

Date: **21 January 2022**

Subject: **Capital Strategy 2022/2023**

Report of: **Steve Wilson, Treasurer of the GMCA**

PURPOSE OF REPORT

The Capital Strategy sets out the over-arching principles and processes by which the capital and investment decisions set out in the Capital Programme will be prioritised against the key aims of the Greater Manchester Strategy (GMS).

In addition, the Capital Strategy considers the funding implications of the Capital Programme and where borrowing is required, the Treasury Management Strategy sets out how this will be managed during the year along with the policy for managing investments. The Treasury Management Strategy also incorporates the statutory prudential indicators along with the Minimum Revenue Provision Policy to be adopted for 2022/23.

The Capital Strategy also provides an overview of the governance arrangements for capital investment decisions and outlines the Authority's arrangements for managing risk.

RECOMMENDATIONS

The Audit Committee is asked to note and comment on the contents of the report and recommend its approval by GMCA.

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Equalities Impact, Carbon and Sustainability:
N/A

BOLTON
BURY

MANCHESTER
OLDHAM

ROCHDALE
SALFORD

STOCKPORT
TAMESIDE

TRAFFORD
WIGAN

Risk Management

The GMCA's approach to risk is included in section 9.

Legal Considerations

This report fulfils the statutory requirements to have the necessary prudential indicators to be included in a Treasury Management Strategy.

Financial Consequences – Revenue

Financial revenue consequences are contained within the body of the report

Financial Consequences – Capital

Financial capital consequences are contained within the body of the report

Number of attachments to the report: None

Comments/recommendations from Overview & Scrutiny Committee

N/A

Background Papers

Capital Strategy, GMCA 12th February 2021

Tracking/ Process

Does this report relate to a major strategic decision, as set out in the GMCA Constitution?

No

Exemption from call in

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? No

GM Transport Committee

N/A

Overview and Scrutiny Committee

N/A

1. INTRODUCTION AND 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 Capital Strategy maintains a strong link to the aims of the Greater Manchester Strategy (GMS). The overall vision set out in the GMS is to make Greater Manchester one of the best places in the world to grow up, get on and grow old. 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

1.3 The Capital Strategy covers the following key topics and should be read alongside the Treasury Management Strategy Statement, Borrowing Limits and Annual Investment Strategy 2022/23 also on the agenda for this meeting.

- a) The Capital Strategy;
- b) Governance, reporting and scrutiny arrangements;
- c) The capital programme
- d) Asset Management;
- e) Commercial Investment;
- f) The approach to borrowing and financial investments as set out in the Treasury Management Strategy;
- g) The policy for setting aside amounts to repay debt as set out in the Minimum Revenue Provision Policy;
- h) The financial indicators required by the Prudential Code;
- i) The approach to risk;
- j) The extent of other long-term liabilities; and
- k) Current knowledge and skills to deliver the Capital Strategy.

2. THE CAPITAL STRATEGY

2.1 The overarching Capital Strategy for the Greater Manchester Combined Authority (GMCA) is to ensure that all resources are directed towards achieving the outcomes contained within the Greater Manchester Strategy (GMS) by maximising the use of external funding to deliver the highest impact affordable programme.

2.2 The following are priority investment areas for the GMCA and are reflected in the capital programme:

- a) **Transport.** The Authority is significantly investing in Metrolink enhancements and renewals, Clean Air Zone, cycling, walking and buses. This is to achieve the GMS priorities of world-class connectivity that keeps Greater Manchester moving and green city region.
- b) **Economic Development and Regeneration.** Alongside the Non-Treasury Investments in Section 5 of the report the Authority is significantly investing in public sector decarbonisation, green homes and brownfield sites funded by grants from UK central government. This is to achieve the GMS priorities of safe, decent and affordable housing, thriving productive economy in all parts of GM, good jobs with opportunities to progress and develop and a green city region.
- c) **Fire & Rescue Service.** A rolling programme of vehicles and equipment renewals alongside a refreshed estates programme funded mainly from

borrowings. This is to achieve the GMS priority of safe and strong communities.

