Blackpool Council

28 January 2022

To: Councillors Benson, Brookes, Campbell, Farrell, Hobson, Hugo, Smith, Taylor and L Williams

The above members are requested to attend the:

EXECUTIVE

Monday, 7 February 2022 at 6.00 pm
In the Council Chamber, Town Hall, Blackpool

A G E N D A

1 DECLARATIONS OF INTEREST

Members are asked to declare any interests in the items under consideration and in doing so state:

(1) the type of interest concerned either a

(a) personal interest
(b) prejudicial interest
(c) disclosable pecuniary interest (DPI)

and

(2) the nature of the interest concerned

If any member requires advice on declarations of interests, they are advised to contact the Head of Democratic Governance in advance of the meeting.

2 FINANCIAL PERFORMANCE MONITORING AS AT MONTH 9 2021/22 (Pages 1 - 4)

To report the level of spending and exposure against the Council's Revenue budgets and reserves and balances for the first 9 months to 31 December 2021.

3 CAPITAL STRATEGY 2022/23 TO 2024/25 (Pages 5 - 28)

To consider and recommend to the Council the Capital Strategy for 2022/23 to 2024/25, incorporating the Property Investment Strategy for 2022/23.

Once approved by Council this document will form part of the Budget Framework.

4 CAPITAL PROGRAMME 2022/23 TO 2024/25 (Pages 29 - 52)

To consider and recommend to Council the 2022/23, 2023/24 and 2024/25 Capital Programme.

Once approved by Council this document will form part of the Budget Framework.

5 TREASURY MANAGEMENT STRATEGY 2022/23 (Pages 53 - 86)

To consider and recommend to Council The Treasury Management Strategy 2022/23.

Once approved by Council this document will form part of the Budget Framework.

6 GENERAL FUND REVENUE BUDGET 2022/23 (Pages 87 - 92)

To consider the proposal for Blackpool Council's draft General Fund Revenue Budget 2022/23.

Once approved by Council this document will form part of the Budget Framework.

7 BLACKPOOL AIRPORT ENTERPRISE ZONE: ANNUAL REVIEW (Pages 93 - 118)

This report sets out the further progress on the delivery of the Enterprise Zone and related activity at Blackpool Airport and outlines activity planned for the next fourteen months to the end of financial year 2022/23

Venue information:

First floor meeting room (lift available), accessible toilets (ground floor), no-smoking building.

Other information:

For queries regarding this agenda please contact Lennox Beattie, Executive and Regulatory Manager, Tel: (01253) 477157, e-mail lennox.beattie@blackpool.gov.uk

Copies of agendas and minutes of Council and committee meetings are available on the Council's website at www.blackpool.gov.uk.

Report to:	**EXECUTIVE**
Relevant Officer:	Steve Thompson, Director of Resources
Relevant Cabinet Member:	Councillor Lynn Williams, Leader of the Council
Date of Meeting:	7 February 2022

FINANCIAL PERFORMANCE MONITORING AS AT MONTH 9 2021/22

1.0 Purpose of the report:

1.1 To report the level of spending and exposure against the Council's Revenue budgets and reserves and balances for the first 9 months to 31 December 2021.

2.0 Recommendation(s):

2.1 To note the report.

2.2 To require the respective directors and Director of Resources to continue to closely monitor and manage service financial and operational performances, specifically Growth and Prosperity, Children's Services, Strategic Leisure Assets, Communications and Regeneration and Adult Services.

2.3 To prompt the Scrutiny Leadership Board to continue to independently review the financial and operational performances of the services listed in 2.2.

2.4 To continue to lobby central government (HM Treasury, Department for Levelling Up, Housing and Communities, Department for Health and Social Care, Department for Transport, Department for Digital, Culture, Media and Sport, Department for Business, Energy and Industrial Strategy and Department for Education in particular) along with local authority peers and networks and the Local Government Association for the funding necessary to cope with the demands and new burdens presenting as a result of both Covid and within Children's Services.

3.0 Reasons for recommendation(s):

3.1 To ensure financial performance against the Council's Revenue Budget and its reserves and balances is kept under timely review by members.

3.2 Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.3 Is the recommendation in accordance with the Council's approved budget? Yes

4.0 Other alternative options to be considered:

None.

5.0 Council Priority:

5.1 The relevant Council Priority is: "The economy: Maximising growth and opportunity across Blackpool".

6.0 Background Information

6.1 See reports and appendices circulated to members under separate cover.

6.2 Does the information submitted include any exempt information? No

7.0 **List of Appendices:**

Report
Appendix 1 - Revenue Summary
Appendix 2a - Chief Executive
Appendix 2b - Governance and Partnership Services
Appendices 2b/c - Ward Budgets
Appendix 2d - Resources
Appendix 2e – Communications and Regeneration
Appendix 2f - Strategic Leisure Assets
Appendix 2g – Growth and Prosperity
Appendix 2h - Community and Environmental Services
Appendix 2i - Adult Services
Appendix 2j - Children's Services
Appendix 2k - Public Health
Appendix 2l - Budgets Outside the Cash Limit
Appendix 2m – Wholly-owned companies
Appendix 3 – Covid-19 Funding
Appendix 4 – Budget Savings performance
Appendix 5 - Capital Monitoring
Appendix 6 - Cash Flow Summary
Appendix 7 - General Fund Balance Sheet Summary

All circulated to members under separate cover

8.0 Financial considerations:

8.1 See reports and appendices circulated to Members under separate cover.

9.0 Legal considerations:

9.1 None.

10.0 Risk management considerations:

10.1 Impact of financial performance against approved Revenue budgets and upon Council reserves and balances.

11.0 Equalities considerations:

11.1 An Equalities Impact Assessment was produced as a part of the budget-setting process and remains relevant.

12.0 Sustainability, climate change and environmental considerations:

12.1 None directly from this report.

13.0 Internal/ External Consultation undertaken:

13.1 None.

14.0 Background papers:

14.1 None.

15.0 Key decision information:

15.1 Is this a key decision? No

15.2 If so, Forward Plan reference number:

15.3 If a key decision, is the decision required in less than five days? N/A

15.4 If **yes**, please describe the reason for urgency:

16.0 Call-in information:

16.1 Are there any grounds for urgency, which would cause this decision to be exempt from the call-in process? No

16.2 If **yes**, please give reason:

Report to:	**EXECUTIVE**
Relevant Officer:	Steve Thompson, Director of Resources
Relevant Cabinet Member	Councillor Lynn Williams, Leader of the Council
Date of Meeting	7 February 2022

CAPITAL STRATEGY 2022/23 TO 2024/25

1.0 Purpose of the report:

1.1 To consider the Capital Strategy for 2022/23 to 2024/25, incorporating the Property Investment Strategy for 2022/23, attached at Appendices 3a and 3b.

2.0 Recommendation(s):

2.1 To recommend to the Council to approve the Capital Strategy 2022/23 to 2024/25 incorporating the Property Investment Strategy 2022/23.

3.0 Reasons for recommendation(s):

3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a Capital Strategy. The Capital Strategy is intended to give an overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implication for future financial sustainability.

3.2	Is the recommendation contrary to a plan or strategy adopted or approved by the Council?	No
3.3	Is the recommendation in accordance with the Council's approved budget?	Not applicable - the report once approved will become part of the Council's new approved budget

4.0 Other alternative options to be considered:

4.1 None.

5.0 Council priority:

5.1 The relevant Council priority is: “The economy: Maximising growth and opportunity across Blackpool”.

6.0 Background information

6.1 The CIPFA Prudential Code requires local authorities to produce a Capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and tak account of stewardship, value for money, prudence, sustainability and affordability.

6.2 The Capital Strategy aligns with the priorities set out in the Council Plan and other key Council strategies. The strategy is in line with the Capital Programme and Treasury Management Strategy included on this agenda.

6.3 Does the information submitted include any exempt information? No

7.0 List of Appendices:

7.1 Appendix 3a: Capital Strategy 2022/23 to 2024/25
Appendix 3b: Property Investment Strategy 2022/23

8.0 Financial considerations:

8.1 These are set out in the Capital Strategy.

9.0 Legal considerations:

9.1 None.

10.0 Risk management considerations:

10.1 The Capital Strategy includes the Council’s Risk Appetite Statement in section 12 of the report.

11.0 Equalities considerations:

11.1 None.

12.0 **Sustainability, climate change and environmental considerations:**

12.1 None

13.0 **Internal/external consultation undertaken:**

13.1 None.

14.0 **Background papers:**

14.1 None.

15.0 **Key decision information**:

15.1	Is this a key decision?	Yes
15.2	If so, Forward Plan reference number:	29/2021
15.3	If a key decision, is the decision required in less than five days?	No
15.4	If **yes**, please describe the reason for urgency:	

16.0 **Call-in information:**

16.1	Are there any grounds for urgency, which would cause this decision to be exempt from the call-in process?	No
16.2	If **yes**, please give reason:	

TO BE COMPLETED BY THE HEAD OF DEMOCRATIC GOVERNANCE

17.0 **Scrutiny Committee Chairman (where appropriate):**

Date informed: 28 January 2022 Date approved:

18.0 **Declarations of interest (if applicable):**

18.1

19.0 Summary of Discussion:

19.1

20.0 Executive decision:

20.1

21.0 Date of Decision:

21.1

22.0 Reason(s) for decision:

22.1

23.0 Date Decision published:

23.1

24.0 Alternative Options Considered and Rejected:

24.1

25.0 Executive Members in attendance:

25.1

26.0 Call-in:

26.1

27.0 Notes:

27.1

Appendix 3a: Capital Strategy 2022/23

1. Introduction

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and take account of stewardship, value for money, prudence, sustainability and affordability.

1.2 The Capital Strategy aligns with the priorities set out in the Council Plan and other key Council strategies. The Strategy is integrated with the Capital Programme and Treasury Management Strategy.

2. Capital Expenditure

2.1 Capital expenditure is incurred on the acquisition or creation of assets, or expenditure which enhances and adds to the life or value of an existing non-current asset that is needed to provide services. Non-current assets are tangible or intangible assets that yield benefits to the Council generally for the period of more than one year, e.g. land, buildings, roads, vehicles. This is in contrast to revenue expenditure which is spending on day to day running costs of services such as employee costs and supplies and services.

2.2 The Capital Programme is the Authority’s plan of capital works for future years, including details on the funding of the schemes. Included are projects such as the purchase of land and buildings, the construction of new buildings, design fees and the acquisition of vehicles and major items of equipment. Also included could be service and commercial investments. The Council’s Capital Programme is the subject of a separate report and will be presented to Executive with the Capital Strategy.

3. Treasury Management Investments

3.1 Treasury management investment activity covers those investments which arise from the organisation's cashflows and debt management activity, and ultimately represent balances which need to be invested until the cash is required for use in the course of business.

3.2 For treasury management investments the security and liquidity of funds are placed ahead of the investment return. The management of associated risk is set out in the Treasury Management Strategy 2022/23 which is the subject of a separate report and will be presented to Executive with the Capital Strategy.

3.3 The CIPFA Treasury Management Code recognises that organisations may make investments for policy reasons outside of normal treasury management activity. These may include service or commercial investments.

4. Service and Commercial Investments

4.1 These are investments for policy reasons outside of normal treasury management activity. These may include:

4.2 Service Investments

These are investments held clearly and explicitly in the course of the provisions and for the purposes of operational services, including regeneration.

4.3 Commercial Investments

These are investments taken for mainly financial reasons. These may include:

- Investments arising as part of business structures, such as shares and loans in subsidiaries or other outsourcing structures such as IT providers or building services providers;
- Investments taken with the aim of making a financial surplus for the Council.

Commercial investments also include non-current assets which are held primarily for financial benefit, such as investment properties.

Due to the nature of the assets or for valid service reasons, such investments do not always give priority to security and liquidity over yield. In these cases, the decision will be explicit, with the additional risks set out in the impact on financial sustainability identified and reported.

The Director of Resources will ensure that the Council has the appropriate legal powers to undertake such investments and also ensure the proportionality of all investments so that the Council does not undertake a level of investing which exposes it to an excessive level of risk compared to its financial resources.

5. Due Diligence

5.1 For all capital investments, the appropriate level of due diligence will be undertaken with the extent and depth reflecting the level of additional risk being considered. Due diligence process and procedures will include:

- identification of the risk to both the capital sums invested and the returns;
- understanding the extent and nature of any external underwriting of those risks;
- the potential impact on the financial sustainability of the Council if those risks come to fruition;
- identification of assets being held for security against debt and any prior charges on those assets;
- where necessary independent and expert advice will be sought.

The Director of Resources will ensure that Executive is adequately informed and understands the risk exposures being taken on.

6. Property Investment Strategy

6.1 The Council has a typical local authority property portfolio. This consists of operational property, investment property and property held for specific community or regeneration purposes. The Council has specific reasons for owning and retaining property:

- Operational – supporting core business and service delivery
- Investment – to provide a financial return to the Council
- Community – to support specific local community projects
- Regeneration – enabling strategic place shaping and economic growth.

6.2 The Property Investment Strategy:

- Sets out reasons for acquiring property assets for investment purposes
- Identifies the issues of the economy, the general property market and the possible risks for the Council in acquiring investment property
- Clarifies the legal powers used to operate the Strategy and ensure continued compliance
- Includes an outline of the process involved in acquiring property assets for investment purposes.

6.3 A Property Investment Strategy is a formal approach to investing in property. This is done by either buying or leasing property and ensuring that the annual income exceeds the annual lease payment or prudential borrowing repayment. The Council seeks tenants who are of sound financial standing and leases are preferable within commercially popular locations.

6.4 The Council funds the purchase of non-commercial property by borrowing money or uses the surplus of income derived from the property to meet the lease commitment. The rental income paid by the tenant must exceed the cost of repaying the borrowed money. The annual surplus then supports the Council's budget position and enables the Council to continue to provide services for local people.

6.5 The reasons for purchasing and owning property investment are primarily for:

- Financial gain to fund local services
- Market and economic opportunity
- Economic development and regeneration activity in Blackpool and the Lancashire Economic Area.

The Council does not invest in property as an Investment Strategy solely to achieve financial income.

6.6 All investment properties that cost or were previously valued at or in excess of £500k are revalued on an annual basis to provide a fair value for the preparation of the Council's accounts. The investment properties that cost or were previously valued under £500k, are valued on a rolling 4 year programme. The Council believes there is no benefit to valuations being completed within 12 months of acquisition unless a material change in the occupation or condition of the building occurs and/or the market undergoes significant change. If any investment properties valued as part of the 4 year rolling programme have changed significantly in value, an additional exercise will be carried out to assess if the cause of the material valuation change would impact on the investment assets not valued in year. Investment properties have been valued on this basis since financial year 2019/20.

6.7 The Council's Property Investment Strategy 2022/23 is attached at Appendix 3b.

7. Priorities and Risk in Property Investment

7.1 The priorities for the Council when acquiring property interests for investment purposes are:

- **Covenant Strength** - in the case of a let property, the quality of the tenant and, more importantly, their ability to pay the rent on time and in full. It is however worth noting that the Council as a public body may not wish to invest in properties where the occupiers are generally seen to be undertaking a business which is contrary to its corporate values.

- **Lease length** - in the case of a let property, the unexpired length of the term of the lease or a tenant's break clause is of key importance in ensuring that the landlord's revenue stream is uninterrupted. The Council will take into consideration the risks associated with a tenant vacating and the potential to attract good quality replacement tenants at acceptable rental levels.

- **Rate of return** - the rate of return from the property (for example through annual rental incomes) will need to be equivalent or better to the returns that could be earned from alternate investments, such as placing monies on deposit, following adjustment for risks and potential growth. The property will also need to produce an annual return in excess of the cost of borrowing.

- **Risk** – rate of return is one side of the coin; risk is the other. In general, the higher the sought level of return from an investment, the higher level of risk that it carries. For example, if a property is let at an attractive rent which would create a good return, it could still be risky if the tenant does not possess good covenant strength and could default at any time.

- **Lease Terms** – The terms of leases vary and even those held on an "institutionally acceptable basis" can be very different in nature particularly as such leases have developed over time. The Council, where possible, will seek to invest in leases with full repairing and insuring obligations on the Tenant and a full Service Charge recovery to include any management fees. This will ensure a certain income/return to the Council.

- **Growth** - property has the potential for both revenue and capital growth. The Council will take into account that potential when assessing the strength of the investment opportunity. Property values can fall as well as rise and mechanisms to minimise revenue reductions should be identified. Generally the nature of standard, institutional leases is that rent review clauses are upward only which protects landlords from any downward pressure on rental income giving some security as to the level of income.

- **Location** - should a tenant default or vacate, the location of the property is the key factor in influencing the ability to re-let and find another tenant. Location is also important when considering future redevelopment or regeneration opportunities. Ideally the Council will be able to undertake inspections and to deal with any management issues without the need to employ specialists or agents. Preference should be given to properties located within Blackpool and the Lancashire Economic Partnership Area. This does not prevent investment outside of these areas, subject to the appropriate justification and business case and correct governance procedures.

- **Sector** - information as to the sector of use of the property (e.g. office, retail, industrial, leisure) will assist in deciding on the risks associated with specific properties and the mix of sectors within the portfolio.

- **Building Age and Specification** - in the case of a let property, whilst the Council, as an investor, may be principally concerned with the characteristics of the tenant and lease, the age and specification of the property will also affect the ability of the Council to let or sell the property in the future. It must also be taken into consideration the cost of protecting the investment. An example of this would be the undertaking of repairs and refurbishment if the cost cannot be fully recovered from the tenant.

7.2 In summary, the strategy for acquiring investment property assets is therefore to:

- Seek property let to tenants who are of strong covenant strength and sound financial standing.
- Minimise risk.
- Maximise rental income to mitigate budgetary pressures and minimise management costs to ensure the best return is generated.
- Identify opportunities for future growth, redevelopment or regeneration via property in commercially popular or development areas.
- Prioritise Blackpool and the Lancashire Economic Partnership Area if the right opportunity arises.
- Pursue opportunities to increase returns and improve the investment value of commercial assets.

7.3 The Council has invested in a number of investment property assets and lease agreements as well as a Business Loan Fund. A fair value assessment was conducted on purchase and provides sufficient security for the underlying capital invested. These assets will be revalued in line with the Council's revaluation programme.

8. Revenue Budget Implications from Capital Investment Decisions

8.1 Capital expenditure for the Council is financed through a variety of sources, typically

- Receipts from the sale of capital assets
- Capital grants
- External contributions such as S106
- The use of reserves or from revenue budget contributions.

8.2 Any capital expenditure not financed by the above will need to be funded by borrowing. Existing council debt is therefore the consequence of historical capital expenditure. The Council can temporarily utilise other resources in lieu of external borrowing to fund capital expenditure. This is referred to as internal borrowing.

8.3 In approving the inclusion of schemes and projects within the capital programme, the council ensures all of the capital and investment plans are affordable, prudent and sustainable. In doing so the council will take into account the arrangements for the repayment of debt, through a prudent Minimum Revenue Provision (MRP) policy. The Council's MRP policy is included in Annex F of the Treasury Management Strategy.

8.4 The capital financing charges and any additional running costs arising from capital investment decisions are incorporated within the annual budget and medium term financial plans. This enables Members to consider the consequences of capital investment alongside other competing priorities for revenue funding. The financing costs of prudential borrowing are charged to directorate budgets.

8.5 Capital investment decision-making is about not only ensuring the initial allocation of capital funds meets the corporate and service priorities but ensuring the asset is fully utilised, sustainable and affordable throughout its whole life. This overarching commitment to long-term affordability is a key principle in any capital investment appraisal decision. In making its capital investment decisions the Council must have explicit regard to consider all reasonable options available.

9. Business Loans Fund

9.1 In 2009/2010 the Council set up a £3m fund for businesses to safeguard and create jobs in Blackpool during the recession. The aim of the fund is to provide a lifeline for local, normally sound businesses that are experiencing difficulty in getting finance from the banks because of the economic slowdown. A number of small unsecured loans were issued to local businesses.

9.2 As part of the 2019/20 budget process the Business Loans Fund was increased to £200m. A number of secured loans have since been issued and are treated as capital expenditure.

9.3 By issuing these loans the Council is exposing itself to the risk that the borrower defaults on repayments. The Council, in making these loans, must therefore ensure they are prudent and has fully considered the risk implications.

9.4 The Council will ensure that a full due diligence exercise is undertaken and adequate security is in place. The business case will balance the benefits with the risks. All loans are agreed as below and are subject to close, regular monitoring.

