

**Audit Committee**

Date: 30<sup>th</sup> June 2020  
Subject: Capital Strategy 2020/21  
Report of: Steve Wilson, GMCA Treasurer

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**PURPOSE OF REPORT**

This report sets out the Capital Strategy for 2020/21 and incorporates the Capital Programme 2020/21 and the Treasury Management Strategy Statement 2020/21.

**RECOMMENDATIONS:**

The Audit Committee is requested to:

1. Note the contents of the report and recommend its approval to the Greater Manchester Combined Authority.

**CONTACT OFFICERS:**

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**Equalities Implications:**

The equalities impact of each project will be considered prior to commencement of works.

**Climate Change Impact Assessment and Mitigation Measures –****Risk Management:**

Each new project will be subject to a robust process and will encompass its own risk assessment prior to commencement of works.

**Legal Considerations:**

This report fulfils the statutory requirements....

**Financial Consequences – Revenue:**

The implications of these strategies and programmes have been incorporated into the Budget Report and the Medium Term Financial Strategy.

**Financial Consequences – Capital:**

*The implications of these strategies and programmes have been incorporated into the Budget Report and the Medium Term Financial Strategy.*

**Number of attachments to the report: None**

Comments/recommendations from Overview & Scrutiny Committee

**BACKGROUND PAPERS:**

GMCA Capital Programme 2019/20 – 2022/23, GMCA, 14<sup>th</sup> February 2020

GMCA Treasury Management Strategy Statement, Borrowing Limits and Annual Investment Strategy 2020/21, Audit Committee, 21<sup>st</sup> January 2020

<b>TRACKING/PROCESS</b>		
Does this report relate to a major strategic decision, as set out in the GMCA Constitution		Yes / No  No
<b>EXEMPTION FROM CALL IN</b>		
Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?		
GM Transport Committee	Overview & Scrutiny Committee	

## **1. INTRODUCTION/BACKGROUND**

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to approve and publish an annual Capital Strategy. The Capital Strategy provides:
- a) a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
  - b) an overview of the management of associated risks; and
  - c) the implications for future budgets and financial sustainability.
- 1.2 The Strategy sets the framework for all aspects of the GMCA's capital and investment expenditure; including planning, outcomes, prioritisation, management, funding and repayment. The Strategy informs the GMCA's Medium Term Financial Strategy (MTFS) and Greater Manchester Strategy and has direct links to GMCA's Treasury Management and Investment Strategy.
- 1.3 The strategy gives a clear and concise view of how the GMCA 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.
- 1.4 The Capital Strategy covers the following key topics:
- a) GMCA priorities;
  - b) Governance, reporting and scrutiny arrangements;
  - c) The Capital Programme;
  - d) Asset management;
  - e) Non-Treasury Investments / Commercial Activities;
  - f) The approach to borrowing, the revenue consequences for setting aside amounts to repay debt and the financial and prudential indicators required by the Prudential Code as set out in the Treasury Management Strategy Statement (TMSS); and
  - g) The approach to risk.

## **2. CORPORATE PRIORITIES**

- 2.1 The Capital Strategy maintains a strong link to the vision and aims in the Greater Manchester Strategy (GMS). The GMS vision is to make Greater Manchester one of the best places in the world to grow up, get on and grow old.
- 2.2 This will be delivered by 10 key priorities:
- a) Children starting school ready to learn  
All GM children starting school ready to learn

- b) Young people equipped for life  
Reduced number of children in need of safeguarding and all young people in education, employment or training following compulsory education
- c) Good jobs, with opportunities to progress and develop  
Increased number of GM residents in sustained, 'good' employment and improved skills levels
- d) A thriving and productive economy in all parts of Greater Manchester  
Improved economic growth and reduced inequality in economic outcomes across GM places and population groups and increased business start-ups and inward investment, and improved business performance
- e) World-class connectivity that keeps Greater Manchester moving  
Improved transport networks and more sustainable GM neighbourhoods, reduced congestion and future-proofed digital infrastructure that fully supports commercial activity, social engagement and public service delivery in GM
- f) Safe, decent and affordable housing  
High quality housing, with appropriate and affordable options for different groups and no one sleeping rough on GM's streets
- g) A green city region and a high quality culture and leisure offer for all  
Reduced carbon emissions and air pollution, more sustainable consumption and production, and an outstanding natural environment. Increased local, national and international awareness of, pride in, and engagement with GM's culture, leisure and visitor economy
- h) Safe and strong communities  
People feeling safe and that they belong, reduced crime, reoffending and antisocial behaviour, and increased support for victims and more sustainable GM neighbourhoods
- i) Healthy lives, with quality care available for those that need it  
More people supported to stay well and live at home for as long as possible, improved outcomes for people with mental health needs and reduced obesity, smoking, alcohol and drug misuse
- j) An age-friendly city region  
People live in age-friendly neighbourhoods, inclusive growth and reduced inequality across GM places and population groups and reduced social isolation and loneliness

2.2 There are three key strategic documents that provide the frameworks for future investment and translate the ambitions set out in the Greater Manchester Strategy into new development and growth for the next two decades. These are the Greater Manchester Spatial Framework, the Greater Manchester Transport 2040 Implementation Plan and the Greater Manchester Housing Strategy.

