**359.1**	**381.0**	**244.0**	**86.9**	**39.0**	**1,509.5**	**1,110.0**
Projects carried out on behalf of Greater Manchester	95.8	146.5	38.0				**280.3**	***184.5***
TOTAL	**495.3**	**505.6**	**419.0**	**244.0**	**86.9**	**39.0**	**1,789.8**	**1,294.5**

7.4 Further details of the major schemes included are set out in this report and a full list of the projects and the budget split by financial year is shown at appendix 3.

7.5 The proposals in this report are for the draft capital programme from 2019/20. The programme will be updated at the May meeting of the Executive to reflect the final outturn position for 2018/19. The programme will change as projects develop, and this will be reported to members as and when it is required. Current examples of some of the factors that will influence such changes include more detailed feasibility work on the timings of the major Highways schemes planned being conducted, the conclusion of the RIBS Stage 3 design for the Town Hall which will influence the project's cash flow, and the completion of work on the affordable housing programme which will then need to be reflected in the budget.

8 Highways

8.1 The Highways capital programme consists of the investment in the City's highways network, including work on bridges, cycle paths and bus priority lanes. The programme is forecast to be £133.8m between 2019/20 and 2023/24 and the primary schemes within the programme are detailed below.

8.2 The Highways Maintenance Investment Programme (£71.7m) will continue. The programme will seek to implement longer term preventative maintenance measures, which would result in the Council's highways assets being improved and reducing maintenance costs. This includes works to drainage systems, large patching works, carriageway works and repairs to footpaths.

8.3 The Bridge Maintenance project (£7.2m) will continue to ensure that the Council's bridge assets across the highways network are maintained according to statutory guidelines.

8.4 The project widening A57 Hyde Rd (£3.9m) will continue, increasing the span of a disused railway bridge to allow removal of a pinch point, which currently reduces the number of traffic lanes from four to two. Heavy traffic congestion, particularly at peak times and journey times will both be reduced.

8.5 The Cycle City schemes (£4.3m) aim to provide a high-quality network of dedicated cycle routes across Manchester, encouraging people to make short journeys in a healthy and inexpensive way and reduce the environmental impact of private car use.

8.6 The Manchester/Salford Inner Relief Road project (£5.7m) will continue, to address traffic congestion at the Dawson St/RegentRd/Trinity Way/Water St junction and five adjacent junctions, to improve capacity and enhance the performance of the wider relief road.

8.7 The project at Great Ancoats Street (£8.1m) will reduce barriers and restrictions for pedestrians on the Street and adjacent areas of the inner relief route. The project will also include more safe crossing places for pedestrians and improved signage to aid road users.

8.8 Works at the Mancunian Way junction with Princess Road (£7.7m), funded through the Department for Transport's National Productivity Investment Fund, will continue, improving and continuing capacity by creating signalled junctions.

8.9 The Green Bridge project (£2.6m) will continue and will provide a critical public access route from Wythenshawe to the transport interchange at Airport City.

8.10 Investment in School Crossing Patrols (£2.3m) will progress, with a programme to provide permanent highways improvements to improve road safety outside schools and reduce risks at existing crossings. The programme of works will focus on those schools which have crossings which were rated red and amber.

8.11 The Public Realm programme (£2.2m) will support the maintenance and development of the Council's public realm assets.

8.12 The Street Lighting Private Finance Initiative (PFI) project (£13.7m) will deliver the procurement and installation of modern, state of the art, low energy light emitting diode (LED) street lighting technology. Once operational the scheme is planned to provide revenue savings due to reduced energy charges, and lower maintenance costs for the Council's street lighting.

Potential Future Investment

8.13 Highways Services anticipate that investment will be required around the Mayfield site, the Northern and Eastern Gateway sites (including the Etihad Campus) and the Airport City Enterprise Zone, as these are regeneration priorities for the Council. There may also be a need for infrastructure changes to support autonomous vehicles, 5G connectivity and utilities upgrades.

8.14 There are also potential funds from the GM Mayor's Fund for cycling and walking facilities, which the Council intends to bid for. If successful, this may require a further review of the delivery of the Highways programme to reduce disruption.