Loan Amount	Agreed by
Loans under £200,000	Chief Executive
£200,000 to £499,999	Cabinet Member
£500,000 and above	Executive

9.5 The Council makes loans, through the Business Loans Fund, for a number of reasons primarily economic development and investment objectives. Over the past 12 months, the Business Loans Fund has also provided support to local businesses through the covid pandemic on the basis of robust business plans.

9.6 The Council in making these loans mitigates associated risk by:

- Carrying out a full independent due diligence exercise
- Ongoing monitoring of the loans
- Ensuring adequate security is in place
- The financial exposure of the Council is proportionate to its size. This is currently set at £200 million.
- All loans of £500,000 and above are agreed by the Council's Executive.

9.7 The Department for Levelling Up, Housing and Communities is currently consulting on changes to the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, which will affect the accounting for and impact of MRP. The Treasury Management Panel is currently reviewing the proposals and potential impacts in respect of business loans. It is unclear at this stage how these changes will affect the ability of Blackpool Council to provide these loans in the future if at all.

10. Governance Framework

10.1 It is important given the risks surrounding Growth and Regeneration Projects that the appropriate governance framework is in place hence the following processes are in place:

- The Capital Strategy to be approved annually at Full Council
- All schemes and the overall Capital Programme are subject to approval by the Executive and Full Council
- Cabinet Members are assigned projects in line with their responsibilities
- A senior officer group exists known as the Growth and Prosperity (G&P) Board which is chaired by the Director of Communications and Regeneration. The group monitors the delivery of the programme on an ongoing basis.
- Directorate Management Teams must agree all deletions and additions to their directorate capital programme before they go to Corporate Asset Management Group
- The Capital Programme is guided by the Council's Capitalisation Policy and Financial Procedure Rules of the Council
- The Capital Programme is subject to Internal and External Audit Review
- Scrutiny Committee can call in Executive Reports
- The Investment Strategy will be reviewed on a monthly basis by the Growth and Prosperity team and reported as part of the monthly budget monitoring reporting process.

11. Commercial Activity

11.1 The Council has a strong governance framework. It has a Treasury Management Panel (TMP) in addition to the usual local government audit and corporate governance committees. The Treasury Management Team is made up of leading officers from across the authority and is led by the Director of Resources as the Council's Section 151 officer.

11.2 Due diligence is of paramount importance. All of the Council's commercial investments have individual business cases that are subject to risk assessment. Where risks are identified attempts are made to mitigate and sensitivity calculations undertaken as a result. Where appropriate to the size and scale of the project the Council may also commission independent technical and legal reviews to ensure that the correct decisions are being made.

11.3 Performance monitoring takes place after the scheme is completed and is reported to Members and senior officers on an ongoing basis and is reported to Members and senior officers as part of the monthly budget monitoring process.

11.4 Audits will be carried out during the lifecycle of investments.

11.5 The Council follows a beyond prudence approach to governance of commercial activities. It ensures that all commercial schemes are fully aligned with priority outcomes.

12. Risk Appetite Statement

12.1 This outlines Blackpool Council's risk appetite with regard to its investment and commercial activities, i.e. the amount of risk that the Council is prepared to accept, tolerate or be exposed 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.

12.2 The risk appetite statement sets out how the Council balances risk and return in pursuit of achieving its objectives. It is intended to aid careful decision-making, such that the Council takes well thought through risks to aid successful delivery of its services and obligations, while also understanding the adverse aspects of risk undertaken and taking appropriate measures to mitigate these in line with its stated goals. Thereby, the Council's risk judgements are more explicit, transparent and consistent over time.

12.3 Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the organisation caused by undesired events and of ensuring that staff understand and appreciate the element of risk in all their activities.

12.4 The aim is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties. To manage financial risk effectively the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored.

12.5 It is important to identify the appetite for risk by each scheme and for the capital programme as a whole, especially when investing in capital assets held primarily for financial returns. Under the CIPFA Prudential Code these are defined as investments and so the key principle of control of risk and optimising returns consistent with the level of risk applies. An assessment of risk should be built into every capital project and major risks recorded in the Risk Register.

12.6 **Credit Risk –** This is the risk that a third party the Council has invested capital monies in becomes insolvent and is unable to pay the investment returns or complete the agreed contract. Accordingly, the Council will ensure that robust due diligence procedures cover all external capital investment. Where possible contingency plans will be identified at the outset and enacted when appropriate.

12.7 **Liquidity Risk –** This is the risk that the timing of any cash inflows from a project will be delayed, for example if other organisations do not make their contributions when agreed. This is also the risk that the cash inflows will be less than expected, for example due to the effects of inflation, interest rates or exchange rates. The Council's exposure to this risk will be monitored via the revenue and capital budget monitoring processes. Where possible appropriate interventions will occur as early as possible.

12.8 **Interest Rate Risk –** This is the risk that interest rates will move in a way that has an adverse effect on the value of capital expenditure or expected financial returns from a project. Interest rates will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

12.9 **Exchange Rate Risk –** This is the risk that exchange rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Where relevant, exchange rates will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

12.10 **Inflation Risk –** This is the risk that rates of inflation will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Rates of inflation will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible the Council's exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

12.11 **Legal and Regulatory Risk –** This is the risk that changes in laws or regulation make a capital project more expensive or time consuming to complete, make it no longer cost effective or make it illegal or not advisable to complete. Before entering into capital expenditure or making capital investments, the Council will understand the powers under which the investment is made. Forthcoming changes to relevant laws and regulations will be kept under review and factored into any capital bidding and programme monitoring processes.

12.12 **Fraud, Error and Corruption –** This is the risk that financial losses will occur due to errors or fraudulent or corrupt activities. Officers involved in any of the processes around capital expenditure or funding are required to follow the Council's policies and procedures. This is supported by the Employee Code of Conduct and policies such as Anti-Fraud and Corruption, Anti Money Laundering and Declaration of Interests.

12.13 Risk management is not a stand-alone discipline. In order to maximize risk management benefits and opportunities, it is integrated with existing business processes.

12.14 Some of the key business processes with which risk alignment exists are:

- Capital Strategy
- Medium-Term Financial Plan
- Internal Audit
- Business Planning (including budget)

- Performance Management
- Treasury Management
- Council-owned subsidiaries and joint ventures
- External Audit review

13. Knowledge and Skills

13.1 The Capital Programme and Treasury Management Strategy are managed by a team of professionally qualified accountants with extensive local government finance experience between them. They follow a Continuous Professional Development Plan (CPD) and attend courses on a regular basis to keep abreast of new developments and skills. The Council's Section 151 Officer is the officer with overall responsibility for Capital and Treasury activities and is also a professionally qualified accountant and follows an ongoing CPD programme.

13.2 All the Council's commercial projects have project teams from all the professional disciplines across the Council as and when required. External professional advice is taken where required and usually sought in consideration of any major commercial property investment decision.

13.3 Internal and external training is offered to Members on an annual basis to ensure they have up to date knowledge and expertise to understand and challenge capital and treasury decisions.

13.4 The Council's Treasury Management Panel (senior officer group) reviews all commercial and investment deals from inception right through to project completion and ongoing performance management.

14. Treasury Management

14.1 The Council also produces a Treasury Management Strategy which is approved by Full Council annually as part of the budget setting process.

14.2 There are close links between the Capital Strategy, Capital Programme and Treasury Management Strategy. The capital programme determines the borrowing need of the Council, essentially the longer term cashflow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cashflow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

14.3 At the end of 2024/2025 it is forecast that the Council's long-term debt will be £96.667m.

14.4 The Council's Authorised limit for 2022/23 is £588m and represents a limit beyond which external debt is prohibited, this limit needs to be set or revised by the Full Council.

14.5 The Council's Operational Boundary debt forecast for 2022/23 is £578m. This represents the limit beyond which external debt is not normally expected to exceed.

14.6 The Council makes provision for the repayment of debt over the life of the asset that the borrowing is funding. Over the period 2022/2023 – 2024/2025 the Council is forecast to make a provision of £27.66m for the repayment of debt. The bulk of Council borrowing is linked to the Business Loans Fund and Economic Regeneration Schemes, which generate a financial return to the Council above the borrowing cost and a number of the schemes are asset-backed.

14.7 The Council follows the requirements of The Local Government Act 2003 (the Act) and supporting regulations in managing its treasury management activities.

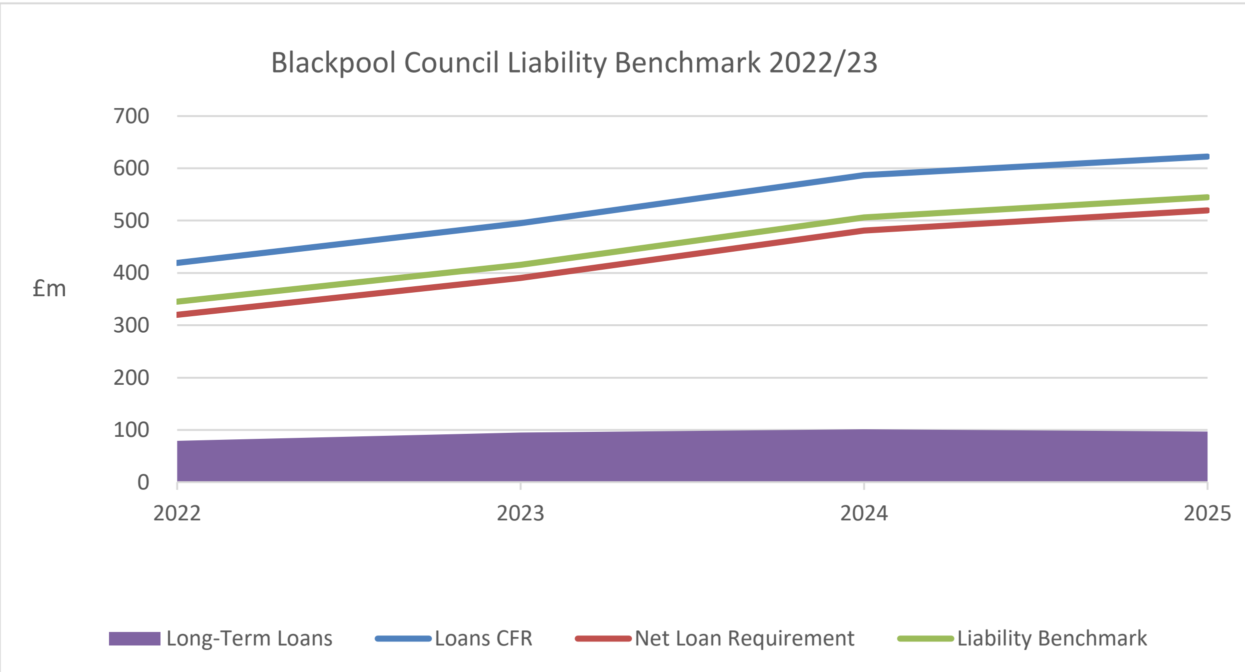
14.8 The Executive is the body responsible for the governance of Treasury Management within the Council. It recommends an annual Treasury Management Strategy to Full Council for approval as part of the annual approval of the Budget. It also receives a half-year review report and the annual Treasury Management outturn report.

14.9 The Treasury Management Panel, which comprises the Director of Resources, Finance Manager and representatives from Corporate Finance and Blackpool Coastal Housing, has responsibility for managing the risks associated with treasury management activities on an operational basis.

14.10 Treasury Management is also subject to regular Internal and External Audit reviews.

15. Liability Benchmark

15.1 The Prudential Code requires the production of a liability benchmark which is shown in the following graph. The liability benchmark is the level of expected debt given current projections for capital expenditure up to year 2024/25. The projected debt levels show what the Council expects its debt level to be. Where the debt level is below the benchmark, the Council will be in an under-borrowed position and when it is above it will be over-borrowed. This makes assumptions regarding repayment dates and can be used as a tool for scheduling future borrowing requirements.



Appendix 3b

PROPERTY INVESTMENT STRATEGY 2022/23

1.0 Introduction

1.1 This Property Investment Strategy has been updated with effect from November 2021 to meet the requirements of Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Property Investment Guidance published in November 2020. It focuses mainly on non-cash investments as shown in the table below.

Type of Investment	Strategy
Day to day investment of surplus cash balances – Treasury Management Investments	Treasury Management Strategy
Loans and acquisition of shares in wholly owned companies, joint ventures and other organisations for service and economic regeneration purposes	Investment Strategy
To earn investment income	Investment Strategy

2.0 Treasury Management Investments

2.1 The Council holds cash balances for day-to-day use, to make payments to suppliers, contractors and payroll. Balances arise as there are timing differences between Council Tax and Business Rates collected and distributed, and between other income generated and the associated service or debt management costs. The timing of long-term borrowing will be determined depending on the interest rates available which may mean that funds are held for a short period before they are required. The Council also holds reserves for future expenditure.

2.2 The consequential cash surpluses are invested in accordance with guidance from CIPFA. The balance of treasury management investments is expected to fluctuate with changing cash surpluses throughout the financial year. The management of cash surpluses are detailed in the Treasury Management Strategy.

2.3 Treasury Management Investments are reported monthly to the Treasury Management Panel with 6-monthly updates to the Executive.

3.0 Loans for Service purposes

3.1 The Council may lend money to its subsidiary companies and joint ventures, suppliers, local businesses and charities, other local service providers, local residents and its employees to support local public services and stimulate economic generation and growth.

3.2 These loans are generally provided on a commercial basis and are funded by borrowing. Loan repayments of principal are treated as a capital receipt and are available to offset against the Capital Financing Requirement (CFR). As a result there is no need to set aside a Minimum Revenue Provision (MRP) to repay individual borrowing.

3.3 The Council assesses the risk of loss before entering into, and whilst holding, service loans and undertakes further work where necessary to assess:

- who the loan is to be made to - with appropriate enquiries to fully understand the entity where the entity is not already known/associated with the Council
- the revenue stream associated with the loan to be made
- that the loans will be secured against capital assets where possible, ensuring the Council receives the asset in the event of non-repayment
- credit ratings are not routinely used for known associated entities, but would be used for supplier loans

3.4 Many of the most significant loans are made to subsidiary undertakings, and appropriate due diligence is undertaken. Where loans are made to external parties, these are subject to a thorough due diligence process using a range of internal and external advisors with appropriate expertise and experience to ensure appropriate risks are considered and highlighted prior to a report appraising the application being submitted to the Loans Panel.

3.5 The main risk when making loans is that the borrower will be unable to repay the principal lent and/or the interest due. To mitigate this risk, loans are generally fully secured against assets and only in specific and special cases would the Council consider making loans that exceed 70% loan-to-value of assets.

3.6. The following table sets out the loan facilities available (exceeding £2m) as at 31 December 2021:-

ORGANISATION	**TOTAL LOAN FACILITY (£m)**
Blackpool Housing Company	41.1
Blackpool Transport Services	38.3
Ocean Boulevard III	12.0
Blackpool Teaching Hospitals	9.2
Coolsilk	9.2
Create Developments (Blackpool) Ltd	7.5
Blackpool Entertainment Company	6.0
Blackpool Pleasure Beach	5.6
TOTAL	**128.9**

3.7 These facilities are the upper limits on the outstanding loans to each borrower approved by the Council. Any additional loan would have to be subject to further consideration by the Council.

3.8 Loans when issued are expected to be repaid in full with interest. The loans are continuously monitored and if at any time during the monitoring there are indications that the loan is expected not to be repaid in full, the Authority will implement the credit control arrangements it has in place to prevent and recover overdue sums, as appropriate. The covid pandemic will continue to have an impact on businesses in 2022/23 and their ability to pay. Any recovery action plans will be monitored and reported to the Business Loans Fund Panel on a monthly basis.

4.0 Shares for Service Purposes

4.1 The Council may invest in the shares of its subsidiaries and other jointly owned public sector led activities. In exceptional circumstances it will consider investing in its suppliers, local businesses and organisations to support local service provision and or stimulate local economic growth and regeneration.

4.2 Where an investment in shares is treated as capital expenditure and is financed by borrowing, Minimum Revenue Provisions (MRP) is set aside for repayment of the borrowing which may be calculated to match asset life, or over a shorter period in line with the Council's MRP policy (Treasury Management Strategy, Appendix 5f).

4.3 Shares are not held by the Council solely as an investment to achieve dividend income and for future sale, however a fall in value whereby the initial outlay may not be recovered would be a risk. To mitigate this risk, a full due diligence exercise is carried out before the purchase of shares and a business case will balance benefits with the risks. The accounts of subsidiary companies are also subject to regular monitoring.

4.4 The Authority does not invest in any non-specified investment types. The government defines a non-specified investment as a financial investment that is not a loan and does not meet the criteria to be treated as a specified investment see Treasury Management Strategy, Annex D for definitions of specified and non-specified investments. Shares are treated as capital investment and therefore do not meet this definition.

5.0 Strategic Property Investments

5.1 The Department of Levelling Up, Housing and Communities (DLUHC) defines property to be an investment if it is held primarily or partially to generate a profit. The Council's Commercial Property Portfolio, including assets held for future redevelopment, are included in this category.

5.2 As the Council does not currently have significant levels of funds for long-term investment, the Council does not invest in property as an Investment Strategy **solely** to achieve financial income.

5.3 The Council does invest in property if there is a strategic reason for the acquisition and there is a legal power to do so. Strategic property assets may be affordable to hold in the long term if they also generate a profit that can be spent on local public services. Strategic properties may be held for a variety of reasons including:

a) Proposed redevelopment of the site or surrounding area
b) Future potential redevelopment of a site or surrounding area
c) To influence commercial use of a site
d) Consolidation of interests in a site
e) To acquire part of a site for an alternative use
f) To maintain a property with an existing use, or to make it available for an alternative use
g) As a result of a relationship with a strategic partner, other public sector body or business within the Borough.

5.4 The Council's Commercial Property Portfolio has been acquired over time and comprises office, retail and industrial assets within Blackpool and the surrounding Local Economic Partnership area.

5.5 DLUHC guidance on Local Government Investments (2018) considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. Valuations vary depending on many factors including the local, national and global economic climate. For property investments, the valuation is directly related to the rental income achieved, a vacant area may therefore have a significant impact on the valuation. Whilst it is important to monitor the property valuations, the Council has treated these acquisitions as capital expenditure and appropriately funded these assets. The property assets are not being held for sale solely as a means to repay borrowing, the intention is for them to be held for the long term.

5.6 All investment properties that cost or were previously valued in excess of £500k are revalued on an annual basis to provide a fair value for the preparation of the Council's accounts. The investment properties that cost or were previously valued under £500k are valued on a 4-year rolling programme. The Council believes there is no benefit to valuation being completed within 12 months of acquisition, unless a material change in the occupation or condition of the building occurs and/or the market undergoes significant change.

5.7 The Council assesses the risk of loss before entering into and whilst holding property investments. Consideration is given to the operational service or strategic benefit/opportunity provided by acquisition of the asset set against the risk of loss of income to service the capital expenditure. In each case the Council/Executive will receive information on the tenancies and likely income to be achieved from any vacant areas. Investment is in the context of the long-term development plans and vision for Blackpool, the Medium-Term Financial Sustainability Strategy and level of reserves to mitigate any downturn.

5.8 Property is held as a long-term strategic asset and not a short-term financial asset. It is funded as capital expenditure and it is not therefore being held with a view to being able to convert to cash at short notice, as a treasury investment would be. Where the source of funding is borrowing, the debt taken falls within the Council's Borrowing Strategy and MRP Strategy which form Appendix 5c and Appendix 5f of the Treasury Management Strategy.

6.0 Proportionality

6.1 The Council has only been able to maintain and increase service activity and support to the local community in recent years through use of the income generated from investments in group companies and strategic commercial income. Without this income services would have had to be reduced at a time when they are most needed as other support for the vulnerable in Blackpool is under severe pressure.

6.2 Income has also supported the Council's long-term redevelopment of Blackpool Town Centre, achieving a better offer for local people, attracting businesses and employers to the Borough and contributing towards housing needs. This is a long-term vision and the development continues with further town centre improvements such as the Conference Centre and the Tramway link helping make Blackpool a town with a sustainable future.

6.3 The contribution made on profit-generating investment activity helps maintain this level of regeneration whilst achieving a balanced revenue budget. The table below shows the proportion of income derived from investments as a percentage of the Council's net service expenditure. The revenue consequences of covid will be monitored throughout the year.