### **3. GOVERNANCE FRAMEWORK**

3.1 The GMCA Capital Programme involves the expenditure and financing of £1,053m of capital schemes over the period 2020/21 to 2023/24. It is important therefore that the risks surrounding the delivery and financing of the capital projects are understood and appropriate governance arrangements are in place. For GMCA these governance arrangements are:

- a) The Capital Strategy itself which is scrutinised by Audit Committee prior to approval by GMCA;
- b) The GMCA which approves the Capital Programme and capital schemes;
- c) The Corporate Issues and Reform Overview and Scrutiny Committee which has the remit for budget oversight and other financial matters is responsible for scrutinising the Capital Programme;
- d) The GMCA Senior Management Team (SMT) which has overall responsibility for the management and monitoring of the Capital Programme;
- e) The Constitution which sets out the powers of Officers with regard to capital expenditure;
- f) The GMCA receives quarterly capital monitoring reports which identifies any variation to the approved programme;
- g) All capital expenditure follows the GMCA's financial accounting framework which ensures expenditure is treated in a manner compliant with accounting convention / statutory guidance; and
- h) The Capital Programme is subject to both internal and external audit scrutiny

### **4. CAPITAL PROGRAMME**

4.1. Schemes are included in the Capital Programme with the aim of delivering the 10 key priorities of Greater Manchester. In February 2020 the GMCA approved the 2019/20 – 2022/23 Capital Programme. This is shown below along with the along with the associated financing.

	<b>Estimate 2019/20</b>	<b>Estimate 2020/21</b>	<b>Estimate 2021/22</b>	<b>Estimate 2022/23</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Capital Expenditure	462.601	433.781	388.378	230.977
Financed by:				
Capital receipts	(45.210)	(95.979)	(33.282)	(17.000)
Revenue Contribution	(15.452)	(34.331)	(2.590)	(2.590)
Grants and other contributions	(156.732)	(184.892)	(135.494)	(89.441)
Total financing	(217.394)	(315.202)	(171.366)	(109.031)
<b>Net financing need for the year</b>	<b>245.207</b>	<b>118.579</b>	<b>217.012</b>	<b>121.946</b>

4.2. The Capital Programme is subject to regular review with quarterly monitoring reports presented to the GMCA. Estimates of capital grant allocations in the financing section above are known to be subject to variation.

## **5. ASSET MANAGEMENT**

5.1. Chaired by the Deputy Mayor for Policing and Crime, the Estates Strategy Group (ESG) adopts an integrated approach to share best practice and optimise all assets to ensure best use of public money.

5.2. The ESG oversees a 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. The focus of the ESG is to:

- a) Drive improvement in the asset management of the GMCA's property, utilising it to meet the GMS priorities and targeting resources across the GMCA;
- b) Oversee, through the GM Estates Strategy, the strategic management of the whole of the GMCA estate and how it can work constructively with its partners;
- c) Overseeing and managing investment programmes within the GMCA; and
- d) Managing strategic property asset related risks.

5.3. Assets no longer required will be disposed of and the capital receipt used to fund the capital programme. The Constitution sets out the powers of Officers with regards to the disposal of assets.

## **6. NON TREASURY MANAGEMENT AND INVESTMENTS**

### **6.1. Growing Places Fund and Regional Growth Fund**

6.1.1 The Growing Places Fund (GPF) originally secured by the GM in 2012/13 totalled £34.5m of capital grant funding which is being used to provide up front capital investment in schemes. The GPF has three overriding objectives:

- a) to generate economic activity in the short term by addressing immediate constraints:
- b) to allow Local Enterprise Partnerships (LEPs) to prioritise infrastructure needs, empowering them to deliver their economic priorities; and
- c) to establish sustainable recycled funds so that funding can be reinvested.

6.1.2 The Regional Growth Fund (RGF) of £65m was secured by GM through two rounds of bidding for UK Central Government funding in 2012/13 and 2013/14. The RGF has supported eligible projects and programmes raising private sector investment to create economic growth and lasting employment, with over 6,000 jobs being either created or safeguarded.

6.1.3 The original GPF and RGF allocations have now been fully committed and the GMCA is in the recycling phase. Between 2018/19 and 2021/22 it is currently forecast that £55m will be recycled back out to businesses using capital receipts from both GPF and RGF. Given that both investment funds were funded through government grant there are no direct impact on the revenue budget should any loans default.

6.1.4 There is likely to be opportunities to passport similar property investments using GMCA's own funds (prudential borrowing) to allow freeing up of GM wide Evergreen Funds for further investments.

### **6.2 Housing Investment Fund (HIF)**

6.2.1 The Greater Manchester Housing Investment Fund has been designed to accelerate and unlock housing schemes. It will help build the new homes to support the growth ambitions across Greater Manchester.

