



COUNCILLOR PHIL DAVIES

CABINET
19 FEBRUARY 2018
CAPITAL PROGRAMME
AND FINANCING 2018/21

Councillor Phil Davies (Leader of the Council) said:

“Our Capital Programme is about investing in Wirral’s future – improving the infrastructure in the borough, helping residents enjoy better flood protection, transport and highways and improving our schools.

The Capital Programme will also help us meet our financial challenge by generating additional income through seeking investment opportunities and realising major savings by supporting transformation projects to redesign how services are delivered.”

REPORT SUMMARY

This report provides Cabinet with the draft Capital Programme 2018/21 for consideration and referral to Council for approval. It also includes information regarding the revenue implications of this Programme and an update on the latest forecast for capital receipts.

The 2018/21 Capital Programme represents a combination of schemes originally approved as part of the 2017/20 Programme, updated through the Capital Monitoring reports in 2017/18 and new bids for inclusion as detailed in this report.

This matter affects all Wards within the Borough.

The decisions in this report are key decisions.

RECOMMENDATIONS

1. That Cabinet agree and recommend to Full Council the Capital Strategy 2018/21 (Appendix 1) including the Flexible Use of Capital Receipts Strategy 2018/19 (Annex 2).
2. That the new bids as detailed in the first section of Appendix 3 totalling £19.7 million be approved for inclusion in the Capital Programme. This includes a sum of £0.7 million relating to additional project risk contingency in relation to the Dock bridges replacement scheme as detailed in paragraph 3.15 b.
3. That the bids totalling £3.7 million relating to the Leisure and Cultural Services Review (Appendix 3) are included in the programme for 2018/19 but are deferred to a later commencement date, on an individual basis, in recognition of an ongoing review.
4. That the bids totalling £4.6 million referred to the Council's Technical Design Authority (TDA) (Appendix 3) be included in the programme if they are approved by the TDA.
5. That any new bids supported by grant funding do not commence until written confirmation has been received from the granting authority.
6. That Cabinet recommend to Council for approval the Capital Programme 2018/21 (as detailed in Appendix 4).
7. That progress on delivering the Capital Programme is presented in accordance with the agreed Capital Monitoring arrangements.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 The purpose of the Capital Programme is to enable the Council to prioritise and effectively deliver capital investment that contributes to the achievement of Council objectives.
- 1.2 Links to the revenue budget ensure that revenue funding is provided to meet the financing costs, and any running costs, as a result of the Capital Programme investment.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 For a scheme to be included in the Capital Programme it must be supported by a Business Case which includes consideration of alternative options and has been reviewed by the Assets and Capital Group (ACG).

3.0 BACKGROUND INFORMATION

CAPITAL STRATEGY

- 3.1 The Capital Strategy provides the framework that enables the Council to work with partners and stakeholders to prioritise and effectively deliver the capital investment that contributes to the achievement of Council objectives. The Strategy is concerned with, and sets the framework for, all aspects of the Council's capital expenditure over the 3 year period 2018/19 to 2020/21 – its planning, prioritisation, management and funding. It is closely related to, and informed by; the Council's Asset Management Plan and is an integral aspect of the Council's medium term service and financial planning process as reflected in the MTFs. It is also essential that the strategy reflects the wider public and private sector investment into the overall improvement of the area. The Capital Strategy for 2018/21 is set out at Appendix 1.

ASSETS AND CAPITAL GROUP (ACG)

- 3.2 This Officer Group was re-established during 2013 to improve the co-ordination and management of the Capital Programme with its remit extended to include the Council's asset portfolio. The Group includes representatives from all Directorates and the Terms of Reference include:-
- Review of the Capital Strategy and policies relating to capital.
 - Review and recommend new schemes for inclusion in the Programme.
 - Manage the delivery of the approved Capital Programme.

CAPITAL PROGRAMME

- 3.3 The Capital Programme details the schemes being undertaken over the medium term which help the Council achieve its objectives. It is aligned to the Wirral Plan and Medium Term Financial Strategy. It is reviewed, updated and considered by Council each year as part of the annual budget setting process.
- 3.4 Government announcements may include grant support for specific themes but other investment is based upon affordability. When determining previous programmes, where possible, schemes have been funded through generating capital receipts to minimise the need for borrowing. The Autumn Statement 2015 introduced an additional flexibility as receipts generated between 1 April 2016 and 31 March 2019 can be used to fund Transformation Programmes. This has recently been extended until March 2022 and is fundamental if the Council is to deliver its Transformation Programme. Any new schemes not funded by grant or capital receipts will be funded from borrowing which does generate a revenue cost.