9 Neighbourhoods

9.1 The Neighbourhoods capital programme includes the investment required to support the City's neighbourhoods and well-being, such as libraries and leisure centres. The programme is forecast to be £55.6m between 2019/20 and 2023/24, as shown in the table below, and the primary schemes within the programme are also detailed below:

	2018/19 budget	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**	**Total**
	£m	£m	£m	£m	£m	£m	**£m**
Environment and Operations	1.3	7.4					**8.7**
Leisure	9.7	17.5	13.1	8.8	5.7	2.5	**57.3**
Libraries	0.7	0.6					**1.3**
Total Neighbourhoods	**11.7**	**25.5**	**13.1**	**8.8**	**5.7**	**2.5**	**67.3**

Environment and Operations

9.2 As part of the waste and street cleaning contract, a loan will continue to be available to the contractor to upgrade vehicles (£5.9m), including to make them clean air compliant, on a spend to save basis. The loan will be repaid through reduced service costs.

Leisure

9.3 The Parks Investment Programme (£20.5m) will focus on three key objectives, specifically the development of the Hall, Stables and Lake Hubs at Heaton Park, the development of Wythenshawe Park including restoration of the Hall, and improvements to the quality of the community and local parks, green spaces and allotments across Manchester.

9.4 Investment will continue Abraham Moss leisure centre (£13.9m). These works will reduce revenue costs associated with the upkeep of the building, and provide long-term savings to the Council.

9.5 The Manchester Football Hubs programme (£13.0m) is intended to provide football facilities including pitches, changing rooms and education suites at several sites across the City.

Potential Future Investment

9.6 Investment across the Council's estate will be required, specifically the sports facilities with regional and national status such as the Manchester Aquatic Centre and the National Cycle Centre. Work is being undertaken on an options appraisal for New Smithfield Market, to determine the likely cost.

9.7 Works across the parks estate, beyond the Parks Development Programme linked to the lifecycle replacement of park assets, may also be required - these items contribute to the successful delivery of the parks strategy and the Council will seek to maximise the use of external contributions to support this.

10 Strategic Development

10.1 Strategic Development also includes the programme for the Council's property assets, and investment in neighbourhood development and cultural facilities. . The programme is forecast to be £249.9m between 2019/20 and 2023/24, as shown in the table below, and the primary schemes within the programme are also detailed below:

	2018/19 budget	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**	**Total**
	£m	£m	£m	£m	£m	£m	**£m**
Culture	26.7	55.2	40.2	4.7			**126.8**
Corporate Property	49.2	50.7	29.8	15.6			**145.3**
Development	47.1	21.2	11.7	15.9	4.9		**100.8**
Total Strategic Development	**123.0**	**127.1**	**81.7**	**36.2**	**4.9**		**372.9**

Culture

10.2 The continuing Factory project (£100.2m) will create a cultural facility within the St John's area of the City Centre. The total budget for the Factory is c.£130m, including £78m of government funding, £7m of National Lottery funding and £5m from fundraising.

Corporate Property

10.3 The Asset Management Programme (£28.8m) will ensure that the Council's assets, including its elite assets, are well-maintained.

10.4 The Strategic Acquisitions budget (£10.3m) will provide funding for the Council to acquire key sites throughout the city, provided they become available, which can further the aims and objectives of the corporate plan particularly with regard to housing and regeneration.

10.5 The continuing Carbon Reduction Programme (£9.8m) will be used to explore schemes which can support the Council's aim of reaching zero carbon emissions by 2038. Such schemes may include the use of combined heat and power plant, solar photovoltaic panels, and the use of LED lighting within the Council's estate.

10.6 The Civic Quarter Heat Network (£19.5m) project aims to provide a heat network throughout the Council owned property estate in and around the Town Hall complex and to developments owned by the private sector in the vicinity of the Town Hall. This will reduce energy costs, and also help achieve the City's aim of reducing carbon emissions.

10.7 Public realm works at Lincoln Square (£1.2m), supporting the wider redevelopment of the area, will provide a more distinctive identity for the square.

10.8 The continuing Estates Transformation plan (£12.5m), based on the stock condition surveys commissioned by the Council to ensure buildings fit for purpose and estate rationalised. This includes the refurbishment of Alexandra House. In addition to this programme the Hammerstone Road Depot project (£14.0m) will continue, investing in the depot to allow the Council to consolidate all depots into one site. This investment will allow other sites to be released, and reduce the maintenance costs associated with these sites.

Development

10.9 The Sustaining Key Initiatives (£13.6m) investment provides the Council with the capacity to intervene to ensure key commercial and mixed use development priorities are secured in the city. It is expected that any intervention would be done primarily on an investment basis.

