

CAPITAL STRATEGY 2019-20

1 INTRODUCTION

- 1.1 The CIPFA Prudential Code requires local authorities to approve and publish an annual Capital Strategy. The Capital Strategy aims to give a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, along with an overview of the management of associated risks and the implications for future financial sustainability.
- 1.2 The Strategy sets the framework for all aspects of the Combined Authority's capital and investment expenditure; including planning, outcomes, prioritisation, management, funding and repayment. The Strategy has direct links to other Combined Authority strategic documents, such as the Treasury Management and Greater Manchester Strategies, and forms part of the Combined Authority's Medium Term Financial Strategy (MTFS).
- 1.3 The purpose of the Capital Strategy is to give a clear and concise view of how the Combined Authority determines its priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite. It should not duplicate other more detailed policies, procedures and plans, but instead sit above those plans and reference them to allow those seeking more detail to know where to find it.

2 OBJECTIVES

- 2.1 The key aims of the Capital Strategy are to:
- provide a clear set of objectives and a framework within the CIPFA codes and statutory legislation, by which new projects are evaluated to ensure that all available funding is targeted at meeting the priorities within the Greater Manchester Strategy;
 - set out how the Combined Authority identifies, programmes and prioritises funding requirements and proposals arising from business plans submitted through a stringent gateway appraisal process, before the necessary Combined Authority approval; consider options available for funding capital expenditure and how resources may be maximised to generate investment in the area;

- determine a prudent, affordable and self-sustaining funding policy framework, whilst minimising or mitigating the ongoing revenue implications of any such investment;
- identify the resources available for investment over the MTFS planning period;
- ensure the strategy has an overall balance of risk on a range of projects over timespan, funding mechanism and rate of return, and;
- establish effective arrangements for the management of expenditure including the assessment of project outcomes, budget profiling, deliverability, value for money and security, liquidity and yield of investments.

3 STRATEGIC CONTEXT

- 3.1 The [Greater Manchester Strategy](#) (GMS) is the central organisational strategy that directs policy decisions taken by the Combined Authority. It builds on the achievements of previous iterations of the GMS, as well as other strategies around reforming public services and growing the economy.
- 3.2 The ambition is for Greater Manchester to become a financially self-sustaining city-region, positioned at the heart of the Northern Powerhouse with the size, assets, skilled population, and political and economic influence to rival any global city.
- 3.3 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. Greater Manchester is also 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.
- 3.4 The challenge for the future is to maximise the capital resources available to the Combined Authority, and effectively target them to deliver the ten outcomes of the GMS and wider objectives of the Northern Powerhouse. This will require continued investment for transformation to define Greater Manchester as an attractive place to live and further improve the quality of life for residents.
- 3.5 The draft version of the [Greater Manchester Spatial Framework](#) (GMSF) puts the GMS into action and lays the foundations for the successful delivery of priorities. The GMSF supports the overall vision of the GMS by making the most of key locations and assets, addressing disparities, making efficient use of land and prioritising development of brownfield sites. It also looks at the role of the town centres, green infrastructure and a sustainable transport network in delivering the vision for Greater Manchester.
- 3.6 Against this backdrop, the GMS sets the vision for the future, the GMSF mobilises resources, and the Devolution agreement in place puts Greater Manchester in a genuine position to deliver on these priorities.

4. CAPITAL PRIORITIES

- 4.1 Alongside the draft GMSF, Transport for Greater Manchester (TfGM) has published the [Draft Delivery Plan 2020-2025](#), which outlines how TfGM will achieve its vision and goals in the [2040 Transport Strategy](#). The Delivery Plan also sets out the practical actions required in the next five years and provides a coordinated approach to transport investment.
- 4.2 Priority interventions range from transformational investment in HS2 and new, fast east-west rail connections across the North, to establishing Greater Manchester as a modern, pedestrian and cycle-friendly city-region. The local road system will be much more reliable and safe for all users, including freight and commercial traffic. In particular, TfGM launched the Congestion Deal – a new approach to tackling congestion with £80 million investment in Metrolink trams, providing up to 27 new trams, 4,800 extra spaces and increasing capacity on the busiest lines.
- 4.3 TfGM intends to build on the success of the commuter revolution, which Metrolink and improved local rail services have brought over the past 20 years, with the delivery of new and enhanced rapid transit links and a transformed local bus network. Ultimately, all interventions will come together to offer flexible and customer-focused travel choices, supported by smart information, ticketing and payment systems, across a truly integrated Greater Manchester transport network.
- 4.4 The GM Investment Strategy continues to support regeneration and job creation in the Greater Manchester area through targeted investment funds, such as Growing Places, Regional Growth and GM Loans Funds. The repayment of these loans for up-front capital costs and debt finance creates a perpetual fund to further support businesses and enable growth.
- 4.5 The Growth Deal grant from central government continues to support investment into further education and digital skills organisations through the Skills Capital scheme. The Growth Deal grant also delivers investment into the Life Sciences Fund and the Graphene Engineering Innovation Centre, and a further £25m investment into the International Screen School Manchester, Pankhurst Centre and Cyber Innovation Hub.
- 4.6 The Fire Service has reviewed the capital investment requirements for Fire Estates, ICT and Operational Vehicles and Equipment. Following decisions by the Mayor following consultations in relation to Programme for Change, a revised capital programme will be produced. Therefore, the capital programme as currently approved is a continuation from the previous year and any amendments following the review will be subject to the necessary approval processes.
- 4.7 The strategic priorities for policing in Greater Manchester are set out in the document – [Standing Together - Police and Crime Plan](#), which is available on the GMCA website. The three priorities of the plan are:
- Keeping people safe;
 - Reducing harm and offending;
 - Strengthening communities and places.