	2021/22	2022/23	2023/24	2024/25
	Forecast	Budgeted	Budgeted	Budgeted
	£'000	£'000	£'000	£'000
Net Service Expenditure	149,062	156,818	156,818	156,818
Treasury Management Investment Income	-	6	6	6
Commercial Rental Income	6,131	6,328	6,328	6,328
Proportionality of investments	4.11%	4.04%	4.04%	4.04%

6.4 The Council utilises reserves to manage short-term fluctuations in income. Investment performance data will be monitored on a monthly basis. Should there be a significant permanent reduction in income, service provision would need to be reviewed.

7.0 Capacity, Skills and Culture

7.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Director of Resources, Head of Accountancy, Finance Managers and senior members of the Finance team are qualified accountants with many years' experience. The Council has a Strategic Asset Manager and Estates Management team with experience in managing properties and valuation. The Council also has an in-house legal team led by the Head of Legal Services and the Director of Governance and Partnerships (Monitoring Officer).

7.2 External advisors and consultants are used where the Council does not have the technical knowledge, experience or skills required, or the magnitude of the investment warrants external verification or support. They are also used to supplement the internal resource if Council staff do not have the capacity to manage the Council's requirements.

7.3 The Council supports training towards professional qualifications and for staff to attend relevant training courses for continued professional development. A management training programme is also being completed by senior members of staff. Blackpool Council is accredited by the Chartered Institute of Management Accountants (CIMA), the Association of Chartered Certified Accountants (ACCA) and CIPFA, and provides a working environment to support members and trainees of these accounting bodies. Specific training and briefing sessions are organised on subjects or projects as needs are identified.

8.0 Investment Indicators

8.1 The Authority has set the following quantitative indicators to provide information on the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure and funding

8.2 Total risk exposure is the Authority's total exposure to potential investment losses. Blackpool Council has a revenue budget of £156.818m and its larger investments are budgeted to contribute around £6.3m towards this in 2022/23. In line with CIPFA guidance Blackpool Council investment risk will be reviewed on a monthly basis by the Growth and Prosperity Board and six monthly by the Executive.

8.3 At 31st March 2022 the Council is estimated to under borrow by approximately £9.7m. This means that the Council's reserves and working capital balance were being used to reduce the actual borrowing taken. This is prudent as investment returns are low and short-term finance is readily available on the market.

Rate of return

8.4 Blackpool Council has been analysing the return it derives from the larger assets within its investment portfolio. As recommended by the CIPFA Prudential Property Investment Guidance the Council will improve on reporting on the rate of return derived by investments to ensure returns do not fall below expected levels. This information will form part of the six-monthly Executive report on Investments.

8.5 The Council expects investments to deliver the following rates of return (investment income less all associated costs as a proportion of the sum invested). This rate of return is reflective of normal circumstances and not the environment that has materialised since the initial covid outbreak. Property investors across the world have suffered as a result of the pandemic.

Investment	Normal Expected Rate of Return
Treasury Management Investment	>0.5%
Loans	>1.5%
Shares in Council Companies	nil
Property Investment	>2%

Consideration of Other Indicators

8.6 The Treasury Management Strategy includes additional focussed indicators which are not replicated here. Consideration will be given to further performance indicators to be included in future years, which would complement the information included in this report.

Report to:	**EXECUTIVE**
Relevant Officer:	Steve Thompson, Director of Resources
Relevant Cabinet Member	Councillor Lynn Williams, Leader of the Council
Date of Meeting	7 February 2022

CAPITAL PROGRAMME 2022/23 TO 2024/25

1.0 Purpose of the report:

1.1 To consider the 2022/23, 2023/24 and 2024/25 Capital Programme.

2.0 Recommendation(s):

2.1 To recommend to Council:

1. To approve the Capital Programme for 2022/23 as set out in this report and in Appendices 4a and 4b.

2. To agree that Executive approval will continue to be required for all Prudential borrowing schemes (reference paragraph 6.10).

3. To approve the Single Capital Pot approach as outlined with a top slice of 12.5% to allow for investment in key priority areas and overspends that are not otherwise fundable (reference paragraph 6.11).

4. To agree the Capital Prudential Indicators as identified in Appendix 4c.

3.0 Reasons for recommendation(s):

3.1 To ensure delivery of the Council's key objectives and priorities in line with the other elements of the Council's budget framework.

3.2 Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.3	Is the recommendation in accordance with the Council's approved budget?	Not applicable - the report once approved will become part of the Council's new approved budget

4.0 Other alternative options to be considered:

4.1 None.

5.0 Council priority:

5.1 The relevant Council priority is: "The economy: Maximising growth and opportunity across Blackpool"

6.0 Background information

6.1 The Council's 2022/23 Capital Programme runs concurrently with the 2022/23 General Fund Revenue Budget. Capital schemes usually extend over a number of years and for that reason the programme projects forward indicative spending for 3 years. This report updates the programme reported in last year's budget and seeks to ensure that capital expenditure is allocated to areas that will contribute to meeting the Council's priorities. The Capital Programme submitted for approval for 2022/23 is £81m and over a three-year period is estimated at £263.5m (See Appendix 4a and 4b).

6.2 The 2023/24 and 2024/25 programmes have been drawn up based upon known allocations and provisional bids. Government announcements in respect of some allocations have once again been delayed this year, due to this situation Blackpool Council has chosen to include estimates of these figures. An update will be provided to Executive once these allocations have been announced. These will be reviewed as part of the budget processes for 2023/24 and 2024/25 in the light of changing priorities and final funding levels, which means that no commitment can be made as yet in respect of those new schemes identified for 2023/24 and 2024/25.

6.3 The Council has suffered from severe cuts in capital funding. It has continued to be proactive in seeking additional funding for schemes, and is seeking to take advantage of low level interest rates to facilitate investment and regeneration of the town.

6.4 The status of the Capital Programme is reported monthly to the Corporate Leadership Team (CLT) and the Executive as well as the relevant Scrutiny Committees.

6.5 The Capital Programme now submitted is consistent with that agreed for 2021/22. It includes identified commitments for housing developments. The scale of these commitments means that there are very limited resources to deliver additional schemes that are not fully funded.

6.6 The Capital Programme prepared for 2022/23 does not include budgeted expenditure that has previously been approved by Executive. Blackpool Council has approximately £38m available for capital projects, e.g. The Museum, Houndshill Phase 2 and Central Business District phase 2, that has been approved in previous years but not yet expended. The total capital budget therefore for 2022/23 is in reality approximately £118.8m.

6.7 The programme does not yet take account of funding announcements anticipated in respect of Capital schemes. Additional funding streams are expected to be confirmed after the approval of this Capital Programme and reference will be made in the subsequent financial monitoring report to Executive.

6.8 The Capital Programme proposed demonstrates the increased investment that Blackpool Council is making in the town to ensure that Blackpool develops a year round economy that both attracts visitors and encourages growth in the town.

6.9 **Capital Funding**

The Council's capital spending is funded from specific capital grants, capital receipts and revenue contributions. In addition to these traditional forms of funding the Council can undertake Prudential Borrowing within limits set by the Council itself.

6.10 **Prudential Borrowing**

A relaxation of controls upon local authority borrowing was introduced from 2004/05 and requires prudent management because the debt financing costs of such borrowings are not supported by Government grant and fall directly upon Council Tax unless the schemes themselves generate sufficient savings or income to meet the financing costs. The approach agreed by this Council is that Prudential schemes can only take place in the following circumstances:

(1) Prudential Borrowing schemes must be specifically authorised by the Executive.

(2) The financing costs of such schemes will be charged to identified service budgets by means of a budget virement to the central Treasury Management budget.

(3) The total level of Prudential borrowing must remain within the limits set in the Council's annual Treasury Management Strategy (see separate report to this Executive meeting).

Therefore, in most cases Prudential Borrowing will only be approved where the scheme is likely to be self-financing over a reasonable payback period (such as energy management initiatives) or where there is an identified budget which can meet the costs.

Supressed interest rates have encouraged the use of Prudential Borrowing and provided an opportunity for Blackpool Council to invest in schemes that may not have been viable in the past. The investment made in capital schemes is monitored via the monthly report provided to Corporate Leadership Team and Executive. The movement in interest rates is also monitored via the Treasury Management Panel.

The Council adheres to CIPFA's *Prudential Code for Capital Finance in Local Authorities* which requires authorities to set a range of 'Prudential Indicators' as part of the Budget-setting process. Those relating specifically to the capital programme are as follows with more detailed information in Appendix 4c:-

(1) The actual capital position – (Non-Housing Revenue Account and Housing Revenue Account) for 2022/23 will be reported as part of the 2022/23 Capital Outturn report to Executive.

(2) Prudence – capital expenditure including commitments for non-Housing Revenue Account and Housing Revenue Account for 2022/23 will be reported monthly to the Executive by means of the Capital Monitoring report.

6.11 **Single Capital Pot**

The Council has capital funding made available to it by the Government in the form of capital grants. These fall into two categories of ring-fenced and non-ring-fenced. The ring-fenced capital grants can only be used for specifically named schemes. An example of this type of funding is the Devolved Formula Capital grant that is specifically allocated to individual schools. In addition, the Government makes available non-ring-fenced capital grants. These allocations come from individual Government departments but fall into the category known as Single Capital Pot. This means they can be used for any proper capital expenditure on any service. Good practice shows that the Council would allocate this funding to a capital programme to meet its priorities and objectives without regard to the source Government department providing the funding. However, the problem with this approach is that there is a possibility of these allocations being reduced in future years. It has therefore previously been agreed that the central government allocations to individual services should remain broadly as originally notified.

There is clearly a balance to be had in looking at the overall investment needs of the Council and individual service priorities. It is proposed that the Council uses some non- ring-fenced capital grants in future for its corporate priorities, thereby allowing key schemes to proceed. The intention would be to retain the top-slice at 12.5% (12.5% first applied in 2005/06) of basic service capital grant in 2021/22 for corporate priorities including additional expenditure anticipated on existing schemes. The impact of this 12.5% proposal is set out overleaf (excluding Disabled Facilities Grant - see below):

Department	2022/23 Non-ringfenced Allocations £000	12.50% Top-slice £000	Net Total £000
Communication & Regeneration	2,886	361	2,525
Adult Services (see 4.4 below)	2,615	71	2,544
Childrens Service	575	72	503
TOTAL	6,076	504	5,572

The proposed allocations of the top-slicing can be found in section 9.

As can be seen from the table below the non-ring-fenced capital grant allocation shows an increase from 2021/22 to 2022/23:

Department	2021/22 £000	2022/23 £000	Increase £000
Communication and Regeneration	2,886	2,886	0
Adult Services	2,304	2,615	311
Childrens Service	358	575	217
TOTAL	5,548	**6,076**	**528**

The Disabled Facilities Grant of £1,986k has been identified for 2022/23. This is an integral part of the Better Care initiative (formerly Integrated Transformation Fund) to support the integration of health and social care and as such will be protected for this purpose.

6.12 **Capital Receipts**

The Council has and will continue to commit capital receipts to the support of the Capital Programme. The realization of capital receipts is essential in ensuring future schemes can proceed.

6.13 **Priority Led Budgeting**

During 2013/14 the Corporate Asset Management Group formally agreed that a Priority Led approach would continue to be adopted in approving capital schemes from the available corporate resource.

The agreed approach allocates capital resources in line with the legislative framework, i.e. priority schemes are deemed to be those which include statutory obligations or health and safety issues.

A range of categories was agreed that could be assigned to each scheme:

Category 1 – have to do – statutory obligations, health and safety, committed schemes, overspends

Category 2 – need to do – schemes that generate future revenue savings or support transformational process

Category 3 – able to do - fully prudentially funded schemes / School schemes where resources available

Category 4 – want to do – aspirational schemes that the Council would like to progress should resources be available and which align with Corporate Priorities

Category 5 – do not want to do – schemes that do not align with Corporate Priorities.

The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and take account of stewardship, value for money, prudence, sustainability and affordability. The Capital Strategy incorporates the Capital Programme.

6.14 **Capital Programme**

The proposed capital programme takes account of all available resources including capital receipts and the top-sliced resource to fund corporate priorities and other costs. These are identified at Appendix 4a.

The proposed schemes that will proceed or are in progress are set out in detail at Appendix 4b. The expenditure by directorate is:-

Directorate	2022/23 £000	2023/24 £000	2024/25 £000
Communication and Regeneration	46,239	61,239	40,079
Housing Revenue Account	20,100	23,517	19,435
Community and Environment	10,681	12,708	18,114
Adult Services	2,544	2,615	2,615
Children's Services	1,003	1,075	1,075
Resources	0	0	0
Governance and Partnerships	0	0	0
Net top-slice	504	TBD	TBD
TOTAL	**81,071**	**101,154**	**81,318**

The proposed Capital Programme supports key priorities, in particular regeneration of the town. The key schemes to be undertaken in the next twelve months are:-

(1) Central Business District Phase 3.
(2) Enterprise Zone
(3) Grange Park Housing Project.

The Foxhall Village housing scheme is currently reporting an overspend of £1.8m, mostly due to Hollinwood Homes entering administration. The Council is working with partners to develop options to complete the Foxhall Village scheme. A more detailed report will be submitted to Executive in due course.

6.15 **Management of the Risks Associated with the Capital Programme**

The key risks in terms of the management of the proposed capital programme are:-

(1) Covid.

(2) Inflation and supply chain issues.

(3) Expected revenue streams derived from capital schemes are not delivered.

(4) Private sector developers unable to raise finance, renegotiating or pulling out of deals.

(5) Contractors likewise getting into financial difficulty

(6) Anticipated funding, e.g. grant, capital receipts and s.106 monies, not being realised and / or the clawback of external funding resulting in funding shortfalls

(7) Delivery of the scheme over-budget and / or late

(8) Increased reliance on borrowing, which is linked to the interest rate risk.

Regular monthly capital monitoring reports are provided and Finance staff aim to meet with project managers of the larger and more complex schemes on a monthly basis. A risk register and details of projected overspends on schemes are also provided on a regular basis.

Schemes that have specific funding attached should only proceed where the external funding has been formally agreed. There is no commitment upon the Council to fund a shortfall in such circumstances.

In addition, 2021/22 saw the emergence and resolution of a number of additional areas of risk within the capital programme. These are reported to the Corporate Leadership Team and Corporate Asset Management Group and work is ongoing to address these issues and mitigate where possible. A risk-based reserve strategy continues to be operated through the Medium Term Financial Sustainability Strategy and the recommendation propose the creation of a top-slice contingency in the result of any overspends arising.

6.16 **<u>Capital Expenditure Commitments</u>**

Regular capital monitoring identifies schemes for which there is a contractual and legal obligation to fund and these become a call on available resources. There are 3 areas that fall into this category:-

	£000
Previously approved legacy costs	100
Carleton Crematorium - Cremators	214
Development of Carleton cemetery	125
Unallocated	65
TOTAL	**504**

Corporate Asset Management Group has previously recommended the following:

(1) On 8 January 2013 that College Relocation abortive costs phased over an initial 15-year period (from 2013/14) become the first call on any top-slice.
(2) On 16 January 2018 that the old Carleton Crematorium Cremators would be funded over a 14 -period (from 19/20).
(3) On 16 January 2020 that the development of Carleton cemetery (burial ground extension) will be funded over an 8 year period (from 21/22). The existing cemetery grounds have approximately 3-4 years left to expand to fulfil the projected burial requirements and work needs to be undertaken this next financial year to ensure that land which has been set aside is started to be prepared to enable expansion of the cemetery to be made. This will be funded through a combination of previous year's surplus top slice and future years.

A number of long-term strategic schemes such as the Blackpool Central development are referred to elsewhere in this report. On occasion the opportunity to purchase small parcels of land or property associated with these may arise and where these purchases are essential to the project and can be completed within officer delegations this will be done within the existing contingency and any unallocated resource contained within this report.

6.17 Does the information submitted include any exempt information? No

7.0 List of Appendices:

7.1 Appendix 4a- Capital Programme Summary
Appendix 4b- Capital Programme by Service

Appendix 4c- The Prudential Code for Capital Finance- Prudential Indicators

8.0 Financial considerations:

8.1 Once approved, capital budget monitoring will be reported to the Executive on a monthly basis with effect from Month 3 2022/23.

9.0 Legal considerations:

9.1 As outlined in the report.

10.0 Risk management considerations:

10.1 As outlined in the report

11.0 Equalities considerations:

11.1 As outlined in the report.

12.0 Sustainability, climate change and environmental considerations:

12.1 As outlined in the report.

13.0 Internal/external consultation undertaken:

13.1 Internally with Capital Asset Management Group and the Corporate Leadership Team.

14.0 Background papers:

14.1 Individual scheme business cases and budget working papers.

15.0 Key decision information:

15.1	Is this a key decision?	Yes
15.2	If so, Forward Plan reference number:	25/2021
15.3	If a key decision, is the decision required in less than five days?	No
15.4	If **yes**, please describe the reason for urgency:	

16.0 Call-in information:

16.1 Are there any grounds for urgency, which would cause this decision to be exempt from the call-in process? No

16.2 If **yes**, please give reason:

TO BE COMPLETED BY THE HEAD OF DEMOCRATIC GOVERNANCE

17.0 Scrutiny Committee Chairman (where appropriate):

Date informed: 28 January 2022 Date approved:

18.0 Declarations of interest (if applicable):

18.1

19.0 Summary of Discussion:

19.1

20.0 Executive decision:

20.1

21.0 Date of Decision:

21.1

22.0 Reason(s) for decision:

22.1

23.0 Date Decision published:

23.1

24.0 Alternative Options Considered and Rejected:

24.1

25.0 Executive Members in attendance:

25.1

26.0 Call-in:

26.1

27.0 Notes:

27.1

BLACKPOOL COUNCIL

Appendix 4a

CAPITAL PROGRAMME 2022/23 TO 2024/25

SERVICE	FOR APPROVAL 2022/23 PROPOSED PROGRAMME £000	FOR INFORMATION 2023/24 POTENTIAL PROGRAMME £000	FOR INFORMATION 2024/25 POTENTIAL PROGRAMME £000
COMMUNICATION & REGENERATION	46,239	61,239	40,079
HOUSING REVENUE ACCOUNT	20,100	23,517	19,435
COMMUNITY & ENVIRONMENT	10,681	12,708	18,114
ADULT SERVICES	2,544	2,615	2,615
CHILDREN'S SERVICES	1,003	1,075	1,075
RESOURCES	-	-	-
GOVERNANCE AND PARTNERSHIPS	-	-	-
TOP-SLICE TO BE ALLOCATED	504	TBD	TBD
TOTAL PROGRAMME	**81,071**	**101,154**	**81,318**

FUNDING SOURCES	FOR APPROVAL 2022/23 PROPOSED PROGRAMME £000	FOR INFORMATION 2023/24 POTENTIAL PROGRAMME £000	FOR INFORMATION 2024/25 POTENTIAL PROGRAMME £000
GRANTS / CONTRIBUTIONS	9,502	12,644	18,625
PRUDENTIAL BORROWING	40,975	57,951	31,764
SPECIFIC CAPITAL GRANTS	30,520	30,485	30,855
CAPITAL RECEIPTS	74	74	74
REVENUE CONTRIBUTIONS	-	-	-
TOTAL FUNDING	**81,071**	**101,154**	**81,318**

Please note that capital funding and spend approved in previous years that has slipped into this period is not reflected in this schedule .

BLACKPOOL COUNCIL

CAPITAL PROGRAMME 2022/23 TO 2024/25

	FOR APPROVAL	FOR INFORMATION	FOR INFORMATION
	2022/23 PROPOSED PROGRAMME £000	2023/24 POTENTIAL PROGRAMME £000	2024/25 POTENTIAL PROGRAMME £000
GRANTS / CONTRIBUTIONS / ETC.			
C & YP - Devolved Capital			
HRA Revenue	3,616	6,000	6,000
Homes England	3,586	4,344	1,230
Leaseholder Income	71	71	71
BCH Various	8	8	8
Revenue - Towns Fund	1,750	1,750	1,750
BFC - Towns Fund	471	471	9,566
PRUDENTIAL BORROWING			
CBD Phase 3	25,000	40,000	17,000
Towns Fund	3,230	4,931	2,712
HRA	12,745	13,020	12,052
SPECIFIC CAPITAL GRANTS			
Children - Condition	503	575	575
Children - Top-Slice @ 12.5%	72		
Childrens - High Needs Provision	500	500	500
ASC - Social Care	558	629	629
ASC - Top-Slice @ 12.5%	71		
LTP - Integrated Transport	1,358	1,719	1,719
LTP - Maintenance	1,167	1,167	1,167
LTP - Top-Slice @ 12.5%	361		
EA - Coastal	10,681	12,708	18,114
Disabled Facilities Grant	1,986	1,986	1,986
Towns Fund	13,263	11,201	6,165
CAPITAL RECEIPTS			
Housing - Right to Buy	74	74	74
REVENUE CONTRIBUTIONS			
TOTAL RESOURCES	**81,071**	**101,154**	**81,318**

Please note that capital funding and spend approved in previous years that has slipped into this period is not reflected in this schedule.