- d) **Waste & Resources Service.** Investment in improvements to current facilities enabling waste to be processed more efficiently. This links to the GMS priority of a green city region.
- e) **Police Service.** Significant investment in Information and Communications Technology (ICT), fleet vehicles and further service improvements funded by borrowings. This is to achieve the GMS priority of safe and strong communities.

3. GOVERNANCE AND RISK MANAGEMENT FRAMEWORK

3.1 The GMCA's capital programme involves the expenditure and financing of £1.762 billion of capital schemes over the period 2021/22 to 2024/25. 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 the authority these governance arrangements are:

- a) The Capital Strategy itself which is scrutinised by Audit Committee prior to approval by the GMCA.
- b) The authority 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's Senior Management Team (SMT) which has overall responsibility for the management and monitoring of the Capital Programme;
- e) The GMCA constitution 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.

3.2 Risk is inherent with any investment or commercial activity and whilst it cannot be eliminated, the authority will adopt a strategic approach to risk management. The GMCA's approach to managing risk is that any risks will be appropriate for the authority to take and proportionate to benefits derived, in terms of delivery of Capital Strategy and GMS objectives, both for individual projects and cumulatively. In this way, the authority has a clear understanding of the adverse aspects of risk and can take steps to mitigate it when making decisions.

4. CAPITAL PROGRAMME

4.1. Schemes are included in the capital programme with the aim of delivering the 10 key priorities of Greater Manchester. The proposed capital programme is shown below along with the associated financing.

Capital expenditure £m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	Total Estimate
Transport	209.823	277.630	249.561	124.582	861.596
Economic Development and Regeneration	236.510	170.859	133.800	124.300	665.469
Fire and Rescue Service	13.483	19.847	13.860	13.919	61.109
Waste & Resources Service	24.339	10.354	6.070	2.520	43.283
Police Service	57.601	17.013	37.551	18.726	130.891
Total	541.756	495.703	440.842	284.047	1,762.348

Financing of capital expenditure £m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	Total Estimate
Capital receipts	97.221	115.000	118.069	115.000	445.290
Capital grants	265.746	163.104	105.332	42.296	576.478
Revenue Contribution	19.490	35.592	30.392	30.392	115.866
Borrowing Requirement	159.299	182.007	187.049	96.359	624.714

- 4.2. The capital programme is subject to regular review with quarterly monitoring reports presented to the authority. Estimates of capital grant allocations in the financing section above are known to be subject to variation.
- 4.3 The capital programme does not yet include the outcome of the City Region Sustainable Transport Fund submission which included proposals to secure up to £1.19 billion of capital funding for period 2022/23 to 2026/27. The outcome of this is not expected to increase the estimated borrowing requirement for GMCA over the period.
- 4.4 Longer term plans of the GMCA contain rolling programmes of replacement of vehicles for transport, police and fire. The future capital plans of the GMCA are heavily influenced by central government and the Comprehensive Spending Review. Key capital priorities for GMCA include
- a) New programmes of investment through the City Region Sustainable Transport Scheme and Bus Franchising;
 - b) Investment to support low carbon transport such as electric buses, cycling and walking and Clean Air plans; and
 - c) Other programmes such as Public Sector Decarbonisation Scheme, Brownfield Land Fund, Getting Building Fund etc to deliver an integrated and extensive infrastructure pipeline which will create livable, sustainable and well-connected places.

5. NON-TREASURY MANAGEMENT REGENERATION INVESTMENTS

- 5.1 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. The investments below align with the GMS priorities of a thriving and productive economy in all parts of Greater Manchester and safe, decent and affordable housing.

