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 **<u>Management of the Risks Associated with the Capital Programme</u>**

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 **Capital Expenditure Commitments**

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