10.10 Following the acquisition of Central Retail Park at Great Ancoats Street as part of the Eastern Gateway programme, there is a budget (£2.0m) for remediation works ahead of future development. The project to fund remedial works at New Islington Marina (£3.3m) will also continue, to rectify the issues with the public promenade, water run-off, boardwalks and other areas.

10.11 The Northern Gateway investment plan (£21.1m) will lead to significant residential growth in the neighbourhoods of New Cross, Lower Irk Valley and Collyhurst through land assembly and the provision of core infrastructure, with the regeneration completed with Far Eastern Consortium who are the Council's joint venture partner.

10.12 The Medieval Quarter Public Realm (£1.5m) scheme will continue, providing public realm improvements in the north of the city centre around the River Irwell, Manchester Cathedral, Cheetham's and Victoria Station.

10.13 Further loan support for Manchester College (£10.0m) will continue, in addition to the c. £17.6m forecast to be provided in 2018/19, to enable the first phase of the College's expansion.

Potential Future Investment

10.14 Potential future investment within Strategic Development is likely to focus on the existing and new regeneration priorities for the Council. At this juncture there are no detailed proposals for additional investment proposals within the city centre, the Northern Gateway and the Eastern Gateway, although there is likely to be investment in Piccadilly Gardens. The February Executive will receive a report on the next phase of development at the Etihad Campus which may include a requirement for additional resources. Finally, work is underway to develop proposals for the transformation of Wythenshawe Town Centre which will take several months to develop, evaluate and consult upon.

11 Town Hall Refurbishment

11.1 The Town Hall and Albert Square Refurbishment programme is for the full refurbishment and upgrade to modern standards of the Town Hall and the associated costs for Albert Square. The programme is currently forecast to be £290.3m between 2019/20 and 2023/24 with planned spend currently £24.4m in 2019/20.

11.2 The amount of spend planned each year will be updated once the project reaches RIBA stage three design. Cost consultants are currently working on the cost planning, and to provide assurance on the costs. The management contractor has been appointed, and work can now begin on the delivery plan for the initial construction phases of the programme. Intrusive survey works are continuing, with mitigation measures being undertaken as and when required.

12 Housing – General Fund

12.1 The Housing Strategy includes a housing growth target of 32,000 new homes between April 2015 and March 2025 including 6,400 affordable homes. Of the latter 3,000 are either delivered, on site or committed to be delivered by March 2021 with a further minimum of 3,400 to be delivered by March 2025 through use of council land, Registered Social Landlord (RSL) partner resources and investment capacity in the HRA. Achieving this target is dependent on the government funding in these areas being available. A more detailed report on Affordable Housing will be going to Executive in the next few months.

12.2 The Housing – General Fund capital programme includes housing regeneration schemes, such as the Council's housing Private Finance Initiative (PFI) schemes. It also includes funding for disabled facilities and energy efficiency schemes. The programme is forecast to be £71.4m between

2019/20 and 2023/24 and the primary schemes within the programme are detailed below.

12.3 Funding remains set aside within the programme for commercial and residential acquisitions (£9.0m) which will support the existing Brunswick and Collyhurst schemes. Similarly funding is available for the acquisition of properties relating to regeneration in West Gorton (£1.4m), and for potential commitments from historical CPOs.

12.4 Major adaptations funding is available (£20.3m) to assist in works to make social rented properties suitable for disabled residents.

12.5 The West Gorton Regeneration Programme is currently being delivered. Further investment in residential development will be undertaken, and regeneration in the area (£3.5m) will focus on the provision of a new community park and a new nursery and community facility.

12.6 Further investment plans include support for the development of Extra Care accommodation within Manchester (£2.4m) and acquisitions to support the regeneration of the Moston Lane area (£7.5m).

12.7 The regeneration of the Ben Street area (£7.4m) of Ancoats and Clayton will continue to deliver new housing.

12.8 Funding is available, through the government's Marginal Viability Fund, to support the delivery of new homes on the New Victoria (£10.1m) site by addressing infrastructure works, and to create a healthcare centre at Bowes Street (£3.3m).

Potential Future Investment

12.9 A business plan to support the development of an Extra Care site at Russell Road is being prepared. A report to the March Executive will set out proposals for the delivery of affordable housing in the city.