BLACKPOOL COUNCIL

CAPITAL PROGRAMME 2022/23 TO 2024/25

	FOR APPROVAL	FOR INFORMATION	FOR INFORMATION
	2022/23 PROPOSED PROGRAMME £000	2023/24 POTENTIAL PROGRAMME £000	2024/25 POTENTIAL PROGRAMME £000
Communication and Regeneration			
LTP - Capital Maintenance	1,167	1,167	1,167
LTP - Integrated Transport : Road Safety	114	114	114
LTP - Integrated Transport : Congestion	634	788	788
LTP - Integrated Transport : Visitor Economy	503	710	710
LTP - Integrated Transport : Parking Management	18	18	18
LTP - Integrated Transport : Accessibility	46	46	46
LTP - Monitoring	17	17	17
Programme and Scheme Development	9	9	9
Electric Vehicle charging points	17	17	17
CBD Ph 3	25,000	40,000	17,000
Town Deal - Multiversity	5,545	2,865	45
Town Deal - Revoe/South Quarter	1,810	1,994	12,885
Town Deal - Courts	34	3,034	360
Town Deal -Illuminations	2,679	2,537	2,377
Town Deal - Enterprise Zone	5,538	4,811	4,352
Town Deal -The Edge	3,108	3,112	174
TOTAL	**46,239**	**61,239**	**40,079**

Please note that capital funding and spend approved in previous years that has slipped into this period is not reflected in this schedule .

BLACKPOOL COUNCIL

CAPITAL PROGRAMME 2022/23 TO 2024/25

	FOR APPROVAL	FOR INFORMATION	FOR INFORMATION
	2022/23 PROPOSED PROGRAMME £000	2023/24 POTENTIAL PROGRAMME £000	2024/25 POTENTIAL PROGRAMME £000
Childrens Services			
Condition Funding	503	575	575
High Needs Provision	500	500	500
TOTAL	**1,003**	**1,075**	**1,075**

BLACKPOOL COUNCIL

CAPITAL PROGRAMME 2022/23 TO 2024/25

	FOR APPROVAL	FOR INFORMATION	FOR INFORMATION
	2022/23 PROPOSED PROGRAMME £000	2023/24 POTENTIAL PROGRAMME £000	2024/25 POTENTIAL PROGRAMME £000
Housing Revenue Account			
Maintain Decent Homes Standard	4,551	4,304	6,997
Dunsop Court	477	10	-
Grange Park	12,251	8,853	1,118
250 Acquisitions and Refurbishments as per Council Homes Investment Plan	-	4,260	5,260
Infills/ Feasibilty Study	130	130	130
Council House Investment Plan	-	3,230	3,230
Housing Project Support	40	40	40
Other Schemes	2,651	2,690	2,660
TOTAL	**£ 20,100**	**23,517**	**19,435**

Please note that capital funding and spend approved in previous years that has slipped into this period is not reflected in this schedule.

BLACKPOOL COUNCIL

CAPITAL PROGRAMME 2022/23 TO 2024/25

	FOR APPROVAL	FOR INFORMATION	FOR INFORMATION
	2022/23 PROPOSED PROGRAMME £000	2023/24 POTENTIAL PROGRAMME £000	2024/25 POTENTIAL PROGRAMME £000
Community and Environment			
Coastal Protection			
Little Bispham to Bispham	9,000	10,000	10,289
Bispham Capital Maintenance	1,000	2,000	2,616
Beach Nourishment	500	500	5,000
Sand Dunes	181	208	208
TOTAL	**10,681**	**12,708**	**18,113**

Please note that capital funding and spend approved in previous years that has slipped into this period is not reflected in this schedule.

BLACKPOOL COUNCIL

CAPITAL PROGRAMME 2022/23 TO 2024/25

	FOR APPROVAL	FOR INFORMATION	FOR INFORMATION
	2022/23 PROPOSED PROGRAMME £000	2023/24 POTENTIAL PROGRAMME £000	2024/25 POTENTIAL PROGRAMME £000
Adult Services			
Disabled Facilities Grant	1,986	1,986	1,986
Adult Social Care	558	629	629
TOTAL	**2,544**	**2,615**	**2,615**

Please note that capital funding and spend approved in previous years that has slipped into this period is not reflected in this schedule.

BLACKPOOL COUNCIL

CAPITAL PROGRAMME 2022/23 TO 2024/25

	FOR APPROVAL	FOR INFORMATION	FOR INFORMATION
	2022/23 PROPOSED PROGRAMME £000	2023/24 POTENTIAL PROGRAMME £000	2024/25 POTENTIAL PROGRAMME £000
Resources	-	-	-
TOTAL	**-**	**-**	**-**

Please note that capital funding and spend approved in previous years that has slipped into this period is not reflected in this schedule.

BLACKPOOL COUNCIL

CAPITAL PROGRAMME 2022/23 TO 2024/25

	FOR APPROVAL	FOR INFORMATION	FOR INFORMATION
	2022/23 PROPOSED PROGRAMME £000	2023/24 POTENTIAL PROGRAMME £000	2024/25 POTENTIAL PROGRAMME £000
Governance and Partnerships			
TOTAL	**-**	**-**	**-**

Please note that capital funding and spend approved in previous years that has slipped into this period is not reflected in this schedule.

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THE PRUDENTIAL CODE FOR CAPITAL FINANCE:
PRUDENTIAL INDICATORS

1. Prudential Indicators: the actual position

Actual Capital Expenditure for 2022/23

Non-HRA and HRA

After the year-end the actual capital expenditure incurred during the financial year will be recorded. This prudential indicator will be referred to as actual capital expenditure and shall be expressed as ‘actual capital expenditure for 0X/0Y’. The Code also requires separate identification of the actual HRA and non-HRA elements of this Prudential Indicator. *(Prudential Code, paragraph 51 & 52).*

Actual capital expenditure for 22/23	non-HRA	HRA
	£m	£m

2. Prudential Indicators for Prudence

Prudential Indicators for Prudence: Capital Expenditure (including capital commitments).

Non-HRA and HRA

Local authorities are required to make reasonable estimates of the total of capital expenditure that they plan to incur during the forthcoming financial year and at least the following two financial years. These prudential indicators shall be referred to as the ‘estimate of total capital expenditure to be incurred in years 1, 2 and 3’. A local authority that has a Housing Revenue Account (HRA) will identify separately estimates of HRA capital expenditure and estimates of non-HRA capital expenditure. *(Prudential Code, paragraphs 48 & 49)*.

The Corporate Asset Management Group in conjunction with the Capital Finance Team have completed the capital programme likely to be required over the next three years, together with the financial resources likely to be available for those schemes. This has taken into account new borrowing for which the Government is providing resources to meet interest and debt repayment costs via Formula Grant, Government grants, capital receipts and other funding (including s106 receipts). The current estimates of capital expenditure that should be funded are:

	Total schemes	Non-HRA schemes	HRA schemes
2022/23	£ 81.1M	£ 61.0M	£ 20.1M
2023/24	£ 101.2M	£ 77.7M	£ 23.5M
2024/25	£ 81.3M	£ 61.9M	£ 19.4M

The figures on the previous page have to be approved in the February 2022 Capital Programme report. The Council may as part of its budget considerations in future years decide to approve a lower level of capital expenditure - thus reducing the costs of financing in the revenue budget - or a higher level of capital expenditure if there is scope.

Report to:	**EXECUTIVE**
Relevant Officer:	Steve Thompson, Director of Resources
Relevant Cabinet Member	Councillor Lynn Williams, Leader of the Council
Date of Meeting	7 February 2022

TREASURY MANAGEMENT STRATEGY 2022/23

1.0 Purpose of the report:

1.1 To consider and recommend to Council the Treasury Management Strategy 2022/23 and its Appendices 5a to 5f.

2.0 Recommendation(s):

2.1 To recommend to the Council:

1. To approve the Treasury Management Strategy 2022/23 including both the Borrowing and Investment Strategies which are set out in Appendix 5c and Appendix 5d to this report;
2. To adopt the Treasury Management Policy Statement, the three key principles and four clauses taken from CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (2021 Edition) set out in Appendix 5b to this report;
3. To approve the revised Prudential Indicators and limits for 2022/23 and the new Prudential Indicators and limits for 2022/23 – 2024/25 which are set out in Appendix 5e to this report, and
4. To approve the Minimum Revenue Provision Policy Statement for 2022/23, which will ensure a prudent Minimum Revenue Provision charge in the annual statement of accounts. The policy is set out in Appendix 5f to this report.

3.0 Reasons for recommendation(s):

3.1 The CIPFA Code of Practice on Treasury Management Activities requires the annual approval of strategy and reporting of performance information. This report sets out the Council's Treasury Management Strategy for 2022/23.

3.2	Is the recommendation contrary to a plan or strategy adopted or approved by the Council?	No
3.3	Is the recommendation in accordance with the Council's approved budget?	Yes

4.0 Other alternative options to be considered:

4.1 None.

5.0 Council priority:

5.1 The relevant Council priority is: "The economy: Maximising growth and opportunity across Blackpool".

6.0 Background information

6.1 The Council is required by statute to publish an annual Treasury Management Strategy incorporating its Borrowing and Investment Strategies. It is also required to prepare a Capital Strategy incorporating both strategic investments for economic regeneration as well as more detailed capital plans for effective service delivery. The Council's Capital Strategy is the subject of a separate report and will be presented to the Executive and then to Full Council with the Treasury Management Strategy.

In essence the Treasury Management Strategy is an annual plan of how Blackpool Council will manage its investments and cashflows. It identifies the Council's borrowing needs and shows how it will invest temporary surplus cash balances, and how it will control its banking, money market and capital market transactions.

The Scale of Operations at Appendix 5a shows the levels of capital expenditure, borrowing and temporary investments and also the impact that spending on new capital schemes, strategic investments and economic regeneration activities have on affordability levels.

6.2 **<u>Definition</u>**

The Chartered Institute of Public Financial and Accountancy (CIPFA) defines Treasury Management as "The management of the organisation's borrowing, investments and cashflows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

6.3 **Background**

Blackpool's Capital Programme for 2022/23–2024/25 continues to focus on schemes which will help to improve the economic wellbeing and prosperity of Blackpool and the surrounding area. Capital grants received from central government remain at a low level but the Council is using low cost borrowing to invest in regeneration. Total cash moving annually through the Council's bank account including the re-investment of temporary cash surpluses and re-borrowing of temporary cash shortfalls is expected to be over £1,140m in the current year.

Large capital regeneration schemes such as the continuing rollout of the Central Business District, the extension of the Tramway to Blackpool North Station and the new Conference Centre are in a mature stage of development. Other large schemes are also expected to progress with the Council focusing on those projects which will help grow the economy and prosperity within the town.

The Treasury Management Panel, which comprises the Director of Resources, Chief Accountant and representatives from Corporate Finance and Blackpool Coastal Housing, has the responsibility for managing the risks associated with treasury management activities on an operational basis. The Panel recognises the need to balance investment risk against achieving an acceptable return on temporary surplus cash balances. The balance sought is to maximise the security and liquidity of the Council's investments, with higher yields being obtained only where they are consistent with those desired levels of security and liquidity.

6.4 **Objectives**

The objectives of the Treasury Management Strategy are as follows:

- To set the framework for the Council's treasury management operations
- To manage the Council's investments and cashflows
- To control banking, money market and capital market transactions
- To plan and secure appropriate borrowing in order to finance the requirements of the Capital Strategy at the lowest overall cost to the Council
- To achieve the best rates of return from the investment of temporary surplus cash balances commensurate with risk, subject to the overriding principle of maintaining an acceptable level of security
- To monitor and control effectively the risks associated with these transactions
- To comply with appropriate codes and regulations including the International

Financial Reporting Standards as they apply to Treasury Management.

In delivering the above objectives the Council is required to:

- Determine its own borrowing limits taking into account its financial situation, long-term plans and in particular what it thinks is affordable now and sustainable in the future

- Monitor its borrowing limits using performance measures called Prudential indicators, these are set out in detail in Appendix 5e to this report

- Consider annual and six-monthly reports on Treasury Management which contain prudential indicators.

6.5 **<u>Economic Outlook</u>**

Covid has had a significant negative impact on the Global and UK economy and the outlook for the UK economy continues to be affected as the government takes steps to mitigate the consequences of the pandemic. The resulting uncertainty means continuing risk and so it is important that the Council's treasury and investment affairs continue to be managed in a cautious and prudent manner.

As a result of this uncertainty, the Bank of England expects interest rates to remain low. However as at the time of writing, due to inflationary pressures the Bank of England increased the base rate to 0.25% and indicated possible further increases in the near future. For the purpose of this report the information provided by Office of Budget Responsibility have been used and this forecasts the base rate will increase to 0.50% in 2022 and further increase to 0.75% in 2023/24. Money market investment rates for temporary surplus cash balances have also decreased with the base rate with the current rate for a three-month fixed-term deposit with a high street bank is typically 0.01% and some negative interest rates have been offered by the Debt Management Office for short-term deposits.

Long-term borrowing rates, influenced by gilt yields, are generally stable but PWLB rates increased abruptly in October 2019 when the government took the decision to increase the interest rate by 100 basis points. Following consultation in 2020, the government reduced the rates by 100 basis points in November 2020 along with issuing new conditions of accessing the Public Works Loan Board (PWLB), including that PWLB loans cannot be taken to purchase investment assets primarily for yield. Market expectations are that rates will gradually increase towards the end of 2023 in line with the base rate.

6.6 **Treasury Management Strategy - Key Principles**

A summary of the key principles upon which the strategy is based is set out below and is expanded in more detail in Appendix 5b

- Temporary investments will be restricted to UK Banks and Building Societies unless non-UK institutions satisfy the stringent requirements set out in the Investment Counterparty and Liquidity Framework (Appendix 5d, paragraph 2.4).

- Short-dated Gilts (UK government securities with a life of less than one year) will continue to form part of the Council's approved list of investments.

- Fixed-term cash deposits are currently restricted to terms of not more than three months (subject to review by the Treasury Management Panel).

- Temporary cash surpluses will continue to be applied to reduce the Council's need to borrow.

- New long term borrowing to support capital expenditure will only be taken in favourable conditions. The Council is a registered shareholder in the UK Municipal Bond Agency, which entitles the Council to borrow from them if the Treasury Management Panel considers them to be competitive.

- The Treasury Management Panel will remain alert to market intelligence through the financial press, contacts in the financial markets and our communication with other local authorities.

- Treasury management advisers will only be engaged on an ad-hoc basis, responsibility for all treasury management activities being retained in-house.

- Long-term debt will be repaid in advance of redemption date where there is demonstrable financial advantage to the Council.

- The Policy for allocating borrowing costs to the Housing Revenue Account (HRA) for 2022/23 and future years will be the same as in previous years and will be based on the Housing Revenue Account share of the Capital Financing Requirement (HRACFR). The charge will be made up of the interest payable on long-term loans in the Housing Revenue Account pool and an additional charge or credit where the HRA pool of loans is either below or above the Housing Revenue Account share of the Capital Financing Requirement.

- Prudentially funded capital schemes will be charged a Minimum Revenue Provision (MRP) and interest at the pooled borrowing rate for the General Fund except in exceptional circumstances when the Director of Resources deems it appropriate to use an alternative rate. In cases where the interest rate is lower than the pooled rate there must be clear evidence that the use of the lower rate is affordable. The policy on charging Minimum Revenue Provision is set out in Appendix 5f. This policy is reviewed annually.

Whilst temporary borrowing rates are low the Treasury Management Panel will continue to use temporary loans as its preferred source of finance. A switch to long-term borrowing may be made in order to protect the margin and when the interest rate environment is favourable.

When the Council makes business loans, it takes into account its own cost of borrowing, the likelihood of future interest rate movements, the risks of the venture and any state aid implications in ensuring that it at least covers its own costs.

Capital spending has been financed by using internal balances and by using short-term loans which continue to be available at very low interest rates

A revised Treasury Management Code (the Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes) and Prudential Codes were issued in December 2021. These apply with immediate effect, however reporting requirements are deferred until the 2023/24 financial year.

6.7 Does the information submitted include any exempt information? No

7.0 List of Appendices:

7.1 Appendix 5a – Scale of Operations
Appendix 5b – Treasury Management Policy Statement 2022/23-2024/25
Appendix 5c – Borrowing Strategy
Appendix 5d – Investment Strategy 2022/23-2024/25
Appendix 5e – Prudential Indicators 2022/23-2024/25
Appendix 5f – Minimum Revenue Provision (MRP) Strategy 2022/23-2024/25

8.0 Financial considerations:

8.1 As outlined in this report and Appendices 5a to 5f.

9.0 Legal considerations:

9.1 None.

10.0 Risk management considerations:

10.1
- Liquidity Risk (accessibility and/or running out of cash)
- Market Risk (movements in interest rates – yield)
- Credit Risk (investment counterparties might default – security)
- Legal Risk (transactions and actions legal/within regulatory limits)
- Operational Risk (adequacy of internal processes)

11.0 Equalities considerations:

11.1 None.

12.0 Sustainability, climate change and environmental considerations:

12.1 None

13.0 Internal/external consultation undertaken:

13.1 With the Council's Treasury Management Panel

14.0 Background papers:

14.1 None.

15.0 Key decision information:

15.1	Is this a key decision?	Yes
15.2	If so, Forward Plan reference number:	28/2021
15.3	If a key decision, is the decision required in less than five days?	N/A
15.4	If **yes**, please describe the reason for urgency:	

16.0 Call-in information:

16.1	Are there any grounds for urgency, which would cause this decision to be exempt from the call-in process?	No

16.2 If **yes**, please give reason:

TO BE COMPLETED BY THE HEAD OF DEMOCRATIC GOVERNANCE

17.0 Scrutiny Committee Chairman (where appropriate):

Date informed: 28 January 2022 Date approved:

18.0 Declarations of interest (if applicable):

18.1

19.0 Summary of Discussion:

19.1

20.0 Executive decision:

20.1

21.0 Date of Decision:

21.1

22.0 Reason(s) for decision:

22.1

23.0 Date Decision published:

23.1

24.0 Alternative Options Considered and Rejected:

24.1

25.0 Executive Members in attendance:

25.1

26.0 Call-in:

26.1

27.0 Notes:

27.1

TREASURY MANAGEMENT STRATEGY 2022/23

APPENDIX 5a – Scale of Operations

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Capital Expenditure - The projected capital expenditure - presented here in order to show the complete treasury position - and for which approval is separately requested in the Capital Programme 2022/23 – 2024/25 Report is expected to be:

Capital Expenditure £M	2021/22 Revised	2022/23 Programme	2023/24 Programme	2024/25 Programme
Non-HRA programme	38	61	78	62
HRA programme	5	20	24	19
Sub total	**43**	**81**	**101**	**81**
Business Loans Fund	5	40	50	20
Total	**48**	**121**	**151**	**101**

Debt Requirement - Part of the capital expenditure programme will be financed directly through government grants, capital receipts etc. This leaves a residue which will increase the Council's external borrowing requirement (its Capital Financing Requirement [CFR]). The General Fund CFR is reduced each year by a statutory revenue charge for the repayment of debt. The HRA is under no requirement to make such a charge.