- 4.8 The capital programme reflects the above priorities, however the challenge is to do so whilst recognising the downward trend in central government financial support, the increasing complexity of modern policing and the need to maximise available capital resources. Integrated working arrangements with colleagues from local authorities, health and other partners are already in place. Whilst the Mayor has approved the level of 2019/20 capital expenditure, the detailed multi-year programme is awaiting consideration and subsequent approval.
- 4.9 The Greater Manchester Waste Disposal Authority (GMWDA) amalgamated with GMCA in April 2018, bringing with it a range of assets, such as biological treatment facilities, bio-waste transfer stations and landfill sites. As well as ongoing maintenance of these sites, specific modifications are required that involve a significant amount of civil engineering works, especially at Bredbury where demolition and installation works are required. Waithlands Closed Landfill Site requires slope stability improvement works to retain the landfill in situ and prevent further settlement.

5. ASSET STRATEGY

- 5.1 Chaired by the Deputy Mayor for Policing and Crime, the Estates Strategy Group (ESG) is currently developing a suitable approach to consolidate all asset management plans (AMP's) that exist across the organisations within GMCA. An integrated approach is required to share best practice and optimise all assets to ensure best use of public money.
- 5.2 The focus of the ESG is to:
- Ensure optimum space utilisation;
 - Vacate expensive leased properties;
 - Share space with other organisations to facilitate partnership working;
 - Review and draw up detailed plans for the major complexes;
 - Ensure best value from PFI properties.
- 5.3 The Asset Management Office at TfGM sets out and oversees the delivery of TfGM's asset management policy and strategy. It ensures TfGM's operational functions, such as Metrolink, are correctly managing operations and delivering maintenance and renewals in line with our policy and strategy. Further details, including asset plans for property and technology, are available in TfGM's [Business Plan 2018-2021](#). TfGM also manages and maintains traffic signals on behalf of GMCA.
- 5.4 Greater Manchester Fire and Greater Manchester Police manage and operate a complex and unique range of assets. The ESG oversees this broad range of assets to ensure GMCA maintains a fit-for-purpose estate that is responsive to change and enables the delivery of organisational objectives.
- 5.5 Vehicles are an essential part of policing, fire response and fire prevention. The fleet comprises different types of vehicles ranging from fire appliances to motorcycles and horseboxes. Operational need determines the size, makeup and specialist fit-out of the fleet and a structured programme is in place to ensure the replacement of vehicles, at the optimum time.

- 5.6 Assets no longer required will be disposed of and the capital receipt used to fund the capital programme. Disposal policies across all organisations follow statutory guidance issued by the Local Government Association.