13 Housing – Housing Revenue Account (HRA)

13.1 The Housing – HRA capital programme consists of the investment in the Council's public sector housing estate, including acquisitions and capital works on existing Council housing assets. The programme is forecast to be £120.3m between 2019/20 and 2023/24 and the primary schemes within the programme are detailed below.

13.2 Provision is also made in the budget to reflect the delivery of new works in future years that will support the ongoing 30-year HRA asset management plan (£78.3m). The funds will be used to maintain the Decent Homes Standard within Manchester's housing stock and, in addition, will support innovative climate change investment; essential health and safety works including the installation of sprinklers in multi storey blocks; public realm environmental works; and, where appropriate, it will support estate regeneration and remodelling.

13.3 The programme includes funding for the ongoing regeneration works in Collyhurst (£24.1m), including proposals for new social housing new builds and land assembly linked to the Northern Gateway.

13.4 Work will continue on the North Manchester New Builds project Phase 2 (£11.2m) across a number of sites in North Manchester.

13.5 The land assembly programme around Parkhill Avenue (£4.3m) will continue to facilitate the regeneration of the area.

Potential Future Investment

13.6 Future investment proposals are likely to include a further phase of the North Manchester New Build programme, and the creation of an extra care development.

14 Children's Services (Schools)

14.1 The Children's Services capital programme is predominantly focused on the building of new schools, to meet school place demand, and investment in the existing school estate. The programme is forecast to be £105.4m between 2019/20 and 2023/24 and the primary schemes within the programme are detailed below.

14.2 There is potential budget provision for a new high school (£39.3m) at Matthews Lane to increase the number of secondary places in the central and eastern area of the City. Initial works have been completed on site and the project is currently paused pending both a review of the secondary places required in the context of the Council's Basic Need funded works and the Government's Free School programme. It will only progress if Government funding is forthcoming to cover the cost of the scheme and at this stage the budget will be included in the programme.

14.3 The Council will receive no Basic Need grant in 2019/20 or 2020/21. The existing unallocated grant is c. £49.3m, of which it is currently forecast c. £23.4m will be allocated to provide places for Special Educational Needs (SEN / Alternative Provision (AP) places across the City. The number of additional SEN/AP places required is being reviewed alongside the policy to integrate places into mainstream schools where possible. The remaining funding will be used to meet emerging place pressures.

14.4 Further to this, the Council has been awarded a separate grant (£3.0m) to invest in the provision of education places for children and young people with SEN and disabilities.

14.5 A Government grant-funded schools maintenance programme (£11.3m), to help maintain the Council's school assets, is included within the budget. Officers expect this funding stream to continue, however the annual budgets will be revised once confirmation of the level of funding is received.

Potential Future Investment

14.6 Discussions are ongoing with the DfE to identify a site for a Dean Trust/UK Fast secondary academy, which would create further secondary places within the city. Work is also being undertaken to develop the place planning strategy for 2020 onwards, which will include the impact of future residential development such as the Northern Gateway, the Government’s free school programme, potential sites for school development or expansion, and population projections.

15 Information and Communication Technology (ICT)

15.1 The ICT capital programme provides investment to the Council’s ICT estate. The programme is forecast to be £41.5m between 2019/20 and 2023/24 and the primary schemes within the programme are detailed below.

15.2 The ICT Investment Plan (£41.5m) will continue. The programme of works will include measures aimed at replacing communication room technology, and the implementation of the data centre network.

15.3 Other works to be supported include the implementation of disaster recovery works, replacement of out-of-support systems for social work casework and for telephony, and the roll out of assistive technology to support the delivery of adult social care.

15.4 It is expected that some of this budget may need to be transferred to revenue, depending on the type of works required, and this decision can only be made when the appropriate ICT solution has been identified. Such transfers will be proposed on a case by case basis, and reported to members through the regular capital increases reports.

Potential Future Investment

15.5 It is anticipated that there will be investment in full fibre networks, and 5G networks and connectivity, which will improve connectivity across the Council’s estate and with partners. However, the fast developing nature of technology means that further future investment needs may be identified.

16 Adults, Children’s and Corporate Services

16.1 The Adults, Children’s and Corporate Services capital programme provides investment for the health and social care work of the City Council, and strategic investments. The programme is forecast to be £41.8m between 2019/20 and 2023/24 and the primary schemes within the programme are detailed below.