Capital Financing Requirement £M	2021/22 Revised	2022/23 Programme	2023/24 Programme	2024/25 Programme
Non-HRA	503	563	638	660
HRA	12	25	38	50
Total	**515**	**587**	**676**	**710**

Against this borrowing need (the CFR), the Council's expected external debt position for each year (the **Operational Boundary**) and the maximum amount it can borrow (the **Authorised Limit**) are:

£M	2021/22 Revised	2022/23 Projection	2023/24 Projection	2024/25 Projection
Authorised Limit	524	588	677	709
Operational Boundary	514	578	667	699

Affordability Prudential Indicators – Actual and estimates of the ratio of financing costs to net revenue stream. This indicator identifies the trend in the cost of capital (borrowing costs net of investment income) against the net revenue stream:

%	2021/22 Revised	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Non-HRA	4.3%	4.4%	9.3%	12.8%
HRA	2.2%	3.3%	5.3%	7.0%

Investments - The value of resources applied to finance the capital spend above is one of the elements which influence the Council's overall resources. The expected position of the Council's year-end resources (capital reserves, capital receipts, etc.), is shown below. This is supplemented with the expected cashflow position to provide an overall estimate of the year-end investment position. The Prudential Indicator identifying the ability to invest longer term is also shown.

£M	2021/22 Revised	2022/23 Projection	2023/24 Projection	2024/25 Projection
Total Resources	-	-	-	-
Working Capital	-	-	-	-
Temporary Borrowing	(330)	(387)	(474)	(520)
Sums Invested >364 days	-	-	-	-

APPENDIX 5b – Treasury Management Policy Statement 2022/23 - 2024/25

1. Introduction

1.1 Treasury management is undertaken in accordance with the CIPFA Code of Practice for Treasury Management in the Public Services ("the TM Code"). This Code was reviewed and updated following developments in the marketplace and the introduction of the Localism Act 2011 for English local authorities. Updated Prudential and Treasury Management codes were issued in December 2021 and apply with immediate effect except that authorities may defer introducing the revised reporting requirements until the 2023/24 financial year.

2. Key Principles – the Code identifies three key principles:

2.1 The Council should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

2.2 The Council's policies and practices should make clear that the effective management and control of risk are prime objectives of its treasury management activities and that responsibility for these lies clearly within it. The Council's appetite for risk should form part of its annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.

2.3 The Council acknowledges that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools to employ in support of business and service objectives; and that within the context of effective risk management, treasury management policies and practices should reflect this.

3. Clauses Formally Adopted

3.1 The Council adopts the following four clauses recommended by CIPFA:

1. This Council will create and maintain, as cornerstones of its effective treasury management:
    - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
    - suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
    - Investment management practices (IMPs) for investments that are not for treasury management purposes.
    - The content of the policy statement and TMPs and IMPs will follow the recommendations contained in Sections 6, 7 and 8 of the TM Code, subject only to amendment where necessary to reflect the particular circumstances of this Council. Such amendments will not result in the Council materially deviating from the TM Code's key principles.

2. The Council’s Executive will receive reports on its treasury and investment management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs and IMPs. The annual strategy is reported to Full Council.

3. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Treasury Management Panel, and for the execution and administration of treasury management decisions to the Director of Resources (Section 151 Officer), who will act in accordance with the Council’s policy statement and TMPs, and as a CIPFA member, CIPFA’s Standard of Professional Practice on Treasury Management.

4. The Council nominates the Tourism, Economy and Communities Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

4. Treasury Management Policy Statement

4.1 In accordance with the TM Code, the Council defines treasury management activities as:

> “The management of the council’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

4.2 ‘Investments’ in the definition above covers all the financial assets of the Council, as well as other non-financial assets which the Council holds primarily for financial returns, such as investment property portfolios. This may therefore include investments which are not managed as part of normal treasury management or under treasury management delegations. All investments require an appropriate investment management and risk management framework under the Treasury Management Code. The risk management processes are detailed in the Investment Property Strategy.

4.3 The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

4.4 Further details about the Council’s approach to borrowing are included in Appendix 5c, and in respect of its approach to investments are included in Appendix 5d and the separate Capital Strategy Report for 2022/23.

APPENDIX 5c – Borrowing Strategy

1. Introduction

1.1 The Borrowing Strategy is prepared in accordance with a professional code of practice (the CIPFA Code of Practice and Cross-Sectoral Guidance Notes on Treasury Management – 2021 Edition). Revised reporting requirements from the newly published 2021 Edition of the guidance notes including changes to prudential indicators and investment reporting will be included within the 2023/24 Strategy.

1.2 It includes the following:

- The Council's debt and investment projections (section 2).
- The expected movement in interest rates (section 3).
- The Council's borrowing strategy (section 4).
- The Council's policy on borrowing in advance of need (section 5).
- The Council's approach to debt rescheduling (section 6).
- The Council's Lender Option Buyer Option (LOBO) strategy (section 7).

2. Debt and Investment Projections 2021/22 – 2023/24

2.1 The borrowing requirement comprises the expected movement in the Capital Financing Requirement (CFR in the table below) and any maturing debt which will need to be re-financed. The table below shows this effect on the treasury position over the next three years. It also highlights the expected change in investment balances:

£'000s	2021/22 Revised	2022/23 Projection	2023/24 Projection	2024/25 Projection
External Debt				
Long-term debt at 1 April	86,341	79,234	95,320	101,307
Repaid Debt	(7,107)	(3,914)	(4,013)	(4,640)
Replacement of maturing debt	-	20,000	10,000	-
Additional long-term debt	-	-	-	-
Long-term debt at 31 March	**79,234**	**95,320**	**101,307**	**96,667**
Short-term debt at 31 March	330,028	386,554	474,064	520,062
PFI and Other Liabilities	95,842	93,390	90,633	87,834
Total external debt at 31 March	**505,104**	**575,264**	**666,004**	**704,563**
Annual change in debt	**76,288**	**70,160**	**90,740**	**38,559**
Investments	(1,000)	-	-	-
Total investments at 31 March	**(1,000)**	**-**	**-**	**-**
Investment change	**(22,350)**	**1,000**		
Change in debt less investment	53,938	71,160	90,740	38,559
Annual change in CFR (annex E 3.3.)	**27,088**	**73,306**	**89,145**	**32,673**

2.2 The additional long-term debt includes any borrowing in advance and catch-up borrowing. The related impact of the above movements on the revenue budget are:

£'000s	2021/22 Revised	2022/23 Projection	2023/24 Projection	2024/25 Projection
Revenue Budget				
Interest on long-term loans	3,577	4,096	4,304	4,220
Interest on short-term loans	786	2,513	4,030	4,421
Total Interest Costs	**4,363**	**6,609**	**8,334**	**8,641**
General Fund long-term borrowing cost	3,259	3,624	3,482	3,074
HRA long-term borrowing cost	318	472	822	1,146
Investment income/internal financing	-	-	-	-

3. Expected Movements in Interest Rates

3.1 The Bank of England Base Rate increased the base rate in December 2021 from a historical low of 0.10% to 0.25%. Rates are expected to increase to 0.50% before the end of the financial year, eventually increasing to the prepandemic level of 0.75% in 2023/24. The Bank Rate forecasts produced by the Office of Budget Responsibility in November 2021 are as follows:

- 2021/22 0.25%
- 2022/23 0.50%
- 2023/24 0.75%
- 2024/25 0.75%

3.2 Market expectations of Long Term Interest Rates are estimated to be:

PWLB Certainty Borrowing Rates				
Indicative %	**5 Year**	**10 Year**	**25 Year**	**50 Year**
2021/22 Actual (December 2021)	1.74%	1.93%	2.17%	1.84%
2022/23	1.99%	2.18%	2.42%	2.09%
2023/24	2.24%	2.43%	2.67%	2.34%
2024/25	2.24%	2.43%	2.67%	2.34%

3.3 These assumptions have been used to determine the treasury management budget projections, included as part of the 2022/23 revenue budget and future year projections.

3.4 The Covid-19 pandemic has delivered the largest shock to the UK and global economies in living memory. In March 2020, the base rate was reduced from 0.75% to 0.25% and then reduced again 8 days later to 0.10%. The uncertain course of the pandemic and its severe impact on the economy mean that interest rates continue to remain at low levels, but due increasing inflationary pressure the Bank of England increased the base rate in December 2021 to 0.25%. Presently, money market investment rates for temporary surplus cash balances are expected to increase in line with future base rate increases. The present rate for a three-month fixed-term deposit with a high street bank is typically 0.01%.

3.5 Long-term borrowing rates, influenced by gilt yields, have remained low for much of 2021/22. In November 2020 along with issuing new conditions of accessing the PWLB, including that PWLB loans cannot be taken to purchase investment assets primarily for yield. Market expectations are that long-term rates will gradually increase towards the end of 2022 in line with the base rate.

4. Borrowing Strategy

4.1 The Council borrows for one of two purposes – to finance cash flow in the short-term or to fund capital investment over the longer term. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully financed either with long-term loans or with temporary borrowing. Instead part of the Capital Financing Requirement has been financed using the Council's reserves and cash balances. This strategy is prudent as investment returns are low and there is a plentiful supply of inexpensive short-term finance currently available in the market.

4.2 A key aim of the Borrowing Strategy is to minimize the cost of the Council's loan portfolio whilst ensuring that the obligation to repay loans is matched with the benefit received from expenditure incurred on the capital programme.

4.3 The average rate of interest on the Council's loan portfolio is currently 1.05%, which is one of the lowest rates of the CIPFA group of authorities that we compare ourselves to. The achievement of such low rates ensures the Council benefits from the best value for money in terms of its borrowing. This is the result of a number of years proactively managing the portfolio on loans through restructuring and taking advantage of inexpensive short-term borrowing. The borrowing strategy will continue with this successful approach.

4.4 The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board
- UK Local Authorities
- Pension Funds
- Public Corporations
- UK Municipal Bond Agency (see paragraph 4.7 below for further details)
- Any institution approved for investments

4.5 As stated above in paragraph 3.4, the interest rate environment continues to be uncertain and the Bank of England expects that interest rates will continue to remain at low levels throughout the period covered by this report. The Treasury Management Panel, under delegated powers, will take the most appropriate form of borrowing in this uncertain economic environment depending on the prevailing interest rates at the time.

4.6 In order to borrow from the PWLB, the council must submit a high-level description of capital financing plans for the following three years. As part of this, to be granted a loan the Director of Resources must confirm there is no intention to buy investments primarily for yield at any point within the next three years regardless of whether the transaction would be notionally financed from a source other than the PWLB. To secure the lowest cost of borrowing Blackpool Council has agreed to disclose estimates of its capital transactions including new borrowing and planned capital to Her Majesty's Treasury. The disclosure of this information in summary format entitles the Council to receive a 20 basis point discount on all new loans borrowed from the Public Works Loan Board during the next 12 months. The information provided to Her Majesty's Treasury is updated annually.

4.7 Along with other local authorities the Council became a shareholder in the UK Municipal Bond Agency (UK MBA) and is part of the UK MBA Working Group. The council saw this as a viable alternative to borrowing from the PWLB. The UK MBA issued its first bond on 5th March 2020 on behalf of Lancashire County Council for a total of £350 million and then a further £250 million bond issuance was completed in August 2020.

5. Policy On Borrowing In Advance Of Need

5.1 The Council will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

5.2 In determining whether borrowing will be undertaken in advance of need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio, which supports the need to take funding in advance of need;
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the merits and demerits of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use;
- consider the impact of borrowing in advance (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk and the level of such risks given the controls in place to minimise them. Any risks arising will be reported via the mid-year or annual reporting mechanism.

6. Debt Rescheduling

6.1 The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt (which has now been compounded since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates) has meant that PWLB to PWLB debt restructuring is now much less attractive than before these events. In particular, consideration would have to be given to the large premiums, which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing. However, some interest savings may still be achievable through using other local authority loans and market loans in rescheduling exercises rather than using PWLB borrowing as the source of replacement financing.

6.2 As short-term borrowing rates are currently considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

6.3 The reasons for any rescheduling to take place will include:

(a) The generation of cash savings and / or discounted cash flow savings;
(b) Help fulfil the borrowing strategy outlined above;
(c) Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

6.4 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

6.5 Any decision taken on rescheduling existing long-term debt will be made by the Treasury Management Panel.

7. Lender Option Borrower Option debt (LOBOs)

7.1 LOBOs typically carry a cheaper initial rate of interest than new debt available from other sources. They are structured with an initial period in which a fixed rate of interest is paid, followed by a much longer 'variable' period. During this period at the agreed 'call' dates (typically between every six months to every five years) the Lender has the option to increase the interest rate. If the Lender exercises their Option to increase the rate, the Borrower has the Option to repay the debt.

7.2 When general interest rates are rising, the interest the Council pays on its LOBOs will tend to ratchet up at call dates, lagging just below other available market rates. The higher rate chosen by the lender is always likely to be enticingly below other immediately available market rates so that at the decision points when the borrower has the option to repay, it will be seduced into a longer relationship with the LOBO at higher rates. However, when general interest rates are falling, the interest the borrower pays on its LOBOs will remain fixed at the higher rates.

7.3 The Treasury Management Panel notes that whenever a lender calls an increase in the rate of a LOBO there will be a great temptation to accept the higher rate and remain tied into the LOBO (as the alternative borrowing is likely to be slightly more expensive in the short term). The Council will continue to take advantage of the beneficial rates available through LOBOs as part of a balanced portfolio of fixed and variable debt, especially through the early fixed period of the instrument.

7.4 The Council's policy is that on every occasion when a lender opts to increase the interest rate on one of its LOBOs there is a presumption that the Council will repay the LOBO.

7.5 In view of the recent bad press on LOBO's the Treasury Management Panel is looking for ways to redeem them whenever favourable opportunities arise.

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APPENDIX 5d – Investment Strategy 2022/23 - 2024/25

1. Introduction

1.1 This Investment Strategy covers the following:

- Treasury Management Investments and the Council's investment and counterparty liquidity framework (section 2)
- The Treasury Investment Strategy for 2022/23 – 2024/25 (section 3)
- The Council's power to invest for Treasury Management purposes (section 4)

2. Treasury Management Investments

2.1 The primary principles of security and liquidity, governing the Council's day to day treasury management activity are set out in the Statutory Guidance on Local Government Investments (3rd Edition) issued on the 2nd February 2018. The yield or return on investments is of secondary importance.

2.2 To achieve sufficient liquidity in its investments, guidelines will be used to determine the maximum periods for which funds may prudently be committed. These also apply to the Council's Prudential Indicators covering the maximum principal sums invested.

2.3 In relation to security, a policy will be applied to the categories of investment, the choice of investment counterparties with adequate security, and the monitoring of their security. This is set out in the Specified and Non-Specified investment sections below.

2.4 The Treasury Management Panel will maintain a counterparty list in accordance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to those which determine Specified and Non-Specified investments, as it selects which counterparties the Council will choose rather than defining what its investments are. The criteria are based on information from Fitch, Moody's and Standard & Poors, the three principal credit ratings agencies.

(i) **Banks** - the Council will use banks which have at least the following Fitch or equivalent ratings from Moody's and Standard & Poors:
- Short Term - F1 from Fitch or equivalent from Moody's or Standard & Poors.
- Long Term - Single A from Fitch or equivalent from Moody's or Standard & Poors.
- Support - 3 from Fitch or the equivalent from Moody's or Standard and Poors

(ii) **Bank Subsidiary and Treasury Operations** - the Council will use these where the parent bank has the necessary ratings outlined above. The investment limit to be applied will be calculated across the whole group.

(iii) **Building Societies** - the Council will use any United Kingdom Society with assets in excess of £1.5 billion.

(iv) **Local Authorities**

(v) **Investment in the UK Government** (including short-term gilts and sterling treasury bills) are permitted because of their overall security.

(vi) **Investment in Money Market Funds** are not permitted.

(vii) **Non-UK Exposure Limits** - The Treasury Management Panel may impose overall sector or country limits to restrict the level of exposure within non-UK financial institutions. The Panel has no short-term plans to start investing in non-UK financial institutions, but it can foresee the possibility in future years covered by the Strategy when it may invest up to 25% of temporary cash investments in non-UK financial institutions which satisfy the criteria in (i) above and whose sovereign government rating is triple A according to Fitch or the equivalent from Moody's or Standard & Poors.

2.5 It is not considered necessary to apply different maximum time limits for investing with different counterparties according to their precise credit rating. Institutions are either on the list of potential counterparties for any timescale (subject to the overriding restriction of 364 days or less) or they are not on the list at all. The Treasury Management Panel has placed a temporary 3-month time limit on deposits placed with all Banks and Building Societies on its counterparty list.

2.6 The proposed criteria for Specified and Non-Specified investments are shown in section 4 for approval.

2.7 In the normal course of the Council's cash flow operations it is expected that only Specified Investments will be utilised for the control of liquidity.

2.8 The use of longer-term instruments (greater than one year from inception to repayment) would fall in the Non-Specified Investment category. These instruments will not be used for the control of liquidity. This will also be limited by the investment Prudential Indicator below.

3. Investment Strategy 2022/23 – 2024/25

3.1 In Managing the Council's treasury operations on a day-to-day basis, the Treasury Management Panel is more concerned to avoid risks than to maximise returns.

3.2 The Treasury Management Panel currently operates a restriction of 3 months or less on all fixed term deposits placed with those counterparties included in paragraph 2.4 (i), (ii), (iii), (iv) and (v). It also considered it necessary to restrict temporary fixed-term investments to UK Banks and Building Societies and those subsidiaries of non-UK financial institutions which are incorporated in the UK. However, if market conditions improve the Panel is likely to lift these restrictions and extend the term of temporary investment back to a maximum of 364 days. Moreover, the Treasury Management Panel may invest up to 25% of temporary cash investments in non-UK financial institutions which satisfy the requirements set out in paragraph 2.4 (vii).

3.3 The Bank of England base rate determines the level of interest which can be earned on short term cash surpluses arising in normal day to day treasury activities. With the base rate at 0.25%, a typical three month deposit rate is currently 0.01%. Deposit rates are expected to increase with expected base rate rises. The Council's investment decisions are based on comparisons between the current low level of interest rates and the market's expectation of a possible gradual decrease during the period covered by this report. As a result, it is likely that investment decisions will continue to be made for shorter periods until investment rates start to rise in future. However, the overriding principle is to maintain sufficient security and liquidity within the cash balances and a shorter profile of temporary investments will help achieve this. The Treasury Management Panel, under delegated powers, will undertake the most appropriate form of investments based on current market conditions as surplus funds become available. The three-month time limit for temporary investments will continue during 2021 but may be relaxed in future years covered by this Strategy. The current restrictions are explained in more detail in paragraph 3.2 above.

4. Power To Invest

4.1 Blackpool Council has the power to invest:

(i) for any purpose relevant to its functions under any enactment, and
(ii) for the purposes of the prudent management of its financial affairs.

This includes investments which are not directly linked to statutory functions but are simply made in the course of treasury management. This allows for the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future.

4.2 Speculative borrowing in order to invest in the course of day-to-day treasury management activities is unlawful.

4.3 The speculative purchase and subsequent disposal of property is generally also unlawful. However, there may be occasions when such purchase and resale are necessary as part of a strategic development. This is permitted only where this is part of an approved project plan which is covered by proper statutory powers in pursuance of the Council's approved objectives. Examples of this are in the pursuit of delivery of projects related to Blackpool's regeneration strategy - such as the planned phases of the Central Business District and the development of land near the Airport.

4.4 Priority is to be given to the security of investments and then to liquidity. The highest rate of return (yield) can only be sought once officers are satisfied that the principal sums invested are secure.

4.5 In 2019/20 the Council expanded its Business Loans Fund further with the aim to promote, develop and support local businesses and public sector partners within the Blackpool area. The remaining pool of funding is available for applicants in 2021/22. Before any lending is authorised, the Loans Panel (which includes the Chief Executive, Director of Communications and Regeneration and Director of Resources) supported by both Accountancy and Legal, will analyse and validate the business case for each loan.

4.6 No other types of (Non-Specified) investments are identified as being permissible, other than those explicitly allowed as share or loan capital under paragraph 4.7.

4.7 The Council may invest in shares in its subsidiary companies or in exceptional circumstances, businesses that stimulate local economic growth and regeneration. The guidance defines acquisition of share or loan capital in a corporate body as capital or revenue expenditure (rather than as an investment).

4.8 Further details about how the Council manages the risks and rewards coming from its Business Loans Fund and from its investments in subsidiary companies, referred to above in paragraphs 4.5 and 4.7 above, are explained in more detail in its Capital Strategy.

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TREASURY MANAGEMENT STRATEGY 2022/23

APPENDIX 5E – Prudential Indicators 2022/23 - 2024/25

PRUDENTIAL INDICATORS

1. Background and Summary

1.1 The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code for Capital Finance in Local Authorities and agree Prudential Indicators. Revised reporting requirements as a result of the 2021 Prudential Code has been deferred until the 2023/24 financial year. This report revises the Indicators for 2021/22, 2022/23, 2023/24 and introduces new Indicators for 2024/25. Each indicator either summarises the expected activity or introduces limits upon the activity and reflects the outcome of the Council's underlying capital appraisal systems.