6. GOVERNANCE

- 6.1 All capital expenditure must follow the rules specified in the Constitution and financial regulations of the Combined Authority, including specific elements relating to the Mayor's PCC functions. Capital expenditure can be defined as the purchase, or improvement of assets that have a long-term (i.e. more than one year) value to the Combined Authority. Expenditure over a total value of £20,000 that meets the above criteria is categorised as capital expenditure. There are exceptions however, e.g. combining the total value of bulk purchases, such as ICT, and police and fire vehicles, which are always capitalised.
- 6.2 The Treasurer, in consultation with appropriate Chief Officers and the Mayor, shall prepare an annual programme of capital expenditure for submission to the GMCA, together with proposals for financing that programme. Along with other investments and grant allocation programmes, the GMCA approves the 3-year capital programme as part of the annual budget setting process. Separate approvals exist for the Mayor's PCC function/
- 6.3 Within the police, internal GMP Governance groups review business cases for acceptance and prioritisation, and the capital programme is set after discussion with the Deputy Mayor for Policing and Crime.
- 6.4 Where no further borrowing is required to finance a capital scheme, the capital budget may be increased in-year based on the limits prescribed in the financial regulations of the Combined Authority. All other increases need GMCA or Mayoral approval.
- 6.5 Before a capital scheme may proceed, Chief Officers must prepare a fully costed scheme report for presentation to the GMCA and the Mayor as appropriate, justifying the need for the expenditure. The Treasurer will report on the revenue implications of the scheme.
- 6.6 All full project proposals have a business case and business plan developed using techniques informed by HM Treasury Green Book, and, subject to their size and complexity, these business cases are subject to a full Green Book appraisal. For all projects, there is a clear assessment of their strategic fit and following that a further assessment is made of the economic, commercial, financial, and management case for the project to ensure that propriety, viability and value for money is achievable.

- 6.7 This process provides the GMCA with assurances that the project is delivering public value in spending decisions, in terms of its scoping, options selection, delivery, monitoring and evaluation.
- 6.8 Business cases are developed iteratively over time with project/scheme promoters to develop a complete picture of the project using the five cases model outlined in the HM Treasury Green Book. For further detailed guidance on business-cases and appraisal techniques please read the Single Pot Assurance Framework on the [LEP website](#).
- 6.9 After the approval of a capital scheme in detail by the GMCA, the appropriate officer shall inform the Treasurer as soon as practicable of any likely overspending, and the Treasurer will report to the GMCA or the Mayor, as appropriate. Revised estimates are also required, along with proposals for further funding if the overspending is likely to exceed the approved capital cost. The GMCA or Mayor must give further approval for any likely overspend.

7. RISK APPETITE AND APPROACH

- 7.1. This section considers the Combined Authority's risk appetite in relation to capital investments and commercial activities, i.e. the amount of risk that the Combined Authority is willing to accept, tolerate, or expose itself to at any point in time. It is important to note that risk will always exist in some measure, and cannot be removed in its entirety.
- 7.2. A risk review is an important aspect of the consideration of any capital expenditure or investment proposal. The risks will be considered in line with risk management strategies in place and commensurate with the Combined Authority's low risk appetite.
- 7.3. Subject to careful due diligence, the Combined Authority may consider a reasonably higher level of risk for strategic initiatives, where there is a direct gain to the organisations revenues, or its ability to deliver statutory duties more efficiently and effectively. Schemes could include lending to organisations with low credit ratings if the appropriate security over assets is agreed, or if guarantees from parent companies or organisations are given.
- 7.4. Funding for the majority of the capital programme comes through government grants. Careful monitoring of the capital programme and related grant conditions is essential in order to mitigate the risks of monetary claw-back. Quarterly reports are included in the reporting framework to assess major risks and the perceived impact.
- 7.5. The Combined Authority makes a clear distinction between capital investments, where the consideration is the achievement of strategic aims, and treasury management investments made for the purpose of cash flow management. It is also appropriate that the risk appetite for these two distinct types of investment may differ, given the expected outcomes of each.

- 7.6. The Combined Authority follows MHCLG investment guidance on the principles of security, liquidity and yield. Full details of the Combined Authority’s approach to treasury management investments is available within the Treasury Management Strategy Statement.

8. CAPITAL PROGRAMME:

- 8.1. The approved capital programme for 2019-2022 is summarised below by service. Section 4 of this document highlights the capital priorities for each service and a further detailed breakdown is available in appendix 1.

	19/20 Forecast	20/21 Forecast	21/22 Forecast
	£000	£000	£000
GM Combined Authority Transport (TfGM)	237,162	414,331	199,999
Economic Development and Regeneration	197,604	84,815	23,479
GM Fire & Rescue Service	5,666	5,342	3,530
GM Police & Crime Commissioner (draft)	56,269	28,316	42,248
GM Waste Disposal	52,000	4,150	2,200
Total	548,701	536,954	271,456

- 8.2. The spending profiles in 2019/20 and future years will remain subject to scrutiny and possible change as part of the continuous review of the capital programme.
- 8.3. A three-year timeframe is appropriate and consistent with the latest information and currently approved capital programme. As the organisation develops and the policies between each service harmonise, future iterations of the Capital Strategy will extend beyond this period.