16.2 To provide integrated health and community services it is proposed to invest in a new facility at the Gorton District centre (£21.4m). This is on an invest to save basis with the income from the leases to partners providing the funding to repay the build costs.

16.3 Financial support for the development of project with Health Innovation Manchester (£14.3m), to conduct research on life science sub-sectors of health and medical technologies, will continue.

16.4 There is c. £5.6m available to fund the purchase of equity in car parking facilities at the Airport, which will support the development of the Airport and potentially provide a return to the City Council.

17 Projects carried out on behalf of Greater Manchester

17.1 The capital programme for projects carried out on behalf of Greater Manchester consists of schemes where Manchester is acting as the lead body but the expenditure relates to projects across the conurbation. The programme is currently forecast to be £184.5m between 2019/20 and 2023/24 based on existing budget approvals.

17.2 The budget relates to the Housing Investment Fund which the City Council has hosted because the Combined Authority did not have the borrowing powers for economic regeneration that were required. Governance of the Fund and decisions regarding the Fund are made by the Combined Authority. For the City Council decisions to invest are key decisions but only by virtue of the Council hosting the fund.

17.3 Those borrowing powers have now 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 Authority will fund the Council so there will be no cost to do so.

17.4 Once the novation has been completed the budget for projects held on behalf of Greater Manchester will be reduced significantly. This is expected to happen in the early part of the 2019/20 financial year.

18 Asset Management Planning

18.1 The current approved capital programme includes several asset management streams, for the current operational estate, housing, highways and schools.

18.2 The Executive Member Estates Board is responsible for the strategic direction and decision making for the operational estate, including estate asset management and estates transformation. These decisions support the activity contained within the Asset Management Programme which forms part of the Council's approved capital budget.

18.3 The Council also holds significant assets on the basis of expected future regeneration projects. Work is undertaken to ensure that these assets are maintained until such time as the regeneration project can come to fruition.

This may mean that the asset, such as land, could gain or lose value in the intervening period, but the overarching aim of the Council is to release the value in the asset once the regeneration has been completed, and such benefits may be wider than financial considerations.

19 Capital Financing

19.1 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.

19.2 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

19.3 The capital financing strategy is set in the context of restrictions around certain capital funds, some statutory and some at the Council's discretion.

19.4 The Housing Revenue Account (HRA) is a restricted fund and can only be used to fund capital expenditure on HRA assets.

19.5 The Council also operates the following fund restrictions:

- Housing capital receipts (both Housing 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

19.6 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).

19.7 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. The Council's MRP policy is contained within the Treasury Management Strategy Statement.

19.8 The estimated financing costs for the capital programme and existing debt have been calculated as part of the budget process. It has been ensured that the proposed programme and the existing debt liabilities are affordable within the existing revenue budget.

19.9 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.

19.10 Borrowing decisions are taken separately for the General Fund and HRA. Each must determine whether proposals requiring borrowing meet the requirements outlined above although for the HRA it is depreciation rather than MRP which is incurred.

19.11 It is proposed that the City Council capital programme, excluding the projects carried out on behalf of Greater Manchester, for 2019/20 is funded as follows:

Fund	Housing Programmes		Other Programmes	**Total**
	HRA	Non-HRA		
	£m	£m	£m	**£m**
Borrowing		0.5	152.6	**153.1**
Capital Receipts		10.2	14.6	**24.8**
Contributions		2.5	24.8	**27.3**
Grant	0.3	10.7	105.3	**116.3**
Revenue Contribution to Capital Outlay	29.8	0.8	7.0	**37.6**
Grand Total	**30.1**	**24.7**	**309.3**	**359.1**

19.12 As noted above the projects carried out on behalf of Greater Manchester will be funded via borrowing and capital receipts received as loans mature. This borrowing is provided by central Government and does not impact on the Council's capital financing budget.