2. Capital expenditure plans

2.1 The Council's capital expenditure plans are reported and recommended for approval in the Capital Programme 2022/23 and are summarised below. This forms the first of the Prudential Indicators. This expenditure can be paid for immediately (by resources such as capital receipts, capital grants, etc.), but if resources are insufficient any residual expenditure will need to be borrowed.

2.2 On 29th October 2018 the government confirmed that the Housing Revenue Account (HRA) borrowing cap was abolished with immediate effect. As a result, borrowing for housebuilding is no longer constrained by government controls, leading to authorities able to borrow in line with the Prudential Code. The HRA is considering property investment proposals in light of the removal of the cap from 2022/23 and is included within the capital programme below.

2.3 A certain level of capital expenditure will be grant supported by the Government; anything above this level will be unsupported and will need to be paid for from the Council's own resources.

2.4 The key risks to the plans are that the level of Government support has been estimated and is therefore subject to change. Similarly some estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale.

2.5 The Council is referred to the summary capital expenditure projections below, as reported in the Capital Programme 2022/23. This forms the first Prudential Indicator:

£'000s	2021/22 Revised	2022/23 Programme	2023/24 Programme	2024/25 Programme
Capital Expenditure:				
Non-HRA	38,219	60,971	77,637	61,883
HRA	5,137	20,100	23,517	19,435
Financed by:				
Capital Receipts	(1,134)	(74)	(74)	(74)
Capital Grants	(12,936)	(36,406)	(37,129)	(43,480)
Capital Reserves	-	-	-	-
Revenue Contributions	(4,600)	(3,616)	(6,000)	(6,000)
Net financing need for the year:	**24,686**	**40,975**	**57,951**	**31,764**

3. The Council's borrowing need (the Capital Financing Requirement)

3.1 The second Prudential Indicator is the Council's Capital Financing Requirement (CFR). The CFR is made up of the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources along with any business loans issued from the expanded Business loans Fund including loans made to Blackpool Housing Company. The expansion of the Business Loans Fund is explained in more detail in the Capital Strategy Report. The CFR is essentially a measure of the Council's underlying need to borrow.

3.2 The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge known as the Minimum Revenue Provision (MRP). The overriding principle in calculating the MRP is that it must be prudent and this is covered in more detail in Appendix 5f of this report.

3.3 The Council is asked to approve the CFR projections below:

£'000s	2021/22 Revised	2022/23 Programme	2023/24 Programme	2024/25 Programme
Capital Financing Requirement:				
CFR - Non Housing	502,465	562,947	638,993	659,535
CFR - Housing	12,370	25,194	38,293	50,424
Total CFR	**514,835**	**588,141**	**677,286**	**709,959**
Movement in CFR	**27,088**	**73,306**	**89,145**	**32,673**

Movement in CFR represented by:				
Net financing need for the year:	24,686	40,975	57,951	31,764
MRP/Voluntary Revenue Provision and other financing movements:	(2,745)	(3,220)	(8,365)	(13,325)
Business Loan Fund advances:	9,252	40,000	50,000	20,000
Business Loan Fund repayments:	(4,105)	(4,449)	(10,441)	(5,766)
Movement in CFR	**27,088**	**73,306**	**89,145**	**32,673**

3.4 In order to ensure that over the medium-term borrowing will only be taken for a capital purpose, the local authority should ensure that gross external borrowing does not, except in the short term, exceed the total of Capital Financing Requirement in the preceding year plus the estimates of any additional Capital Financing Requirement for the current and next two financial years. If in any of these years there is a reduction in the CFR, this reduction is ignored in estimating the cumulative increase in the CFR which is used for comparison with gross external borrowing. This is a key indicator of prudence.

4. The use of the Council's resources and the investment position

4.1 The application of resources (capital receipts, reserves, etc.) to either finance capital expenditure or support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales, etc.).

4.2 Any capital receipts and capital reserves available to finance capital expenditure during the period covered by the Treasury Management Strategy are shown in the table under paragraph 2.5 above.

5. Limits to borrowing activity

5.1 Within the Prudential Indicators there are a number of key indicators to ensure the Council operates its activities within well-defined limits.

5.2 For the first of these the Council needs to ensure that its total borrowing does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the next two financial years

Y/end positions £'000s	2021/22 Revised	2022/23 Projection	2023/24 Projection	2024/25 Projection
Long-term borrowing	79,234	95,320	101,307	96,667
Short-term debt	330,028	386,554	474,064	520,062
PFI & Other Liabilities	95,842	93,390	90,633	87,834
Gross Borrowing	505,104	575,264	666,004	704,563
CFR	514,835	588,141	677,286	709,959

5.3 The Director of Resources reports that the Council has complied with this Prudential Indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and the proposals in next year's budget report.

5.4 A further two Prudential Indicators control or anticipate the overall level of borrowing:

5.5 **The Authorised Limit for external debt** - This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

5.6 **The Operational Boundary for external debt** - This indicator is based on the expected maximum external debt during the course of the year; it is not a limit. The Operational Boundary differs from the Authorised Limit in that it is based on expectations of the maximum external debt according to probable - not simply possible - events and is consistent with the maximum level of external debt projected by the estimates. The setting of this Operational Boundary is a matter of careful judgement. If it is set too high then it may be too near the Authorised Limit for there to be a margin sufficient to allow time to take corrective action before the Authorised Limit is breached. Alternatively, if it is set too low it will be breached so frequently that it will cease to act as a credible warning indicator. The intention therefore is that this operates as a form of early warning about certain cash-flow problems.

5.7 The Council is asked to approve the following Authorised Limit and Operational Boundaries, two indicators which are based on debt (including short-term) and are gross of investments.

Authorised Limit £'000s	**2021/22 Revised**	**2022/23 Projection**	**2023/24 Projection**	**2024/25 Projection**
Borrowing limit	424,000	493,000	582,000	619,000
Other long-term liabilities limit	100,000	95,000	95,000	90,000
Total limit	524,000	588,000	677,000	709,000
Operational Boundary Limit £'000s	**2021/22 Revised**	**2022/23 Projection**	**2023/24 Projection**	**2024/25 Projection**
Borrowing limit	415,000	484,000	573,000	610,000
Other long-term liabilities limit	99,000	94,000	94,000	89,000
Total limit	514,000	578,000	667,000	699,000

5.8 The Authorised Limit is set by reference to the CFR and to allow for any potential peaks in temporary borrowing, since this will be counted against the overall borrowing. The Operational Boundary is set to equate to expected debt levels including normal day to day cash requirements.

6. Affordability Prudential Indicators

6.1 The previous sections cover the overall capital and control of borrowing Prudential Indicators, but within this framework Prudential Indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the overall Council's finances. The Council is asked to approve the following indicators:

6.2 Actual and estimates of the ratio of financing costs to net revenue stream - This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

%	**2021/22 Revised**	**2022/23 Programme**	**2023/24 Programme**	**2024/25 Programme**
Non-HRA	4.3%	4.4%	9.3%	12.8%
HRA	2.2%	3.3%	5.3%	7.0%

The estimates of financing costs include current commitments and the proposals *in the Budget Report presented concurrently for approval.*

7. Treasury Management Prudential Indicators, Limits on Activity and Attitude to Risk

7.1 Blackpool Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities is measured. It uses the Treasury Management Prudential Indicators as part of the risk control process to limit activity and monitor performance.

7.2 There are five treasury Prudential Indicators. The purpose of these Prudential Indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs. The indicators are:

7.3 **Gross debt and the Capital Financing Requirement (CFR)** - In order that over the medium-term, debt will only be taken for a capital purpose, the Council should ensure that external debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. If in any of these years there is a reduction in the CFR, this reduction is ignored in estimating the cumulative increase in the CFR which is used for comparison with gross external debt. This is a key indicator of prudence.

7.4 **Upper limits on variable interest rate exposure** - This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments. In cases where the terms of the borrowing or investment raise questions as to whether it should be treated as fixed or variable, it is to be treated as variable for the purposes of these Prudential Indicators. We consider that this indicator is best calculated using the principal capital value rather than percentages.

7.5 **Upper limits on fixed interest rate exposure** - This indicator is similar to the previous indicator but covers a maximum limit on fixed interest rates.

7.6 **Maturity structures of borrowing** - These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits. They show the amount of projected borrowing that is fixed rate maturing in each period as a percentage of the total projected borrowing that is fixed rate.

7.7 **Total principal funds invested for over 365 days** - These limits are set to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

7.8 The Council is asked to approve the following Prudential Indicators (in the table below). Note that for each year, the upper limits on fixed interest rates equate to the expected Capital Financing Requirement for that year:

	2022/23	**2023/24**	**2024/25**
Gross Debt (£M)			
	Upper	**Upper**	**Upper**
Gross Debt	587	676	710
Capital Financing Requirement	587	676	710
Interest rate exposures (£M)			
	Upper	**Upper**	**Upper**

Limits on fixed interest rates based on net debt	587	676	710
Limits on variable interest rates based on net debt	352	406	426
Maturity structure of fixed interest rate borrowing 2021/22 (%)			
		Lower	**Upper**
Under 12 months			18%
12 months and within 2 years			18%
2 years and within 5 years			30%
5 years and within 10 years		2%	60%
10 years and within 30 years		2%	70%
30 years and above		15%	90%
Total principal sum invested for over 364 days			
Principal sum invested for over 365 days	£ nil	£ nil	£ nil

<u>TREASURY MANAGEMENT STRATEGY 2022/23</u>

APPENDIX 5F – Minimum Revenue Provision (MRP) Strategy 2022/23 - 2024/25

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1. Minimum Revenue Provision (MRP) Strategy

1.1 Local authorities are required to set aside ‘prudent’ revenue provision for debt repayment (MRP) where they have used borrowing or credit arrangements to finance capital expenditure. Statutory Guidance covering Minimum Revenue Provision (MRP) was revised and updated in February 2018 by the Ministry of Housing Communities and Local Government (MHCLG) and applies to accounting periods on or after 1st April 2019. The guidance sets out various options and boundaries for calculating prudent provision which are set out in paragraph 1.5 below.

1.2 The Department for Levelling Up, Housing and Communities (DLUHC) is currently consulting on changes to the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, which will affect the accounting for and impact of MRP. The consultation closes on 8th February 2022 and changes will be effective as at 1st April 2023. The Treasury Management Panel is reviewing the potential impacts of these changes for the authority.

1.3 Local authorities can vary the MRP methodologies they use during the year and if they do so must present a revised MRP statement to the next full Council. Where a change would impact on the value for money assessment of non-financial investments the updated statement should summarise this impact.

1.4 Under the new guidance, where a change takes place the calculation of MRP under the new method should be based on the residual Capital Financing Requirement (CFR) at the point the change in method is made (i.e. it should not be applied retrospectively). Changing the method used to calculate MRP can never give rise to an overpayment in respect of previous years. Further, it should not result in a local authority making a reduced charge or charge of £nil for the accounting period in which the charge is made, or in a subsequent period, on the grounds that it needs to recover overpayments of MRP relating to previous years.

1.5 Whilst ‘prudent provision’ is not specifically defined, the guidance suggests that debt ought to be repaid over a period that is either commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Revenue Support Grant, it is reasonably commensurate with the period implicit in the determination of the grant.

1.6 There are four options set out in the statutory guidance for determining the MRP:

Option 1 - Regulatory Method
Option 2 - The Capital Financing Requirement (CFR) Method
Option 3 - Asset Life Method (the MRP is determined by reference to the life of the asset either by equal instalments of principal or the annuity method)
Option 4 - Depreciation Method (MRP is equal to the provision required under depreciation accounting).

1.7 Options 1 and 2 may only be used in relation to capital expenditure incurred before 1st April 2008, which form part of an authority's supported capital expenditure. For expenditure incurred on or after 1st April 2008, which does not form part of the authority's supported capital expenditure, prudent approaches include options 3 and 4.

1.8 <u>Minimum Revenue Provision (MRP) Policy Statement for 2022/23 is as follows:</u>

(i) In 2016/17 under the previous Statutory Guidance on MRP the Council changed its policy on all supported capital expenditure incurred prior to 1st April 2008 and for future supported capital expenditure, the MRP is based on the 2% straight line method, before making an adjustment for £24.1m, which is the difference between debt calculated under the prudential code (as at 1st April 2004) and debt calculated under the previous 'statutory' capital controls regime which commenced on 1st April 1990. This method is considered to be better than the previous method because it ensures that all the debt incurred prior to 1st April 2008 is repaid over a finite number of years. The method will continue to be used for 2022/23 and for future years.

(ii) For capital expenditure incurred after 1st April 2008 and financed by unsupported borrowing, the default method for calculation of MRP will be based on option 3, the Asset Life Method. This method is considered both appropriate and prudent and will continue to be used in 2022/23.

(iii) In exceptional circumstances MRP for capital expenditure incurred after 1st April 2008 and which is funded by unsupported borrowing can be calculated using the Annuity Method (a variation allowed under option 3 of the 2018 Regulations). However, this method is only suitable for particular types of capital expenditure projects where the benefits are expected to increase in later years or where the income stream generated by the new project mirrors the Annuity profile. It may be particularly attractive in connection with projects promoting regeneration or administrative efficiencies where revenues will increase over time. This method may only be used if it receives approval by the Treasury Management Panel.

(iv) In the case of finance leases, where a right-of-use asset is on the balance sheet, and on balance sheet PFI contracts, the MRP requirement is by a charge equal the element of the rent/charge that goes to write down the balance sheet liability.

(v) Where on or after 1st April 2008 expenditure is incurred which is:

- Financed by borrowing or credit arrangements; and
- Treated as capital expenditure by virtue of either a direction under section 16(2)(b) of the 2003 Act or Regulation 25(1) of the 2003 Regulations,

MRP will be calculated in accordance with Option 3, the asset life method that is exemplified in the MRP guidance whereby the liability will be charged over a period that is reasonably commensurate with that over which the new capital expenditure is estimated to provide a benefit to the authority.

(vi) In accordance with the Statutory Guidance no MRP will be charged on borrowing or credit arrangements used to finance capital expenditure on housing assets, to which Section 74(1) of the Local Government Housing Act 1989 applies (HRA related housing debt).

Local Exceptions to the Guidance:

(vii) The Council reserves the right to determine useful life periods and prudent MRP in certain circumstances or where the recommendations of the MHCLG guidance are not appropriate to local circumstances. These include:

(viii) MRP will not be charged on loans made to wholly owned subsidiaries or other third parties where such loans are treated as capital expenditure in cases where there are satisfactory and supportable repayment obligations attached to those loans such as those loans granted by the Council's Business Loans Fund. Unlike other types of capital receipt, the capital receipts that will arise from these repayments will be set aside generally or specifically to reduce the outstanding amount of capital debt liability in respect of these loans. Any loans given are subject to a substantial due diligence process and the anticipated receipts will be kept under review on an annual basis in order to ensure that the deferment of MRP remains prudent.

(ix) Any capital receipts which the Council determines in future should be set aside in order to reduce the outstanding amount of capital debt liability may, if desired, be taken to represent a debt liability reduction that has been made in lieu of a corresponding amount of prudent provision that otherwise have been made in a particular year. Any such setting aside of capital receipts however, apply those capital receipts which represents the repayment of loan principal amounts in respect of loans made in earlier financial years which have been treated as capital expenditure, but not subject to an MRP charge.

(x) Following the MRP review carried out by Link Group in 2020, savings were identified in respect of financial years 2004/05 – 2018/19, totalling £23.808m, (in respect of an increase of £34.743m to Adjustment A, and earlier year revenue contributions to capital of £13.054m, adjusted for alternate MRP liability). The policy changes reflected in this review is represented by the council as a new local option for the ongoing determination of an amount of MRP which is considered each year to be prudent and thus the Council will determine for 2021/22 and any subsequent financial year the extent to which to reduce the amount of MRP liability that would have arisen, but for these savings. Additionally, the Council will continue to apply the higher amount of Adjustment A indicated above.

(xi) The above policy will ensure that the Council satisfies the requirement to set aside a prudent level of MRP.

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Report to:	**EXECUTIVE**
Relevant Officer:	Steve Thompson, Director of Resources
Relevant Cabinet Member:	Councillor Lynn Williams, Leader of the Council
Date of Meeting:	7 February 2022

GENERAL FUND REVENUE BUDGET 2022/23

1.0 Purpose of the report:

1.1 To consider the proposal for Blackpool Council's draft General Fund Revenue Budget 2022/23 as outlined in the report circulated to Members under separate cover.

2.0 Recommendation(s):

2.1 To recommend to Council the level of net expenditure for the draft General Fund Revenue Budget 2022/23 of **£160,276,000** (ref. paragraph 6.2)

2.2 To recommend to Council a level of budget savings of **£8.6m** (ref. paragraphs 7.1 and 7.4 and Appendix 2)

2.3 To recommend to Council that the Chief Executive be authorised to take any necessary steps to ensure any staffing savings are achieved (ref. paragraph 8.1)

2.4 To recommend to Council that the target level of working balances remains at **£6m** (ref. paragraph 10.4)

2.5 To consider any further facts, information and stakeholder feedback which may emerge and report the details to the meeting of the Executive on 24 February 2022.

3.0 Reasons for recommendation(s):

3.1 To enable progression to the next stage of the budget process.

3.2 Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.3	Is the recommendation in accordance with the Council's approved budget?	Not applicable - the report once approved will become the Council's new approved budget.

4.0 Other alternative options to be considered:

As outlined in the Budget report.

5.0 Council Priority:

5.1 The relevant Council Priorities are both:

"The economy: Maximising growth and opportunity across Blackpool"

"Communities: Creating stronger communities and increasing resilience"

6.0 Background Information

6.1 The purpose of this report is to determine the overall level of net expenditure to be included in the General Fund Revenue Budget for 2022/23 and to identify a budget savings plan that will ensure a balanced budget in-year.

6.2 Does the information submitted include any exempt information? No

7.0 **List of Appendices:**

Report
Appendix 1 - General Fund Budget
Appendix 2 - Savings Proposals
Appendix 3 - Equality Analysis
Appendix 4 - Resident Budget Engagement
Appendix 5 - Stakeholder Budget Engagement
Appendix 6 - Report from Scrutiny Leadership Board Budget January 2022
Appendix 7 - Assessment of Significant Financial Risks

(All circulated to members under separate cover)

8.0 Financial considerations:

8.1 As outlined in the Budget report, circulated to members under separate cover. Human Resources considerations are outlined in the budget report, circulated to members under separate cover.

9.0 Legal considerations:

9.1 None.

10.0 Risk Management considerations:

10.1 As outlined in the Budget report circulated to members under separate cover. Appendix 7 forms an Assessment of Significant Financial Risks to Substantiate Target Level of Unearmarked Working Balances.

11.0 Equalities considerations:

11.1 As outlined in the Budget report, circulated to members under separate cover.

12.0 Sustainability, climate change and environmental considerations:

12.1 None directly from the report.

13.0 Internal/ External Consultation undertaken:

13.1 In line with last year's engagement the Council has undertaken two exercises to seek initial comments and ideas on the Budget, prior to more formal consultation on any proposals leading to significant service impacts or changes. The first was aimed at individual residents and staff, which received 117 responses, whilst the second was aimed at stakeholder organisations and received 11 responses. The surveys were available online and as paper copies at front facing Council buildings and were widely publicised via the Council's social media channels.

The survey included questions which asked for opinions about Council priorities and services at a broad level, but also sought comments on ways in which the Council could save or generate money. In line with the previous year, views were sought on the importance of the Climate Emergency on the Council's budget-setting process.

13.2 Consultation with the Trade Unions with regards to staffing issues has been embedded into normal working practices and has also met all formal consultation requirements.

13.3 The Scrutiny Leadership Board considered the key budget pressures and savings required at its informal meeting on 19 January 2022 and has produced a report attached at Appendix 6 for consideration by the Executive.