9. FUNDING STRATEGY

- 9.1. The Combined Authority’s capital investment falls within, and needs to comply with, the “Prudential Code for Capital Finance in Local Authorities” (The Code). Under the Code, local authorities have greater discretion over the funding of capital expenditure, especially with the freedom to determine within the regulatory framework of the Code, the level of borrowing they wish to undertake to deliver capital plans and programmes.
- 9.2. The prudential borrowing requirement of the capital programme in 2019-20 is £277 million. However, a surplus of working capital and the ability to borrow internally reduces this amount. Provision for the associated financing costs are included in the revenue budget.

9.3. The figures detailed in the table below show the funding of the 2019/20 capital programme. This includes significant cash receipts for schemes such as Transforming Cities and the Growth Deal. Should these receipts, or expenditure profiles be materially different from the levels forecast, the borrowing requirements shown below could alter, in both scale and profile.

9.4. 2019-2020 capital funding table:

Prudential Borrowing	277,256
External Grants	142,059
Revenue Contributions	43,825
Capital Receipts	77,395
Reserves & Other	8,166
Total	<u>548,701</u>

9.5. The main sources of capital funding for the Combined Authority are summarised below:

- Prudential Borrowing – The introduction of the Prudential Code in 2004 permitted local authorities to take on unsupported borrowing. This borrowing is subject to the requirements of the “Prudential Code for Capital Expenditure for Local Authorities”. The Combined Authority must ensure that unsupported borrowing is affordable, prudent and cost effective. Where the Council has funded expenditure through borrowing, it is required to make a minimum revenue provision (MRP) towards the repayment of the debt. This ensures that the revenue implication of repaying the debt matches the life of the asset, similar to depreciation. The current MRP policy is available to view in the 2019-2020 Treasury Management Strategy.
- External Grants – The largest form of capital funding comes through as external grant allocations from central government departments, such as the Department for Transport, the Home Office and the Ministry for Housing, Communities and Local Government. Grant funding does not require repayment; however legally binding grant conditions normally dictate the use of the grant funding. These ‘ring-fenced’ grant allocations require careful consideration of the legal and financial implications to the Authority before acceptance. Grant allocations without grant conditions are non-ring-fenced resources and can be utilised to finance any project (albeit there is usually an expectation of use for a specific purpose). The vast majority of capital Government Grant funding is non-ring-fenced.

- Revenue Contributions – The Combined Authority can use revenue resources (CERA – capital expenditure charged to revenue account) to fund capital projects on a direct basis. In addition to specific revenue funds previously set aside, such as repairs and renewal funds, a specific revenue budget provision can also fund capital expenditure.
- Capital Receipts – The Combined Authority is able to generate capital receipts through the sale of surplus assets, such as land and buildings. These receipts are ring-fenced under legislation to fund capital expenditure, and therefore not available to supplement the revenue budget.
- Reserves – Specific capital reserves held on the balance sheet comprise of capital grant allocations, which were unused in the year of allocation and revenue contributions made for funding future capital programmes.

9.6 Capital investment decision making is not only about ensuring the capital programme supports the corporate and service priorities, but also about ensuring the assets involved are fully utilised, sustainable and affordable throughout their whole life. This overarching commitment to long-term affordability is a key principle in the appraisal decision of any capital investment. In making its capital investment decisions the council must have explicit regard to consider all reasonable options available.

10. DELIVERY AND PERFORMANCE

- 10.1. The Performance Board at TfGM monitor the progress of capital programmes and associated projects, with respect to funding and schedule parameters. Monitoring progress through key performance indicators gives the Performance Board an overview and ensures that projects meet the required budget, time and quality specifications; and therefore maintain focus on the successful delivery of identified benefits and outcomes.
- 10.2. In support of the activities of the Performance Board, a number of functional boards meet at least monthly to review the implementation of all capital programmes and projects. Capital budget holders are responsible for providing monthly forecasts to senior management within TfGM. This allows slippage on schemes to be identified and reported on as soon as possible.
- 10.3. Transport projects follow the OGC Gateway process and examine programmes and projects at key decision points in their lifecycle. Progression through the gateways is mandatory and provides assurance that the scheme can move successfully to the next stage. This process will provide independent guidance to GMCA and the scheme promoters/promoting authorities and help to ensure that the programmes and projects are successful.
- 10.4. The Growth Fund and Devolution Deal evaluations agreed with government, identify clear processes for establishing baseline data - prior to project commencement - and present an evaluation plan, which sets out the range of benefits to monitor and the

methodology employed in doing so. In addition, GMCA will use external advice from partners such as the Department for Transport, the Skills Funding Agency and the What Works Centre, coordinated through GMCA's evaluation team.