19.13 Prudential borrowing of up to £617.6m over the five-year period will be needed to support the City Council programme in line with the new schemes and previous planning and profile approval. The breakdown over 2019-2024 is:

- 2019/20 - £153.1m
- 2020/21 - £179.7m
- 2021/22 - £174.5m
- 2022/23 - £79.6m
- 2023/24 - £30.7m

a. The Housing HRA programme will not require prudential borrowing at this stage but it is likely that projects will be brought forward that will require HRA borrowing which will be reported to members.

b. The General Fund programme requires £617.6m of prudential borrowing which includes:

Scheme	£m
Highways Investment Plan	59.6
Bridge maintenance	7.2
Hyde Road (A57) Pinch Point Widening	0.8
Velocity	0.6
Congestion Target Performance	0.2
Mancunian Way and Princess Parkway NPIF	3.2
Princess Rd Safety Review	0.5
School Crossing Patrols	1.8
Public Realm	0.4
Street Lighting PFI	13.7
M56 works	0.2
Bus Priority schemes	0.3
Waste Contract	5.9
Parks Investment Programme	12.5
Indoor Leisure Provision at Moss Side and Abraham Moss	13.9
FA Hubs	4.2
Libraries investment	0.5
The Factory	1.6
Strategic Acquisitions	1.4
Hammerstone Road	14.0
Carbon Reduction	9.8
Civic Quarter Heat Network	19.5
Lincoln Square	1.2
Estates Transformation	12.5
Sharp Project	0.6
One Central Park	0.6
Sustaining Key Initiatives	13.6
Eastern Gateway	5.3
Northern Gateway	21.1
St. Peter's Square	0.4
Manchester College	10.0
Refurbishment of the Town Hall and Albert Square	290.3
Regeneration of Ben St	7.4
ICT Investment Plan	41.5
Gorton integrated health development;	21.4
BioMedical Investment	14.3
Manchester Airport Car Park investment	5.6

19.14 A number of these schemes will be on an invest to save basis, and will generate savings. The remainder are affordable within the existing capital financing budget.

19.15 Further “spend to save” investment opportunities may arise and delegated authority is given to the City Treasurer in consultation with the Executive Member for Finance and Human Resources to increase the capital budget accordingly. The delegation is restricted to an annual limit of £5,000,000. This is on the understanding that the costs of borrowing (interest and principal) of any additions are financed in full by additional income, revenue budget savings, or cost avoidance.

19.16 The proposed funding for the programme across the forecast period is shown 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
Grant	70.7	116.3	84.0	19.5	2.4	0.8	**293.7**
External Contribution	17.4	27.3	20.0	3.7			**68.4**
Capital Receipts	24.7	24.8	45.6	11.5		7.5	**114.1**
Revenue Contribution to Capital Outlay	26.8	37.6	51.7	34.8	4.9		**155.8**
Borrowing	259.9	153.1	179.7	174.5	79.6	30.7	**877.5**
Total	**399.5**	**359.1**	**381.0**	**244.0**	**86.9**	**39.0**	**1,509.5**

19.17 The funding forecast shown above includes use of capital receipts already received and a forecast of future receipts based on officer's views on when surplus assets may be sold and the likely market valuations. These forecasts are subject to change which may affect the future funding position.

19.18 Work will continue to confirm the position for the capital programme from 2018/19 to 2023/24 and 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 changes will be a change to the profiling rather than a change to the estimated total funding requirement for the City Council.

20 Investments and Liabilities

20.1 The Council's capital programme and balance sheet contain investments made by the Council to support the achievement of strategic aims. A key part of the monitoring arrangements is reviewing these investments to ensure that they continue to perform as expected. With the increased national focus on council investment activities the Capital Strategy has been expanded to take a broader overview and to include relevant investments and liabilities.

Approach, Due Diligence and Risk Appetite

20.2 Council investments are managed in line with the Ministry of Homes, Communities and Local Government (MHCLG) investment guidance principles of security, liquidity and yield. The application of these principles will differ when considering capital investment rather than treasury management investment.

20.3 There is a clear distinction between capital investments, where the achievement of strategic aims will be considered and treasury management investments which are made for the purpose of cash flow management. The risk appetite for these two distinct types of investment may differ given the difference in expected outcomes.

20.4 The Council focuses its capital investments in line with its strategic objectives and priorities of the City and will take a more rounded view taking into account the economic and regeneration benefits to the city as well as security and liquidity. This may lead to a higher appetite for risk for the delivery of the City's priorities and broader economic gains. Each investment is considered on its own merit in line with the Checkpoint process and the risks, mitigations and benefits carefully assessed.

20.5 Schemes could include lending to organisations with low credit ratings if the appropriate security over the organisations assets can be provided, or guarantees from parent companies or organisations given. A key consideration for any capital investments is that income received from the investment covers the capital financing costs incurred by making it.