14.0 Background papers:

14.1 Budget working papers.

14.2 Resident Budget Engagement – comments.
Stakeholder Budget Engagement – comments.

15.0 Key decision information:

15.1	Is this a key decision?	Yes
15.2	If so, Forward Plan reference number:	26/2021
15.3	If a key decision, is the decision required in less than five days?	No
15.4	If **yes**, please describe the reason for urgency:	

16.0 Call-in information:

16.1	Are there any grounds for urgency, which would cause this decision to be exempt from the call-in process?	No
16.2	If **yes**, please give reason:	

TO BE COMPLETED BY THE HEAD OF DEMOCRATIC GOVERNANCE

17.0 Scrutiny Committee Chairman (where appropriate):

Date informed:	28 January 2022	Date approved:	N/A

18.0 Declarations of interest (if applicable):

18.1

19.0 **Summary of Discussion:**

19.1

20.0 Executive decision:

20.1

21.0 **Date of Decision:**

21.1

22.0 Reason(s) for decision:

22.1

23.0 Date Decision published:

23.1

24.0 Alternative Options Considered and Rejected:

24.1

25.0 Executive Members present:

25.1

26.0 Call-in:

26.1

27.0 Notes:

27.1

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Report to:	**EXECUTIVE**
Relevant Officer:	Alan Cavill, Director of Communications and Regeneration
Relevant Cabinet Member:	Councillor Mark Smith, Executive Member for Business, Enterprise and Job Creation
Date of Meeting	7 February 2022

BLACKPOOL AIRPORT ENTERPRISE ZONE: ANNUAL REVIEW

1.0 Purpose of the report:

1.1 This report sets out the further progress on the delivery of the Enterprise Zone and related activity at Blackpool Airport and outlines activity planned for the next fourteen months to the end of financial year 2022/23. The impacts of the Covid pandemic and the uncertainties surrounding Brexit have continued to have varying degrees of impact upon the progress of the Enterprise Zone project, in particular disrupting some income streams which continues to make future forecasting and planning of Enterprise Zone investment difficult.

2.0 Recommendations:

2.1 To note the progress made on the delivery of the Enterprise Zone Masterplan.

2.2 To note the higher levels of risk associated with the overall whole life expenditure and income forecasts, given the present volatile nature of the economy and uncertainty over the long term format of business rates.

2.3 To note:

- the total estimated cumulative expenditure from April 2016 to the end of financial year 2021/22 of £14.36m
- the whole life expenditure forecast to the end of the Enterprise Zone in 2041 of £73.01m at present values, plus the associated costs of prudential borrowing and
- the estimated forecast whole life income of £74.25m as set out in paragraph 6.11.

2.4 To approve the forecast expenditure budget to the end of financial year 2022/23 of £19.82m increasing the total approved cumulative expenditure by £0.92m from £28.8m to £29.72m plus associated costs of Prudential Borrowing, as set out in paragraph 6.11.

2.5 To note, as set out in paragraph 6.7, that the Towns Fund project is included within the overall forecast at an estimated total cost of £18m (with a grant of £7.5m and match funding of £10.5m) and will incur expenditure of c£9.4m beyond the period to end of financial year 22/23, in the three years to financial year 25/26. A further detailed report in respect of this element of the programme will be submitted to Executive in Summer 2022 when costings are finalised.

2.6 To reconfirm and note the delegation to the Chief Executive, after consultation with the Leader of the Council, to authorise expenditure on individual schemes and property acquisitions within the Enterprise Zone and inter-related airport holdings of Blackpool Airport Properties Ltd (BAPL).

3.0 Reasons for recommendation(s):

3.1 The Enterprise Zone is a 25 year long term project now entering its sixth year of delivery. There is a clear masterplan for development, approved in 2018 and substantially refreshed in December 2020, with two main phases of delivery [see Appendix 6a]. By their very nature and scale the essential enabling and infrastructure works take time to plan and implement, with work continuing on a rolling programme of activity. The pace of delivery in the past 12 months has been slower than ideal, being impacted by a number of factors, most outside the control of the Council, and principally the ongoing pandemic and impacts of Brexit. These have resulted in reduced levels of activity and confidence from potential occupiers and private sector developers on whom most of the eventual outputs will depend. Costs of construction have also increased substantially and there are now few immediate opportunities for new development until the crucial enabling infrastructure has been put in place. Significantly, there has also been a seven month delay in securing planning consent for the new changing facilities at Common Edge as a result of problems in securing Sport England approval and removal of their objection.

Nevertheless, there has also been some major progress, detailed in paragraph 6.2 below, including completion of the Multiply development with the new 25 year lease commencing on 13 December 2021, securing £7.5m of Towns Fund grant, a grant of £250,000 from the Football Foundation towards the costs of the new sports facilities, and the transition of the Airport Civil Aviation Authority operational licenses to the Council's wholly owned company, Blackpool Airport Operations Ltd.

In excess of 1950 jobs have been facilitated at the Enterprise Zone since April 2016 and there remains a healthy pipeline of enquiries. Despite intensive lobbying efforts working with the support of Lancashire Local Enterprise Partnership and the National LEP network, there has to date been no progress in obtaining an extension of Enterprise Zone fiscal benefits, with the rates relief expiring on 31 March 2022 and the Enhanced Capital Allowances in November 2023. The rates relief incentive has been extensively taken up by new occupiers and has been instrumental in the large reduction in the void occupancy rates at the Enterprise Zone, and supporting activity pre-Covid by speculative private sector developers.

Approval to expenditure of up to £28.8m plus the cost of associated prudential borrowing for the delivery of phase one of the Enterprise Zone was given in June 2018. This figure was originally estimated expenditure over an initial 3 year period which was extended to encompass spend over 4 years when reconfirmed in 2020. The forecasted expendture to March 2023 and March 2024 has been re-profiled to reflect the expenditure to date which is lower than initially anticipated in the December 2020 forecast, and the planned activity for the completion of phase one at Common Edge, and in particular the works included within the £18m Towns Fund business case. The anticipated gross spend to March 2023 will now exceed the currently approved figure of £28.8m, plus the cost of Prudential Borrowing by £0.92m totaling £29.72m, and it is proposed that authority to prudentially borrow is increased by £1m to £29.8m to meet the forecast expenditure to allow the delivery of the forecast expenditure to the end of financial year 22/23.

The higher gross spend now forecast to the end of financial year 23/24 reflects the higher costs of materials, a better understanding of detailed works required as design has been progressed, for example, the quotes for a new primary substation and cable diversions essential to support the data sector being targeted has increased by 25%, and the acceleration of some works to form part of the Towns Fund project which has to be complete within a short timeframe. The expenditure forecasts also include some key infrastructure and enabling works at the airport, particularly an allowance for the relocation of the control tower and new aircraft parking aprons and taxiways.

It should be noted that in the Executive report considered in 2020, the expenditure to date figures were overstated by some £2.3m as they erroneously included expenditure incurred in respect of the direct development of the Multiply building, which sits outside the main Enterprise Zone budget as a stand alone project within the Enterprise Zone.

Following approval in December 2022 the Enterprise Zone delivery is now being delivered in two phases .The first phase focussing on the eastern sector at Common edge including the new Playing fileds and highways and is predominantly within the Blackpool boundary .The second phase of activity will focus on Blackpool Airport which is within the Borough of Fylde- there will however be some overlap in timing of works across both phases .

3.2 Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.3 Is the recommendation in accordance with the Council's approved budget? Yes

4.0 Other alternative options to be considered:

4.1 a) Maintain the existing approval for expenditure of up to £28.8m and seek to contain spend by delaying elements of the project, whilst also extending the timeframe for undertaking this expenditure by a further year to the end of FY 22/23. However, this is unlilkely to be sufficient to complete the whole of the revised Phase 1 and Towns Fund works which will only be completed by 2025/26, and may create difficulty in committing to some elements of the extended Phase 1 works where these might extend beyond financial year 22/23. In particular it would put the ability to secure the fullTowns Fund grant at risk.

b) Approve the full £73.01m required to complete all the revised Phase 1 and Phase 2 works. In the light of the ongoing economic turbulence there is a high probability that there will be additional delays and fluctuations in demand, as well as new emerging opportunities such as the data management sector which will require a more flexible and responsive approach, thus it would be premature to make such a large commitment at this stage.

c) Limit further activity to provide enabling infrastructure until there is proven demand for specific elements. This would not provide the flexibility to respond to often short lead time requirements from occupiers, and would significantly reduce the potential of the Enterprise Zone to generate income to meet the costs of infrastructure, ability to meet its ambitious targets of 5,000 new jobs, and the potential to generate more than £2bn gross valued added for the economy.

5.0 Council priority:

5.1 The relevant Council priority is: “The economy: Maximising growth and opportunity across Blackpool”.

6.0 Background information:

6.1 On 18 June 2018, the Executive approved a report with seven recommendations including agreement to the Enterprise Zone delivery and marketing plans and a funding allocation of £28.8m, plus the cost of prudential borrowing to support capital investment and associated revenue costs for an initial three year period to 2020/21, delegating to the Chief Executive after consultation with the Leader of the Council authorisation for expenditure on specific projects.

On 7 December 2020, the Executive approved a revised two phase masterplan for the Enterprise Zone noting an increase in the whole life cost estimate of £72.4m, which included the cost of the Multiply building, and the extended timescale until 2022/23 for delivery of the enhanced Phase One. Integral to the approval was the anticipation that some £7.5m of grant funding would be available to support highways and infrastructure provision at the Enterprise Zone via the Towns Fund.

Since December 2020, further progress has been made by the Enterprise Zone delivery team (part of the Council's Growth and Prosperity Team), but as must be expected with projects of this scale, duration and complexity, some elements have been progressed at a slower pace than anticipated and a degree of flexibility is required to manage delays and capitalise on opportunities, hence the requirement for an annual review.

Much of the activity within the last twelve months has been by way of preparatory works with summary highlights of progress set out in paragraph 6.2 below. The next twelve months are expected to see the translation of the preparatory work undertaken this year into activity on the ground with the completion of the sports facilities at Common Edge and commencement of new highways and utility infrastructure construction within the Towns Fund project. To support the increased delivery activity, two project managers have been recruited to the Enterprise Zone team, one by way of a fully funded three year secondment from Fylde Council. This increased capacity will enable the team to accommodate the higher workloads and also provide some capacity to support the extensive Growth and Prosperity programme as this also shifts into full delivery mode.

6.2 Progress Highlights:

The main highlights of progress in the past 12 months include:

- Completion of new Common Edge grass sports pitches which came into full use in October 2021.
- Planning Consent obtained from Blackpool and Fylde Borough Councils for new changing rooms at Common Edge.
- Grant application submitted to Football Foundation to seek £250,000 of grant funding for changing facilities, approved in December 2021.
- Practical completion of 40,000 sq ft Multiply facility at Amy Johnson Way in August 2021. Lease to Multiply completed 13 December 2021 with fit out works underway, with full operational use due March 2022.
- Full grant recovery of £800,000 from Growth Deal to support Multiply development.
- Business case prepared and approved by Town Deal Board and the Council's Executive (under delegation) and Department for Levelling Up, Housing and Communities for £7.5m of funding for highway works, including Eastern Gateway access road, Common Edge upgrade and two new access points from Amy Johnson Way to Blackpool Airport
- Completed surrender and renewal lease negotiations with South Shore Cricket and Squash Club, to enable both new changing facilities and new highways to be constructed.
-

- Concluded negotiations and exchanged contracts for the purchase of house and stable at 2 School Road, to enable highway junction improvements at School Lane/CommonEdge Road.
- Detailed design commissioned for new highways at Common Edge Eastern Gateway access and airport access.
- Detailed design commissioned for new 3G pitch and floodlit rugby pitch at Common Edge.
- Consultants appointed to progress feasibility study for Solar panel development at Blackpool Airport.
- Progressed masterplan/design for provision of new aviation hangars at Blackpool Airport, with planning applications anticipated for early 2022
- Appointed manager to lead transition of Airport Civil Aviation Authority Licences.
- Successful transition of Civil Aviation Authority operational licences from Regional and City Airports to Blackpool Airport Operations Ltd, with effect from 1 November 2021.
- Continued refurbishment of Squires Gate Industrial Estate by owners Euro Properties, with property now substantially let. Identified a pipeline of further occupier-driven development projects for the Enterprise Zone and airport, with particularly strong interest in the data management and advanced engineering sectors.
- Ongoing operational commercial and marketing support for Blackpool Airport to support approved business plan.
- Maintained marketing activity to support Blackpool Airport and sister Enterprise Zone at Hillhouse Technology Enterprise Zone in collaboration with Local Enterprise Partnership and Marketing Lancashire to promote the Lancashire Enterprise Zones branding for international marketing.
- Supported the rebranding of the Local Enterprise Partnership controlled Lancashire Enterpise Zones and the appointment of international marketing agents Colliers to promote Lancashire’s four Entrprise Zones to the global market.
- Provided regular newsletters to subscribing Enterprise Zone business community highlighting progress, opportunities and more recently. communication of Covid-19 business support and financial assistance updates
- Continued regular progress reporting to the Department of Levelling up, Housing and Communities, Lancashire Local Enterprise Partnership Enterprise Zone Governance Sub Committee and Blackpool Fylde and Wyre Economic Prosperity Board in accordance with approved Enterprise Zone governance regime
- Recruited two project managers to support the delivery of new physical infrastructure and commercial development at the Enterprise Zone and airport

6.3 Momentum in attracting new business and employment and investment has been maintained despite the continuing adverse economic climate with the present position set out in Table 1, which represents good progress against the whole life targets established for the Enterprise Zone of 180 new businesses, 5000 jobs, £300m of private sector Investment and £2.08bn gross value added . Quantifying the levels of private sector investment is complicated as many businesses are reluctant to share sensitive commercial information, but approaching £50m is anticipated to have been secured to date.

TABLE 1: Outputs : April 2016 to November 2021		**Lifetime Target by 2041**
Total new jobs (including safeguarded relocated and construction FTE)	**1950**	**5000**
New Companies located on site	**133**	**180**
Live enquiries received for land or property	**297**	
Total completed new developments	**10**	
Completed refurbishments and extensions	**6**	

As with any large scale business park development with a core of established private sector controlled accommodation, there is also an inevitable churn within the Enterprise Zone business community, with some job losses having occurred most notably within smaller businesses occupying easy in/easy out accommodation at Flexspace and Business First, although such accommodation is usually swiftly re-occupied. Overall the level of employment attrition as a result of Covid-19 has been relatively small. There have been some bigger employers taking space most notably Lancashire Constabulary who have 100 staff in occupation at Indemnity House.

6.4 The Enterprise Zone retains the capability of achieving or exceeding the 5,000 jobs target over its lifetime, although the gross valued added potential may have reduced slightly from the originally forecast cumulative £2.1bn as a result of delays in bringing new development on stream, but will still be close to £2.0bn.

6.5 Marketing and Enquiries:
The approved Enterprise Zone Marketing Strategy continues to be implemented with strong links to the inward investment activity led by the Growth and Prosperity team under the “Blackpool Makes it Work” business campaign, also working closely with the Department for International Trade, the Local Enterprise Partnership and Marketing Lancashire to promote the Lancashire Enterprise Zones brand for the four Lancashire Enterprise Zones.

The completion and commissioning of the Aqucomms Transatlantic fibre optic cable and the roll out of the Local Full Fibre Network across the Enterprise Zone has already generated strong interest from the digital sector, with a number of potential data centre requirements in the early stages of negotiation. A detailed digital sector prospectus is in preparation.

The branding for Lancashire Enterprise Zones has recently been refreshed and during next year will be applied to the Enterprise Zone signage and revised and updated web sites and brochures. The Lancashire Local Enterprise Partnership has also appointed international property agents Colliers, to assist in promoting the four Enterprise Zones to an international commercial audience.

Ability to undertake the full range of activities in the past year has been restricted by the continuing pandemic related restrictions but opportunities are now being identified for wider engagement with key target sectors and participation in trade and regenreration events is being planned for 2022.

6.6 <u>Blackpool Airport:</u>
The Enterprise Zone team has continued to provide extensive support to the Blackpool Airport management team in the face of some significant operational challenges, and in particular took a prominent role in supporting six months of intensive activity to secure the transfer of Civil Aviation Authority operating licences for the Aerodrome and Air Traffic Control Services, from the outgoing contractor Regional and City Airports to Blackpool Airport Operations Ltd (BAOL); a task that was successfully concluded on 1 November 2021.

Support will continue particularly in respect of marketing, property management support, occupier liaison and commercial activity at least until the new Blackpool Airport Operations Limited management structure and a new Managing Director is in place.

A number of aviation-related opportunities have been identified and subject to planning consents being obtained from Fylde Council, it is anticipated that two new private hangar developments will be progressed within the next 12 months with further opportunities under consideration.

Implementation of the second phase of the Enterprise Zone masterplan, will necessitate the provision of some replacementoperational infrastructure, Land will also need to be transferred from the airport property company, Blackpool Airport Property Limited, to the Council to enable future Enterprise Zone commecial development, and further reports will be presented for consideration in due course. The refreshed Delivery Plan estimates for whole life expenditure include an allowance for a contribution in future years to the costs of new operational infrastructure at the airport.

6.7 <u>Blackpool Airport Enterprise Zone – Towns Fund</u>:

Much of the past year's effort has been directed to completing the business case for the Enterprise Zone Towns Fund project. This is to support business and jobs growth within the Enterprise Zone through part funding (with Council match) the creation of the new highways and associated infrastructure at Common Edge that will aid in the mitigation of a number of existing barriers to development, principally opening up the old Common Edge sports fields (which are currently part of the designated Blackpool Greenbelt) for commercial and limited residential development.

Firstly, this project looks to create a new entry and exit point for traffic into the Blackpool Airport Enterprise Zone to the east of the designated area, (Eastern Gateway access road) negating the business park's current status as a cul-de-sac and reducing travel times and standing traffic, particularly at peak vehicle flow times. Secondly, its route through the east of the Enterprise Zone will also open up 10.5 hectares of previously inaccessible development land for the creation of serviced plots, thereby addressing the current lack of new development space within the Enterprise Zone to accommodate businesses looking to locate and grow there.

This £18m scheme, including £7.5m of Towns Fund grant, will be delivered by Blackpool Council as scheme promoter and accountable body, with the Council's Enterprise Zone team leading on project delivery, supported by the Council's Highways team. External consulting engineers Wilde, have been appointed to prepare the detailed designs for the roads and their work will be completed in mid-2022 to enable phased delivery of the road construction.

Formal approval from the Department for Levelling Up, Housing and Communities was received on 10 December 2021 with an initial tranche of Town Deal funding of £737,000 for the current financial year released. The outline planning application for the new highways will be submitted in January 2022 with a separate application to be made to Fylde Borough Council for two small access points to Blackpool Airport from Amy Johnson Way, scheduled for submission in early 2022.

Expenditure on the Towns Fund project includes £10.5m of Council match funding, which is reflected in the business plan, to be incurred between April 2021 and March 2026, therefore expenditure of circa £9.4m will be incurred beyond the financial year 22/23 for which approval will be sought when costings are finalised.. The detailed construction programme, costs and expenditure profiles are in the process of being developed, with the cost forecasts for the Highway works utilised being based on high level estimates and a further detailed report will be presented for consideration by the Executive in summer 2022, when more accurate estimates are available,at which point the Delivery Plan model and expenditure forecasts will also be updated.

6.8 Proposed Acquisitions:

Over the next year it will be necessary to acquire additional leasehold and freehold interests in property within the Enterprise Zone to complement the two purchases concluded in the past twelve months, at 2 School Road and from South Shore Cricket and Squash Club. The objective in securing these property interests will be to enable delivery of key infrastructure, including the new secondary airport access from Amy Johnson Way, and to bring forward existing serviced sites for development where there has been a reluctance by private sector owners to do so in a timely fashion.

In the medium term several long leasehold interests in aircraft hangars and land at the airport will also have to be acquired to ensure development sites can be assembled and development opportunity maximised. Where property acquired is used by operational tenants at the airport, better quality alternative accommodation will ultimately be provided closer to the airport's main operational runway. This may include consolidation of reversionary freeholds held by Blackpool Airport Properties Limited into the Council estate, the anticipated costs for which are included within the Delivery Plan. Whilst negotiations are ongoing it is necessary that details remain confidential.

6.9 Consultation:

Over much of this year consultation with the local community and key airport stakeholders has been severely hampered by social distancing requirements and therefore has been limited to on-line consultation (with information being provided via the regular Enterprise Zone newsletter). The first open engagement took place on 16 November 2021 at AFC Blackpool's Jepson Way ground, where local residents and reresentatives of the Marton Moss Neighbourhood Forum were invited to view and feedback on the proposed outline highway designs.