- 10.5. GMCA will ensure to disseminate learning through the Growth Deal's management arrangements and provide access to partners within GM and other key partners. GMCA will report on evaluation findings through the GMCA's website, which will help inform future policy decisions.
- 10.6. Monitoring of Economic Development and Regeneration projects is undertaken by specialists in the Core Investment Team with support from the Work and Skills Policy team. Each project has a project manager designated who will be the key point of contact and be responsible for completing the Post Occupation Project Review analysis at specific points through the project development.
- 10.7. Each capital project within the Fire Service and Police and Crime Commissioner has a project manager(s), who reports to a Project or Programme Board, depending on the complexity of the work undertaken. Branch Heads and project managers conduct monthly monitoring meetings and quarterly reports distributed to the Chief Officer, Mayor and Deputy Mayor for Policing and Crime.
- 10.8. The Combined Authority has professionally qualified staff across a range of disciplines including finance, legal and property that follow continuous professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills. The Combined Authority establishes project teams from all the professional disciplines from across the council as and when required.
- 10.9. External professional advice is taken where required and will always be sought in consideration of any major commercial property investment decision. Internal and external training is offered to members to ensure they have up to date knowledge and expertise to understand and challenge capital and treasury decisions taken by the Treasurer and governance.
- 10.10. Officers follow the Combined Authority's Procurement policy, which complies with statutory requirements, unless procurement is via a national or regional provider. Greater Manchester Police staff follow agreed procedures as laid down in the PCC constitution.

	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22
	£'000	£'000	£'000
Greater Manchester Transport Fund	20,375	97,133	37,671
Road Schemes (Stockport)			
Stockport Town Centre Access Plan (DfT retained scheme)	8,725	3,155	-
A6 MARR / SEMMMS	7,456	8,879	4,108
Stockport Council Schemes total	16,181	12,034	4,108
Other Metrolink Schemes			
Trafford Extension	55,486	39,140	2,951
Other Metrolink Schemes total	55,486	39,140	2,951
Other Capital Schemes			
Wythenshawe Interchange	-	-	-
Other Capital Schemes	-	-	-
CCAG 2	2,319	5,933	-
Transforming Cities	50,752	110,593	74,872
Cycle Safety	672	742	-
Early Measures Fund	1,492	506	-
Other Capital Schemes total	55,235	117,774	74,872
Growth Deal			
TfGM Majors	16,647	57,795	50,695
Local Authorities Majors	15,964	16,244	-
Growth Deal 3 TfGM schemes	4,352	4,378	-
Growth Deal 3 Local Authorities	6,450	26,182	-
Growth Deal total	43,413	104,599	50,695
Minor Works			
ITB Local Authorities	413	702	-
Growth Deal 1 Local Authorities	584	1,718	-
Growth Deal 2 Local Authorities	5,510	10,717	-
Growth Deal 2 TfGM Schemes	3,163	812	-
Minor Works total	9,670	13,949	-
Other Works			
Traffic Signals (Externally Funded)	2,500	2,500	2,500
Full Fibre Network	7,100	17,584	-
Highways Maintenance	27,202	27,202	27,202
Other Works total	36,802	47,286	29,702
Total Capital - Transport	237,162	431,915	199,999

Economic Development and Regeneration			
GPF	-	-	-
Recycled GF / RGF Capital Receipts	8,806	5,904	6,000
GM Loans Fund	2,577	-	-
Empty Homes Programme	-	-	-
Housing Investment Fund	145,423	37,228	2,212
Growth Deal - Skills Capital	2,144	-	-
Growth Deal - Skills Capital Round 2 & 3	18,936	34,983	15,135
Growth Deal - Life Sciences Fund	2,000	1,000	132
Growth Deal - GEIC	768	-	-
Growth Deal - International Screen School Manchester	9,300	2,900	-
Growth Deal - Pankhurst	5,000	-	-
Growth Deal - Cyber Innovation Hub	2,200	2,800	-
LGBT Centre	450	-	-
Total Capital - Economic Development & Regeneration	197,604	84,815	23,479
GM Waste Disposal			
Operational Sites	49,925	1,200	1,200
Non-Operational Sites	2,075	2,950	1,000
Total Capital - GM Waste Disposal	52,000	4,150	2,200
GM Fire and Rescue			
Estates	684	910	610
ICT	640	1,610	150
Vehicles and Equipment	4342	2822	2770
Total Capital - GM Fire and Rescue	5,666	5,342	3,530
GM Police and Crime Commissioner (draft)			
Estates	2,708	1,802	10,388
Fleet	2,869	3,447	3,511
Target Operating Model	37,261	23,821	16,483
Information Services Transformation Programme	10,129	-	-
Other	3,302	3,573	3,216
Total Capital - GM Police and Crime Commissioner	56,269	32,643	33,598
Total Capital	548,701	558,865	262,806