Summary of material investments, guarantees and liabilities

20.6 The Council has the current historic investments on the balance sheet as at 31st March 2018:

	Value as at 31/3/18 £m
Long-term Debtors	205.6
Long-term Investments	142.4
Investment Property	415.0
Total	**763.0**

20.7 The long-term debtors represent loan finance provided by the Council to other parties, and include the loans to Manchester Airport (£83.2m), Public Finance Initiative prepayments (£23.3m), and Housing Investment Fund loans (£39.6m) which are held on behalf of Greater Manchester. These figures include the short-term element of the debtor. These loans are regularly reviewed, and would be impaired if there was a risk of default. Some of the loans, such as the Housing Investment Fund investments are provided under guarantee from other organisations which will form part of the loan reviews.

20.8 The long-term investments are equity investments held by the Council, and include Manchester Airport (£112.4m), Destination Manchester (£10.2m) which is the Council's investment in Manchester Central, and Matrix Homes (£4.8m). These investments are valued on an annual basis.

20.9 Investment property is held by the Council on the basis that it will generate a revenue return, for example land at Manchester Airport and at Eastlands. Some of the properties held are being held for regeneration purposes but provide a return and therefore are shown as investment property. Investment properties are independently valued on an annual basis.

20.10 The current capital programme contains the following expected capital investments, which will create either long-term debtors, investments or investment properties, to be made:

- Waste Contract - providing a loan to the contractor to upgrade vehicles;
- Civic Quarter Heat Network - creation of a heat network through a Council-owned company;
- Private Sector Housing Equity Loans - loans to residents to provide housing support;
- Manchester Airport Strategic Investment and Car Parks - financial support to the Airport to develop the business;
- Manchester College Loan - loan to support College's expansion;
- Band on the Wall Loan - loan to support the development of the venue;
- Biomedical Investment - loan to support the development of health innovation; and
- Housing Investment Fund – *note, as detailed above, that elements of this project will transfer to the Combined Authority in the near future, with some retained by the City Council.*

There may be other projects which become capital investments, such as strategic acquisitions or land acquisitions under the Eastern and Northern Gateways but which are intended to ultimately be used for regeneration purposes.

20.11 As stated above all investments are scrutinised via the capital approval process with independent advice sought to assess risk where required. They are also reported to Executive for approval where appropriate ll proposed investments are scrutinised through the Council's Capital Approval Process and where appropriate reported to Executive for approval. To assess the risk the Council may seek independent external advice including on any legal issues.

20.12 Where investments provide a return either through interest or dividends this can be used to support the revenue budget. In 2018/19 it is forecast that c. £53.3m of dividends will be used within the revenue budget. Where investments have been funded by borrowing the income received is used to fund the capital financing costs, for example the Airport Strategic Loan.

20.13 All investments are monitored regularly with the frequency based on risk, and at a minimum all investments will be reviewed once a year. Any material changes to the status of any investment will be reported to the Treasurer at the earliest opportunity.

Commercial Investments

20.14 The Council does not make commercial investments, to the extent that it does not make investments purely to make a financial return. Where the Council has and does make capital investments, it is for strategic or regeneration purposes.

21 Treasury Management

21.1 The nature and scale of the Council's capital programme means that it is a key factor in the Council's treasury management, including the need to borrow to fund capital works. The treasury management strategy for the Council is the subject of a separate report on the agenda.

21.2 There is a clear link between capital investment activities and treasury management activities, particularly with regard to how the Council will repay debt and the impact on the revenue budget. The principles of this are described in more detail below.

Long Term Planning (inc. MRP)

21.3 The treasury management strategy provides the framework within which treasury management decisions will be made during the financial year, but the consequences of those decisions will be longer lasting. In particular with regard to debt planning, treasury management decisions are made with the impact on future treasury management decisions in mind.

21.4 Under the Prudential Code, the Council must make an annual revenue provision for the repayment of debt, called the minimum revenue provision (MRP). This provision spreads the cost of repaying the debt for an asset over the useful economic life of that asset. It is important to consider MRP when making capital investment decisions as it is a real cost and will impact the revenue position.

21.5 The Council has regard to MHCLG’s guidance on the application of MRP, and applies the principles. The Council applies the following asset lives when calculating MRP, unless there are asset-specific reasons for deviating from them – such deviation will be guided by qualified valuers recommendations on maximum useful lives:

- Land: 50 years
- Property: 50 years
- Highways: 25 years
- ICT: 5 years

21.6 When making debt decisions the Council takes into consideration the forecast MRP in each future financial year, and in the current market environment will seek to match debt repayments to MRP in each of those years as this is the most prudent approach.