5.2. Growing Places Fund and Regional Growth Fund

- 5.2.1 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.
- 5.2.2 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.
- 5.2.3 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.
- 5.2.4 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.
- ## 5.3 Housing Investment Fund (HIF)
- 5.3.1 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.
- 5.3.2 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.
- ## 5.4 Greater Manchester Loan Fund (GMLF)
- 5.4.1 The GMLF was established in June 2013 in response to market constraints which significantly reduced the availability of debt finance.
- 5.4.2 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.
- ## 5.5 Protos Finance Limited
- 5.5.1 In order to create capacity, GMCA has purchased 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 has freed up resources in the Evergreen Fund for further investments in Greater Manchester.

6. COMMERCIAL INVESTMENTS

- 6.1 As the UK central government has introduced measures to actively discourage authorities from engaging in speculative commercial investment, principally by introducing access controls to future PWLB borrowing, then the Capital Strategy for 2022/23 does not allow for any investments to be undertaken solely for commercial purposes.
- 6.2 If the authority wishes to engage in such activity, then it will need to prepare a strategy for considering such investments which is to be approved by GMCA. In addition, such activity will also have implications for the authority's future ability to borrow from the PWLB thereby adding considerable financing risk to the authority's capital expenditure plans.
- 6.3 As such the Treasurer declares that the authority plans for capital investment as outlined in the capital programme do not contain any investments solely for commercial yield purposes.

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

7.1 Capital Financing

- 7.1.1 Wherever possible the financing of the capital programme will utilise and maximise external funding provided by central government or other third-party sources. The net financing requirement shown in the table in section 4 above is after application of capital receipts, capital grants and revenue contributions.
- 7.1.2 The capital programme is reliant on prudential borrowing totalling £625m between 2021/22 and 2024/25. 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 (MRP). 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

- 7.2.1 The Treasury Management Strategy Statement (TMSS) is covered in a separate accompanying report and is closely linked to this capital strategy. The capital programme identifies the borrowing need of the authority 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 authority 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 authority may borrow early and then invest the surplus cash until it is required.

7.3 Borrowing Limits

7.3.1 At the end of 2021/22 it is forecast that the GMCA's external debt will be £1.418 billion (including PFI liabilities) and this is forecast to increase to £1.600 billion 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:

£m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Operational Boundary	2,579.411	2,669.596	2,764.127	2,763.212
Authorised Limit	2,702.241	2,796.720	2,895.753	2,894.793

8. **ASSET MANAGEMENT**

8.1. 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.

8.2. 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.

8.3 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.

8.4 Assets no longer required will be disposed of and the capital receipt used to fund the capital programme. The GMCA constitution sets out the powers of officers with regards to the disposal of assets.

9 APPROACH TO RISK

- 9.1 Risk is inherent with any investment or commercial activity and whilst it cannot be eliminated entirely the authority will adopt a strategic approach to risk management. The GMCA's approach to risk is to balance risk with the achievement of its priorities.
- 9.2 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.
- 9.3 For treasury management investments and debt the GMCA's risk appetite is extremely low with security of funds the primary concern. The authority seeks to invest surplus cash in instruments with high credit quality and for relatively short periods and to have alternative debt options available.

10 OTHER LONG-TERM LIABILITIES: PRIVATE FINANCE INITIATIVE (PFI)

- 10.1 The Authority has two PFI contracts: Stretford Fire Station and 17 Police Stations. In financial terms, PFIs are regarded as a form of debt financing and included within the Authority's borrowing limits.
- 10.2 Under the terms of the PFI contracts, the Authority makes regular payments which cover the service cost associated with facilities management and the asset itself. The PFI contracts are due to end as follows:
- a) Stretford Fire Station: 2024/25
 - b) 17 Police Stations: 2030/31

11 KNOWLEDGE AND SKILLS

- 11.1 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.
- 11.2 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.
- 11.3 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.
- 11.4 When required internal skills and knowledge will be supplemented by external advisors. The Authority's treasury advisors are Link.