NEW SUBMISSIONS

- 3.5 In order to manage demand within the financial constraints there has to be a means to prioritise investment. Criteria have been developed to provide an initial assessment of any capital bids to ensure the Programme is either targeted to Council priority areas or fulfils statutory obligations. Individual bids are scrutinised by the ACG and form the basis for making recommendations to Cabinet as to which could be included in the Capital Programme.
- 3.6 The ACG challenged the justification and deliverability of the submissions (with the aim of reducing significant re-profiling of schemes and minimising the level of new borrowing required) prior to reviewing against the prioritisation criteria.
- 3.7 There were a number of bids relating to sports centres, parks and the Williamson Art Gallery. Pending the outcome of the current review of leisure and cultural services it is recommended that these schemes are deferred with the exception of certain works required to maintain the Art Gallery Museum Accreditation.
- 3.8 A number of I.T. schemes have been referred to the "Technical Design Authority" to ensure that there are no better alternatives, existing systems etc. that could produce the desired results. Again it is recommended that these are deferred for the moment.
- 3.9 It was agreed that 6 minor schemes totalling £0.278 million could be funded from within the existing corporate Planned Preventative Maintenance budget.
- 3.10 To cover the possibility that the schemes referred to in 3.7 and 3.8 are included in the programme at some future date the respective financing costs have been calculated and included in the Treasury Management budgets.

TRANSFORMATION PROGRAMME

- 3.11 The Programme contains projects which are key to successfully delivering services differently over the coming years in the areas of Assets, Customers and Children's Services. This encompasses schemes which reduce demand and costs to the Council and public sector partners and / or generate savings in the delivery of public services. These can be achieved through such as service re-configuration or re-structuring or establishing Alternative Delivery Models. The Programme is funded through the flexibilities regarding Capital Receipts with the projects delivering future financial benefits which have been incorporated into the Budget 2018/19 and Medium Term Financial Strategy.
- 3.12 Within Children's Services this is to transform the quality of social work provision, leadership and performance for which additional capacity is required in order to safely manage the change and also ensure that intervention is at an earlier stage. This investment will decline in future years whilst delivering benefits through the management of future demand.

COMMERCIAL OPPORTUNITIES

- 3.13 Within the programme there is £20 million to support the Strategic Acquisition Programme (SAP). This aids the key economic goals and aspirations set out in the Wirral Growth Plan and Strategic Regeneration Framework (SRF). A further £10 million was included within the 2017/18 programme.

WIRRAL WATERS INVESTMENT FUND

- 3.14 Regulations allow for any business rates growth within the Enterprise Zone (EZ) to be re-invested to stimulate further development. This growth can be used to access and fund borrowing to increase investment within the Wirral Waters element of the Merseywaters EZ in order to bring forward development more quickly and to promote further growth. The borrowing costs are funded from the increase in Business Rates that will be generated.

2018/21 CAPITAL PROGRAMME

- 3.15 The 2018/21 Capital Programme represents a combination of:-
- a) Schemes approved as part of the 2017/18 Programme and updated through the Capital Monitoring reports in 2017/18. The table below reflects the Quarter 3 position 2017/18.

Table 1: Capital Programme (per Quarter 3, December 2017 monitoring report)

Analysis of Capital Programme	2018/19	2019/20	2020/21
	£000	£000	£000
Strategy & Partnerships	21,266	18,640	5,495
Business Services	13,193	470	0
Adult Social Care	7,562	0	0
Children's Services	18,849	2,500	0
Corporate Resources & Reform	2,700	0	0
Total Expenditure	63,570	21,610	5,495
Financing			
Unsupported borrowing	23,089	10,470	0
Capital receipts	14,162	0	0
Grants	20,319	6,140	1,045
Business Rates (Ring fenced)	6,000	5,000	4,450
Total Financing	63,570	21,610	5,495

- b) New bids and additional requirements for consideration at this meeting. The emphasis has been to ensure that the bids support the delivery of the Wirral Plan and the 20 Pledges. Appendix 1 details the scoring criteria that provides assistance to the ACG when discussing these schemes. Appendix 2 provides a summary of each scheme. Additional funding is requested for the Dock Bridges replacement scheme the reasons for which are detailed below:

Works on site are expected to be complete by April 2018. The original total project estimate was £7.12 million. The Department for Transport (DfT) has contributed £6.4 million all of which will be spent by March 2018. A condition of the grant is that the Council 'underwrites' any overspend and there will be no additional funding provided. Council has previously agreed a £1.745 million capital contribution which together with £0.142 million from Peel Ports equals a current project budget of approximately £8.3m, which needs to cover all client support costs as well as the construction contract payments.

The construction contract is such that the Council pays the contractor's costs plus a fee for profit and overheads up to a 'target' price (tender sum plus any agreed quotation amounts for 'compensation events'). However, the Council has to pay all of the contractor's actual costs in providing the works, up to a capped liability limit representing the agreed target price plus half of the first 10% over that price. The current forecast target price is £7.8m. This is a result of agreed legitimate compensation events that are the employer's risk, including delays to the works as a result of underground obstructions and scope changes designed to ensure the new lift bridge is more resilient to future closures for its maintenance.

However, there are ongoing developing delays due to fabrication complications and bad weather which are likely to lead to the Contractor's costs exceeding the target, such that the Council will be liable for half of that 'overspend' up to the 10% limit. It is estimated that the overall project costs will now exceed the available budget by up to £420,000. However, given that the new lift bridge is yet to be installed and commissioned, it would be prudent to plan for further compensation events that may be at the employer's risk and may result in an even higher target price.