Overall this event secured positive feedback with some points of specific detail being highlighted which will enable appropriate adjustments to be made to the detailed designs being prepared by Wilde Consulting. There has also been regular communication with key public sector stakeholders including Lancashire County Council, Fylde Council, the Environment Agency and United Utilities, particularly to identify activity to support resolution of wider drainage concerns.

6.10 Common Edge Sport Facilities:

After significant delays, whilst an objection from Sport England was eventually resolved by way of agreeing a new Playing Pitch Strategy, and details of highway design at Division Lane were agreed with Lancashire County Council, planning consent was finally granted by Blackpool Council for the new changing facilities, car park, 3G floodlit rugby pitch and training area at Common Edge in June 2021. Approval in principle was similarly granted by Fylde Borough Council in August 2021, although their formal issuing of the decision notice was delayed by ongoing discussions with Lancashire County as the lead local flood authority to confirm conditions appended to the consent.

Ability to progress construction work was also restricted as the Football Foundation grant conditions which would not permit this to commence until a without prejudice permission was granted by them pending the grant approval, and this was obtained at the beginning of October 2021. The grant application was completed in September after the Football Foundation amended their requirements for submission and approval of the £250,000 grant confirmed on 13 December 2021.

The contract for the construction of the changing facilities was tendered in November 2020 when it was anticipated that the planning consents would be granted in the following January. It has been possible to negotiate an extension with the successful tenderer Conlon's, to maintain the tendered price despite the impact of recent significant price rises in construction materials, with the contractor also having agreed minor variations to reflect additional works to the drainage culverts and access footpaths and access road improvements.

Construction work has now commenced with an anticipated completion date in May 2022, allowing time for the facilities to be prepared for full use from August 2022. Associated highway works to construct the improved Division Lane/Common Edge Junction will be subject to a separate tender when Wilde Consulting have completed the detailed design, with the anticipated construction to commence in May/June 2022 with an eight week delivery time.

Detailed design work for the 3G floodlight pitch and for the associated floodlight rugby pitch is ongoing, with the work scheduled to be tendered in February and a contract awarded in March, with an estimated eight month build which will enable to facilities to come into use in October 2022.

Existing changing facilities at Jepson Way will continue in use for the new sports pitches until the new changing facility is complete and commissioned, and will then be demolished. Some of the original Common Edge pitches may continue in use until Spring 2022 to provide additional capacity, until the land is needed for works in connection with the new Eastern Gateway access.

6.11 <u>Revised Delivery Plan:</u>
In line with the revised Masterplan for the Enterprise Zone, and the availability of additional information to support more accurate development cost estimates and timing of activities, the Delivery Plan model has also been updated to reflect the anticipated timing of expenditure and income over the life of the Enterprise Zone, and in particular

the period to the end of the next financial year 2022/23.

The £19.16m of expenditure planned for the next 14 months to the end of financial year 2022/23 includes key property acquisitions, construction of changing rooms, car park and 3G pitch at Common Edge, design and early construction of the Eastern Gateway Access road and Common Edge highway works, provision of sub–stations at the airport, upgrading of water mains at the airport and the construction of two additional points of access to the airport estate to facilitate the construction of two new private arcraft hangars, together with associated consultancy, staff and marketing costs, and a related contingency allowance.

The Delivery Plan approved in December 2020 envisaged whole life expenditure of c.£72.6m plus prudential borrowing to deliver the Enterprise Zone. The cost to-date and costs forecasts presented to the Executive in December 2020 included the actual expenditure of £2.3m incurred in respect of the development of the 40,000 sq ft at Amy Johnson Way for occupation by Multiply. These costs have now been removed from the current forecasts as the Multiply development is now a stand-alone project with separate funding and income budgets.

There has been a small increase in the forecast overall project expenditure as a result of material costs increases and progression of detailed design. The revised Delivery Plan model (Appendix 7b) estimates a required expenditure of £73.01m to complete both Common Edge and airport phases over the period to 2041 with the bulk of infrastructure expenditure incurred over the next ten years. There will be a significant gearing up of spend in the period to March 2023 with the next stage of activity as detailed above. The estimates are based on current prices and exclude allowances for inflation but include a general contingency of 5%. The cost of prudential borrowing would be additional to these estimates. The Towns Fund grant will also generate £7.5m of income in this period.

It is difficult to isolate all specific costs for each of the two masterplan development phases with many areas of cost overlapping, particularly relating to the delivery and marketing activity, consultancy fees and some property acquisition and off-site costs including utility reinforcement.

Table 2 below illustrates the small variations in the key expenditure components between the approved delivery plan from December 2020 and the revised forecasts

TABLE 2 : COMPARISON OF PHASE 1 EXPENDITURE FORECASTS		
Description	**Approved 2018-21 forecasts**	**Revised forecast to Mar 2023**
Infrastructure	£6.55M	£ 5.73 M**
Direct Development	£3.30M	£ 4.11 M
Consultancy/fees	£0.65M	£ 1.1 M
EZ Delivery	£1.00M	£ 1.59 M
Other costs	£2.585M	£ 5.54M
Land Acquisition costs	£13.3M*	£ 10.55 M ***
Contingency 5%	£1.441M	£ 1.1 M
GRAND TOTAL COSTS	**£28.8M**	**£ 29.72 M**

*Included provision for Squires Gate Industrial Estate purchase

** Now includes extra costs for Common Edge Highway and primary sub-station brought forward from Phase 2 which are in excess of £8m, and also reflects increased cost estimates as a result of greater knowledge of ground conditions, design progression and the tendered cost of enhanced replacement sporting facilities at Common Edge to satisfy Sport England requirements. The timescale has also been extended by 4 years.

*** includes brought forward acquisition of property for Phase 2 Airport

A series of graphs at Appendix 7c (exempt from publication) illustrate the current expenditure forecast compared to the the projected spend envisaged in December 2020 showing how this has lagged slightly behind forecast. The graphs also similarly illustrate the anticipated shift in the forecast receipt of income and the years when expenditure exceeds income, there will be a continued requirement for prudential borrowing.

The approved December 2020 Delivery Plan estimated a total income generated from retained business rates growth, land sales and grants of £73.01m, with the revised draft Delivery Plan now anticipating a total Enterprise Zone lifetime income from retained business rates growth, land disposals, rentals and grant including £7.5m of Towns Fund of some £74.25m. This estimated income includes a deduction of 40% to reflect optimism bias reduction of forecast income to reflect the probability that income generated from retained business rates and land sales/rental will be lower than the full potential or delayed due to:

- weaker demand
- delays in delivery and occupation of new premises
- potential requirements to subsidise the Enterprise Zone rates baseline income where this could be impacted by voids, bad debts and successful rating appeals

The Optimism Bias income reduction percentage used in December 2020 was set at 30% but has been increased to 40% in the current forecast to reflect increased economic uncertainty.

A more detailed summary of the forecast expenditure to progress the two Enterprise Zone delivery phases approved in December 2020 (Common Edge and Airport) are illustrated in the Table 3 below. The forecast, combined expenditure to progress Phases one and two to the end of financial year 2022/23 is £19.8m as set out in Table 3 below:

TABLE 3	2021/22			2022/23			GRAND TOTALS
	phase 1	phase 2	**Total**	*phase 1*	*phase 2*	**Total**	
Phase 1 infrastructure	£614,363	£ -	£614,363	£5,001,809	£	£5,001,809	£5,616,172
Phase 2 infrastructure	£	£0	£0	£	£	0	£0
Direct Development	£260,000	£	£260,000	£3,850,000	£	£3,850,000	£4,110,000
Consultancy / Fees	£55,000	£ -	£55,000	£55,000	£ -	£55,000	£110,000
EZ Delivery	£485,500	£ -	£485,500	£415,500	£	£415,500	£901,000
Other Costs	£1,376,283	£ -	£1,376,283	£3,386,320	£	£3,386,320	£4,762,603
Land Acquisition Costs	£1,367,200	£	£1,367,200	£2,013,077	£	£2,013,077	£3,380,277
Contingency costs	£207,917	£	£207,917	£736,085	£	£736,085	£944,002
GRAND TOTAL COSTS	**£4,366,263**		**£4,366,263**	**£15,457,791**	£0	**£15,457,791**	**£19,824,054**

Some project elements included within the above total will continue to require expenditure into financial year 2023/24 and possibly beyond, particularly the Highways/Towns Fund project and utility provision. A detailed business case will be produced for each specific element of project works and expenditure will only be committed beyond financial year 2022/23 where there is a clear and compelling case for doing so to complete delivery and deliver outputs and outcomes.

6.12 Prudential Borrowing:

As referenced in December 2020, the early years income streams generated by the Enterprise Zone are likely to be insufficient to meet the costs of investment required to provide enabling infrastructure, and it will be necessary to undertake Prudential Borrowing. It has been agreed that prudential borrowing for the Enterprise Zone will be applied at a discounted rate during the development phase of the scheme and that this will be on the basis of interest until the end of March 2025, with capital repayments commencing in the 10th year of the Enterprise Zone and being recovered over the following 25 years, which will extend beyond the life of the Enterprise Zone.

6.13 Management of Risk:

In light of the expected the economic volatility and the difficulty this presents in accurately forecasting expenditure and particularly income, performance against the Delivery Plan will continue to be closely monitored on a monthly basis by the Enterprise Zone Delivery Team and Finance Team and reviewed by the bi-monthly Project Board. Full revisions of the Delivery Plan will continue to be reported annually.

In addition to maintaining and regularly reviewing the Project Risk Register, regular bi-monthly meetings of the Enterprise Zone and Airport Project Board are held to review progress, tackle issues and make decisions and recommendations to the Chief Executive in accordance with the delegation agreed in July 2018. There is also a regular monthly review with the Finance Team who have now identified a dedicated officer to work on monitoring progress and the financial implications.

Until the next review which is proposed takes place at the end of financial year 22/23, the Delivery Plan will continue to be monitored and the financial modelling fully updated on a monthly basis allowing the flexibility to slow the pace of expenditure where this is warranted by delays in income needed to support prudential borrowing, and ensure the timely delivery of enabling infrastructure to match changing demand, and also to enable rapidly emerging opportunities to be captured, with further recommendations presented to Executive where circumstances warrant a change to activity. The Enterprise Zone risk register which is shared with the Blackpool, Fylde and Wyre Economic Prosperity Board and Local Enterprise Partnership Enterprise Zone Governance Sub-Committee will also be updated on a monthly basis.

6.14 Does the information submitted include any exempt information? Yes

The Draft Delivery Plan attached at Appendix 7b and the graphs at appendix 7c includes detailed budget estimates and contingencies that enable the Enterprise Zone to be financially viable. The costings would however undermine the Council's position in continuing and future negotiations so at the time of publication this document is not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

7.0 List of Appendices:

7.1 Appendix 7a : Approved Masterplan
Appendix 7b : Revised Delivery Plan (exempt)
Appendix 7c: Comparative expenditure and income graphs (exempt)

8.0 Financial considerations:

8.1 The table below indicates the actual costs and income incurred on the scheme to date along with a forecast to 31 March 2023 and for the entirety of the scheme. They do not include the costs of Prudential Borrowing which will be necessary in the early stages of the scheme to facilitate development at the Enterprise Zone. Also, the spend approved does not directly result in the income stream projected and is predicated on circa £300m of private sector investment once the infrastructure and other works have been completed.

	ACTUALS to 31 March 2021	FORECAST to 31 March 2023	TOTAL SCHEME COST to 31 March 2041
	£ M	£ M	£ M
COSTS	9.9	29.72	73.01
INCOME	0.8	6.9	74.25

9.0 Legal considerations:

9.1 None directly arising from this report.

10.0 Risk management considerations:

10.1 The primary areas of risk are associated with cost and income, with many elements including Brexit, the lasting impacts of Covid-19 and changes to the taxation system outwith the control of the Council as accountable body. A full risk register is maintained on a monthly basis.

10.2 Costs:
Until elements of the project are designed and full site investigation and planning requirements are known, there is a significant risk that costs may increase against initial estimates, we can already see this impact in terms of increased estimates for highway costs as additional site investigation data becomes available. There is also a risk post-Brexit and during the Covid-19 recovery period that there will be cost

inflation in the construction sector if there are shortages of materials or labour. Wherever appropriate, detailed value engineering exercises will be undertaken to reduce cost without impact on quality. All major cost elements within the Delivery Plan contain an appropriate level of contingency and there is also a whole scheme contingency allowance included.

10.3 Income:

The impact on income from the effects of Brexit, Covid-19, and the natural fluctuation in market demand over the long lifespan of a project of the complexity and length of the Enterprise Zone , makes it particularly difficult to forecast the timing and quantum of income as we move further into the future.

In particular over the last year, the retained rates growth income has had to be deployed to backfill the Enterprise Zone baseline rates income, when collection of business rates within the Enterprise Zone designated boundary from Fylde and Blackpool failed to exceed the baseline threshold established in December 2016. This was a result of voids and third-party delays in establishing rateable values at Squires Gate Industrial Estate, which has deleted recovery, non payment and default of bad debts across the wider estate. This requirement to backfill the baseline rates income is believed to be a short term event with potential to recover some of the rates arrears during the current 21/22 financial year and beyond.

There is also a risk that land values on disposal may not be as great as forecast, as construction costs increases outstrip increases in rents and capital values. Similarly the delivery of individual buildings may also be delayed against forecast, which will reduce the quantum of retained business rates income and land sale receipts.

10.4 Business rates:

The potential for a future change in the national business rates system also adds uncertainty whilst the funding of Enterprise Zones is based on retained rates growth, a replacement equivalency formula will need to be negotiated for all Enterprise Zones with Government for funding and the outcome of such negotiations cannot be guaranteed. At present the forecasts for income from retained business rates growth reflect a deduction of 40% for optimism bias from potential income, to cover delays and the impact of rates appeals, voids and bad debt. The level of decuction for Optimism Bias has been increased form the figure of 30% utilised inDecember 2020.

10.5 Planning:

The Common Edge playing fields currently form part of the Blackpool Greenbelt, and as the outcome of the Local Plan Part 2 Examination (which took place in December 2021) will not be known until summer of 2022. Initial planning applications within this area will need to be refered to the Secretary of State for determination which may result in delays to the award of planning consents and thus ability to commence construction, delaying expenditure and income.

10.6 Mitigation:
At present there is a strong pipeline of enquiries which is outstripping supply and at the end of the Enterprise Zone term, there will still be significant asset value held by the Council, not least the airport and the Common Edge sports facility. Full reviews of the Masterplan will be undertaken every five years with interim refreshes when appropriate, whilst the Delivery Plan will be monitored annually and adjusted to reflect progress, opportunity and the changing environment.

11.0 Equalities considerations:

11.1 None directly arising from the report.

12.0 Sustainability, climate change and environmental considerations:

12.1 None directly arising from the report.

13.0 Internal/external consultation undertaken:

13.1 Consultations have been undertaken with relevant directorates within the Council including the Growth and Prosperity Board, Finance and Leisure, Blackpool Airport Operations Ltd and operators based at Blackpool Airport.

Following the further consultation on the Masterplan any significant revisions identified will be presented to Executive for final approval. Subsequent approval consultation on individual elements of the Enterprise Zone will take place through the normal planning application process.

14.0 Background papers:

14.1 None

15.0 Key decision information:

15.1 Is this a key decision? Yes

15.2 If so, Forward Plan reference number: 6/2020

15.3 If a key decision, is the decision required in less than five days? No

15.4 If **yes**, please describe the reason for urgency:

16.0 Call-in information:

16.1 Are there any grounds for urgency, which would cause this decision to be exempt from the call-in process? No

16.2 If **yes**, please give reason:

TO BE COMPLETED BY THE HEAD OF DEMOCRATIC GOVERNANCE

17.0 Scrutiny Committee Chairman (where appropriate):

Date informed: 28 January 2022 Date approved:

18.0 Declarations of interest (if applicable):

18.1

19.0 Summary of Discussion:

19.1

20.0 Executive decision:

20.1

21.0 Date of Decision:

21.1

22.0 Reason(s) for decision:

22.1

23.0 Date Decision published:

23.1

24.0 Alternative Options Considered and Rejected:

24.1

25.0 Executive Members in attendance:

25.1

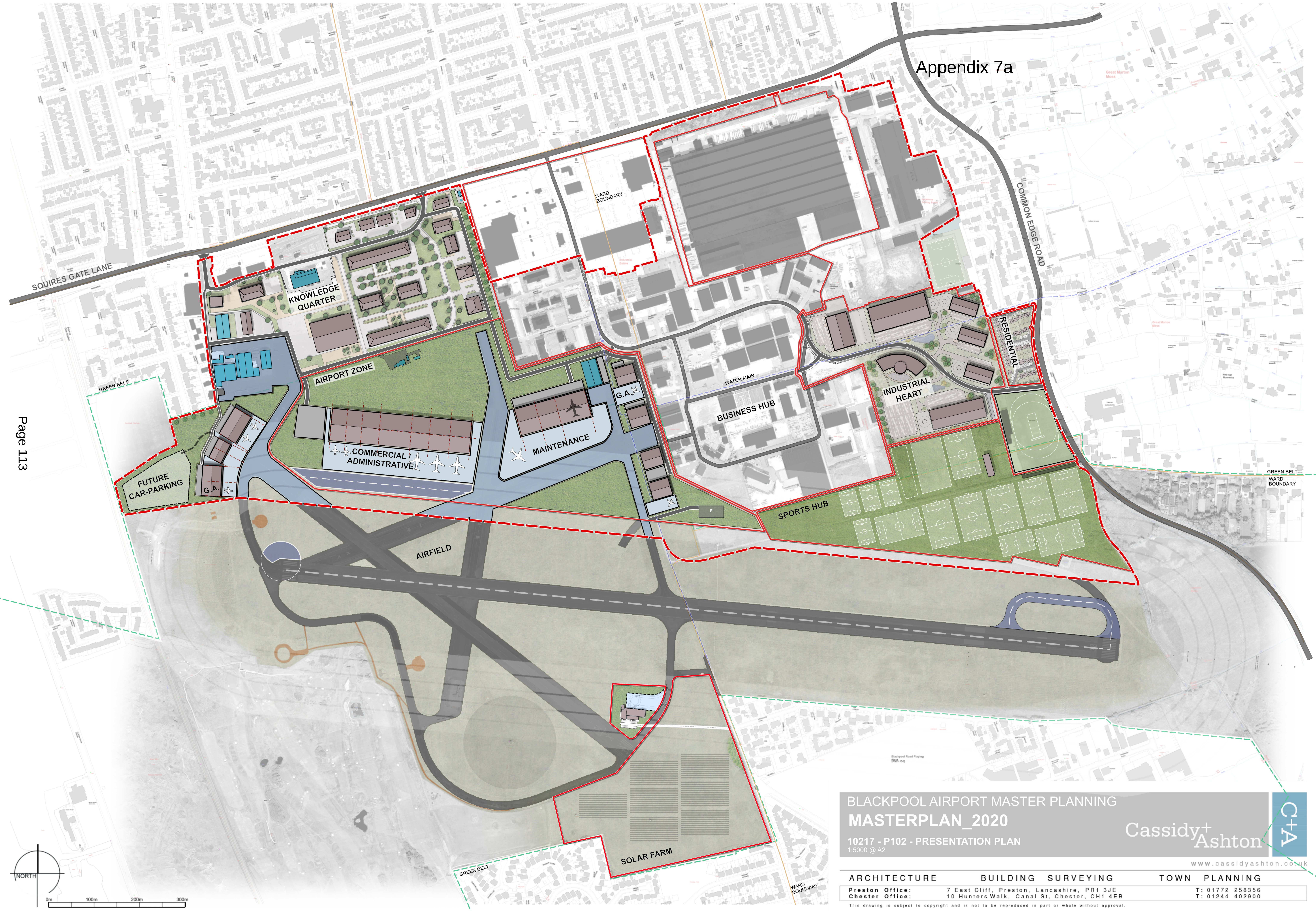
26.0 Call-in:

26.1

27.0 Notes:

27.1

Appendix 7a


SQUIRES GATE LANE
KNOWLEDGE QUARTER
AIRPORT ZONE
WARD BOUNDARY
COMMON EDGE ROAD
RESIDENTIAL
INDUSTRIAL HEART
WATER MAIN
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MAINTENANCE
COMMERCIAL / ADMINISTRATIVE
FUTURE CAR-PARKING
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SPORTS HUB
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