21.7 The current long term forecast for external debt compared to the Capital Financing Requirement, and therefore the level of forecast internal borrowing, is shown at appendix 4. The external debt peaks as the forecast capital programme period ends, although this will change as further projects are brought forward in the future. A table showing the forecast profile for the Capital Financing Requirement is shown below:

£’m	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Opening CFR	1,237.1	1,488.5	1,630.0	1,776.3	1,911.1	1,947.1
Borrowing	259.9	153.2	179.7	174.5	79.6	30.7
Additional long term liabilities	12.4	16.4	1.1	0.8	0.9	0.8

MRP	-20.9	-28.1	-34.5	-40.5	-44.5	-48.9
Closing CFR	**1,488.5**	**1,630.0**	**1,776.3**	**1,911.1**	**1,947.1**	**1,929.7**

21.8 Based on the revenue and capital budget forecasts, it is anticipated that the current level of internal borrowing (being the difference between the CFR and external debt) will begin to reduce. This is because both revenue and capital budgets assume the use of reserves, reducing the cash available to use instead of external borrowing.

21.9 The principles which the Council will follow when taking new debt, and how the debt portfolio will be managed, is set out in the Treasury Management Strategy Statement. This Treasury Management Strategy Statement also includes the authorised limit and operational boundary for external debt, based on the forecast debt requirement.

Risk appetite, key risks and sensitivities

21.10 For treasury management investments and debt the Council's risk appetite is extremely low with security of funds the primary concern. The Council seeks to invest surplus cash in instruments with high credit quality and for relatively short periods and to have debt options available at all times.

21.11 The role of the treasury management teams is to balance the risks associated with the management of cash, acknowledging that they cannot all be mitigated, and within that balance seek optimum performance in terms of liquidity and return.

21.12 The key sensitivities for the Council are changes in market conditions and the availability of debt. The team responsible for the treasury management function are in regular contact with brokers in the market and liaise regularly with the Council's treasury management advisors to review market conditions and debt opportunities to explore whether the Council could make use of them.

21.13 The Council's treasury management position and activities will be reported to Audit Committee throughout the financial year with any changes in market conditions or the Strategy highlighted to members.

22 Skills and Knowledge

22.1 The approval process and the requirements of the business case needed provides the framework for the knowledge needed to pursue a capital project. Information, advice and training on the requirements of the process is available for officers and Members. The Council has experience of delivering capital projects through the Capital Programme team and uses this experience to evaluate new proposals. All proposals are reviewed by the Senior Management Team, including the City Treasurer.

22.2 Capital investments are reviewed under the same approval process and receive input from appropriately qualified and skilled Finance professionals.

22.3 Since January 2018 the Markets in Financial Instruments Directive II (MiFID II) regulations is in force. For the Council to continue to invest as before it is required to opt up to become a “Professional Status” counterparty. To achieve this status those with responsibility for the delivery of the treasury management function must be able to demonstrate that they have significant skills and experience of working in a market environment, and the existing team fulfils this requirement. The Council currently holds “Professional Status” with the market investments it uses.

23 Conclusions

23.1 This capital strategy provides an overview of how capital expenditure, capital financing and treasury management activity support service delivery, and should be taken in context with the capital budget and the treasury management strategy statement.

23.2 The proposed capital programme described within the report is affordable within the existing revenue budget based on the estimated capital financing costs associated with delivering the programme.

23.3 There are risks associated with the delivery of the capital strategy, specifically regarding delays to the programme or treasury management risks. Measures are in place to mitigate these risks through both the Strategic Capital Board and the treasury management strategy. Reports will be provided throughout the year to Council, Executive and other relevant committees providing updates on the progress of the capital programme and the risks associated with its delivery and funding.

24 Key Policies and Considerations

(a) Equal Opportunities

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

(b) Risk Management

24.2 The capital programme is based on forecast costs and funding, and as such there are risks to achieving the programme from external factors such as shortage of labour or materials, alongside market risks such as price fluctuations and interest rate changes. The Strategic Capital Board, and associated Portfolio Boards for each part of the programme, are tasked with regular monitoring of costs, delivery, quality, and affordability, to help manage and mitigate these risks.

(c) Legal Considerations

24.3 None in this report.