6.2.2 Projects greater than £2m are recommended for approval to the GMCA by the Gateway Panel who review all the detailed information. This results in two separate committees reviewing the detailed proposals. Loans for less the £2m are subject to review and approval by the Credit Committee.

### **6.3 Loans Utilising Prudential Borrowing**

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

### **6.4 Greater Manchester Loan Fund (GMLF)**



6.4.1 The GMLF was established in June 2013 in response to market constraints which significantly reduced the availability of debt finance.

6.4.2 The GMLF was set up to provide debt finance of between £0.1m and £0.5m to small and medium enterprises in the Greater Manchester region, with the objective of generating business growth, creating and safeguarding jobs. A maximum of £10m has been approved for use by the Fund.

## **6.5 Protos Finance Limited**

6.5.1 In order to create capacity, GMCA is being asked to consider the purchase of a £12.1m loan committed by Evergreen to Protos Finance Limited. Protos Finance Limited is a subsidiary of Peel established to deliver the development of an industrial site in Cheshire for a variety of uses including waste to energy, biomass and environmental technology facilities. This will free up resources in the Evergreen Fund and allow it to further invest in Greater Manchester.

## **7 BORROWING, REVENUE CONSEQUENCES AND THE TREASURY MANAGEMENT STRATEGY STATEMENT (TMSS)**

### **7.1 Capital Financing**

7.1.1 The net financing need in paragraph 4 is after application of capital receipts, capital grants and revenue contributions. Wherever possible the Capital Programme will utilise and maximise external funding provided by central government or other third party sources.

7.1.2 The Capital Programme is reliant on prudential borrowing totalling £457.5m between 2020/21 and 2022/23. This method of financing involves the GMCA borrowing from external sources and results in additional revenue costs of interest and borrowing plus a statutory charge known as the Minimum Revenue Provision. All prudential borrowing is undertaken in full compliance with the CIPFA Prudential Code which requires authorities to approve their own borrowing limits for the year with indicators to measure the affordability and sustainability of the Capital Programme.

### **7.2 Treasury Management Strategy Statement (TMSS)**

7.2.1 The TMSS and the Capital Strategy are closely linked. The Capital Programme identifies the borrowing need of the GMCA whilst the TMSS considers how the GMCA will manage these cash requirements. This may involve arranging loans and taking decisions on whether these loans should be short or long term having regard to prevailing and forecast interest rates. The TMSS will also consider the GMCA's cash surpluses and how these should be

managed. At times it may be beneficial to defer borrowing and use these cash surpluses to avoid borrowing and thereby saving interest expenditure.

7.2.2 The GMCA has successfully pursued a policy of internal borrowing using its cash surpluses over the last few years whilst keeping interest rates under review for signs they may increase. In times of increasing interest rates the GMCA may borrow early and then invest the surplus cash until it is required.

### 7.3 Borrowing Limits

7.3.1 At the end of 2019/20 it is forecast that the GMCA's external debt will be £1,619m (including PFI liabilities) and this is forecast to increase to £1,739m by the end of 2022/23 based on the borrowing needs of the Capital Programme.

7.3.2 The Prudential Code requires the GMCA to set two limits for external debt each year.

- a) The Authorised Limit – this represents the maximum limit for external debt, including PFI liabilities, taking account of fluctuations in day to day cash requirements.
- b) The Operational Boundary – this is the limit beyond which external debt is not normally expected to exceed. The GMCA is currently under borrowed as a result of pursuing an internal borrowing policy and thereby reducing financing costs.

7.3.3 Based on the forecast Capital Programme, the limits in the TMSS are:

	Estimate 2019/20	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23
	£m	£m	£m	£m
Authorised Limit	2,407.503	2,595.252	2,629.969	2,769.670
Operational Boundary	2,298.071	2,477.286	2,510.425	2,643.776

## 8 APPROACH TO RISK

8.1 Risk is inherent with any investment or commercial activity and whilst it cannot be entirely eliminated the GMCA will adopt a strategic approach to risk management. The GMCA's approach to risk is to balance risk with the achievement of its ten priorities.

8.2 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.

- 8.3** For treasury management investments and debt the GMCA's risk appetite is extremely low with security of funds the primary concern. The GMCA 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.

## **9 KNOWLEDGE AND SKILLS**

- 9.1** Both the Capital Programme and the Treasury Management Strategy are managed by teams of professionally qualified, local government experienced accountants. Officers maintain and develop their knowledge through Continuous Professional Development and by attending courses offered by CIPFA and other sector experts. The GMCA use Link Asset Services to provide advice on treasury management issues.
- 9.2** The Treasurer has overall responsibility for ensuring the proper management of the GMCA's capital programme, assets and treasury management activities. The Treasurer is also a professionally qualified accountant.
- 9.3** The Audit Committee is the body that scrutinises all aspects of the Capital Strategy. Internal and external training is available to members of the committee to ensure they have the relevant skills, knowledge and understanding to undertake this role.