Notice of:	**EXECUTIVE**
Decision Number:	EX10/2024
Relevant Officer:	Steve Thompson, Director of Resources
Relevant Cabinet Member	Councillor Lynn Williams, Leader of the Council
Date of Meeting	5 February 2024

CAPITAL PROGRAMME 2024/25 TO 2026/27

1.0 Purpose of the report:

1.1 To consider recommending to Council the 2024/25, 2025/26 and 2026/27 Capital Programmes.

2.0 Recommendation(s):

2.1 To recommend to Council:

1. To approve the Capital Programme for 2024/25 and exemplifications for 2025/26 and 2026/27 as set out at Appendix 6a, to the Executive report

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

3. To agree to continue with the Single Capital Pot approach as outlined in Section 6 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 approve the Capital Prudential Indicators as identified in Appendix 6b, to the Executive report.

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 2024/25 Capital Programme runs concurrently with the 2024/25 revenue budget and reports on both are submitted to this meeting for approval. 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 report also takes into account the effects of the impacts of Covid, labour shortfalls, supply chain bottlenecks and inflationary pressures on progress of the programme. The capital programme submitted for approval for 2024/25 is £25.6m and over a three-year period is estimated at £143.3m (See Appendix 6a).

6.2 The 2025/26 and 2026/27 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 2025/26 and 2026/27 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 2025/26 and 2026/27.

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 has been the beneficiary of a number of multi-million pound grants in recent years.

6.4 The status of the Capital Programme is reported monthly to the Corporate Leadership Team (CLT) and the Executive as well as the Tourism, Economy and Communities Scrutiny Committee.

6.5 The Capital Programme now submitted is consistent with that agreed for 2023/24. 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 2024/25 does not include budgeted expenditure that has previously been approved by Executive. Blackpool Council has approximately £100m available for capital projects, e.g. Tower Steel, Town Deal and Central Business District phase 3 that have been approved in previous years but not yet expended. The total capital budget therefore for 2024/25 is in reality approximately £102.7m.

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 identify 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.

In recent years 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 Executive. The movement in interest rates is also monitored via the Treasury Management Panel.

Interest movement over the last twelve months have led to review of capital schemes and their ongoing viability.

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 6c:-

(1) The actual capital position – (Non-HRA and HRA) for 2023/24 will be reported as part of the 2024/25 Capital Outturn report to Executive.

(2) Prudence – capital expenditure including commitments for non-HRA and HRA for 2024/25 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.

6.12 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 2024/25 for corporate priorities including additional expenditure anticipated on existing schemes. The impact of this 12.5% proposal is set out below (excluding Disabled Facilities Grant - see 6.15):

Department	2024/25 Non-ring-fenced Allocations £000	12.50% Top-slice £000	Net Total £000
Communications and Regeneration	2,567	321	2,246
Adult Services (see 6.15 below)	2,615	71	2,544
Children's Service	579	73	506
TOTAL	**5,761**	**465**	**5,296**

6.13 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	26
TOTAL	**465**

6.14 As can be seen from the table below the non-ring-fenced capital grant allocation demonstrates no change from 2023/24 to 2024/25:

Department	2023/24 £000	2024/25 £000	Increase £000
Communications and Regeneration	2,567	2567	0
Adult Services	2,615	2615	0
Children's Service	579	579	0
TOTAL	**5,761**	**5761**	**0**

6.15 Disabled Facilities Grant of £1,986k has been identified for 2024/25. 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.

6.16 **Capital Receipts**

The Council has and will continue to commit capital receipts to the support of the capital programme. The realisation of capital receipts is essential in ensuring future schemes can proceed. In order to offset increased pressures as a result of inflation and interest rate rises, consideration is given to offsetting capital expenditure using capital disposals via the formation of an asset disposal programme.

6.17 **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.

6.18 **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 6a, to the Executive report.

The proposed schemes that will proceed or are in progress are set out in detail in Appendix 6a, to the Executive report. The expenditure by directorate is:-

Directorate	2024/25 £000	2025/26 £000	2026/27 £000
Communications and Regeneration	3,104	3,425	3,425
Housing Revenue Account	16,534	10,133	7,608
Community and Environment	1,857	37,589	49,128
Adult Services	2,544	2,615	2,615
Children's Services	1,133	579	579
Resources			
Governance and Partnerships			
Net top-slice	465	TBD	TBD
TOTAL	**25,637**	**54,341**	**63,355**

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) Multiversity site acquisition
(3) Enterprise Zone

Furthermore, capital schemes are inevitably incurring pressures due to inflation, interest rates and supply chain issues. The Council is working with partners to develop options for the overdue Foxhall Village housing scheme and a separate report is due at Executive later in the New Year.

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.

6.19 **<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) Interest rates

(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, 2023/24 saw the emergence of interest and inflation as major areas of risk within the Capital Programme. These are reported to the Corporate Leadership Team 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 paragraph 10.2 recommends the creation of a top-slice contingency in the result of any overspends arising.

A review of the property portfolio of the Authority is currently underway which may identify properties that may be disposed of in future years in order to ensure the funding of current / future regenerative schemes.

6.20 Does the information submitted include any exempt information? No

7.0 List of Appendices:

7.1 Appendix 6a- Capital Programme Summary and by Service
Appendix 6b- 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 2024/25.

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 and the impact of this decision for our children and young people:

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: 25/2023

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: 26 January 2024 Date approved:

18.0 Declarations of interest (if applicable):

18.1 None.

19.0 Summary of Discussion:

19.1 Mr Steve Thompson, Director of Resources, presented the report to the Executive. Mr Thompson highlighted the need to approve a Capital Programme as part of the budget setting process. Mr Thompson explained that the scale of this year's programme would be less as it did not include the budgeted expenditure of £100m outlined in paragraph 6.6 which had been approved in previous years but had not yet been expended.

20.0 Executive decision:

20.1 The Executive resolved to recommend Council as follows:

1. To approve the Capital Programme for 2024/25 and exemplifications for 2025/26 and 2026/27 as set out at Appendix 6a, to the Executive report

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

3. To agree to continue with the Single Capital Pot approach as outlined in Section 6 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 approve the Capital Prudential Indicators as identified in Appendix 6b, to the Executive report.

21.0 Date of Decision:

21.1 5 February 2024

22.0 Reason(s) for decision:

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

23.0 Date Decision published:

23.1 6 February 2024

24.0 Alternative Options Considered and Rejected:

24.1 The Executive noted that there were no alternative options for consideration.

25.0 Executive Members in attendance:

25.1 Councillor Williams, in the Chair

Councillors Benson, N Brookes, Burdess, Farrell, Hobson, Hugo, M Smith and Taylor

26.0 Call-in:

26.1

27.0 Notes:

27.1 The following Non-Executive Members were in attendance: Councillors Galley, Hunter, Marshall and M Scott.