Consequently, it is recommended that a further £700,000 is provided from the Council's Capital programme for 2018/19 as additional project risk contingency. Any funding that is not ultimately required would be returned into the Council's Capital programme.

Table 2: New bids/ additional requirements for inclusion in the Programme

	2018/19	2019/20	2020/21
	£000	£000	£000
Strategy & Partnerships	4,879	7,543	2,761
Business Services	1,890	1,490	1,490
Adult Social Care	350	0	0
Children's Services	0	0	0
Corporate Resources & Reform	0	0	0
Total	7,119	9,033	4,251

- 3.16 The proposed Capital Programme combines Tables 1 and 2 together with an estimate for grant to be received for Schools Modernisation of £2.5 million in 2020/21. The detail can be found in Appendix 4.

Table 3: Proposed Capital Programme 2018/21

Proposed Capital Programme	2018/19	2019/20	2020/21
	£000	£000	£000
Strategy & Partnerships	26,145	26,183	8,256
Business Services	15,083	1,960	1,490
Adult Social Care	7,912	0	0
Children's Services	18,849	2,500	2,500
Corporate Resources & Reform	2,700	0	0
Total Expenditure	70,689	30,643	12,246
Financing			
Unsupported Borrowing	29,712	15,239	3,926
Capital Receipts	14,162	0	0
Grants	20,815	10,404	3,870
Business Rates	6,000	5,000	4,450
Total Funding	70,689	30,643	12,246

Note : Unsupported Borrowing includes the Investment in Properties for which the borrowing costs will be met from the resulting income stream.

- 3.17 In forecasting a 3 year Programme it is recognised that there are many variables and factors that will impact on future requirements. The Programme will be subject to regular review to ensure the most effective use of resources whilst providing the opportunity to update agreed schemes, include deferred schemes as and when plans develop and add any new schemes which will arise as new funding is identified and delivery plans are developed along with Council partners.

CAPITAL RECEIPTS

- 3.18 Available capital receipts at 1 April 2017 were £5.558 million. Tables 4 and 5 assume the proposed spend in Table 3 is agreed. Longer term projections can be updated as and when more information becomes available e.g. the interaction with the Property Company.
- 3.19 Additional flexibilities regarding the use of receipts were confirmed following the Chancellor’s Autumn Statement 2015. Receipts generated between 1 April 2016 and 31 March 2019, excluding Right-To-Buy receipts, can be used to fund Transformation provided the Council has agreed a Transformation Programme setting out the projects, costs and deliverable benefits / savings. As mentioned earlier in this report, this is now extended until March 2022.
- 3.20 The Council’s asset portfolio is constantly under review in order to highlight those assets that Members may wish to consider for disposal, a critical decision given the funding of the Transformation Programme is reliant upon the generation of capital receipts. Tables 4 and 5 split the receipts based upon the flexibility arrangements.

Table 4: Projected Capital Receipts for traditional capital schemes

	2017/18	2018/19
	£000	£000
Capital Receipts Reserve	2,604	1,984
Estimated receipts	632	550
Funding required	-1,252	-792
Closing Balance	1,984	1,742

- 3.21 The assumption for receipts in 2017/18 is predicated on the fact that the anticipated expenditure on the Transformation Programme of £12.550 million (including Children’s Services) is to be funded from allowable receipts generated in 2016/17 and 2017/18. Although the final receipt for the sale of Manor Drive will not occur until 2018/19 the Council under accounting rules is allowed to account for it, and has done so in 2017/18.

- 3.22 The receipt for Acre Lane will be over a 3 year period commencing 2018/19. Once the sale becomes a binding agreement accounting rules permit the total receipt to be accounted for in the first year.

Table 5: Projected Capital Receipts for the Transformation Programme

	2017/18	2018/19
	£000	£000
Capital Receipts Reserve	2,954	-4,574
Estimated receipts	5,022	12,697
Funding required	-12,550	-13,370
Future Capital Receipts Required to be achieved	4,574	673
Closing Balance	0	0

4.0 FINANCIAL IMPLICATIONS

- 4.1 The proposed 2018/21 Capital Programme is a combination of the currently approved Capital Programme, new bids, additional requirements and estimated Children's grant. As the Programme stands this will require a maximum of £48.9 million unsupported borrowing from 2018/19 to 2020/21.
- 4.2 The revenue borrowing costs associated with any re-profiled schemes had already been included in the 2017/18 and subsequent revenue budgets and therefore do not represent an additional requirement.
- 4.3 The spend and funding of the Capital Programme are linked to Treasury Management. With the low interest available for investments the policy of temporary borrowing from positive internal cash flows has been continued. This policy, and the re-profiling of the Programme, defers the need for external borrowing delivering in-year savings but is not sustainable in the medium term.
- 4.4 As capital receipts will be used primarily to fund the Transformation Programme the net cumulative revenue impact of additional borrowing required to fund all the new bids, including those that it is proposed to defer, is:

Table 6: Additional financing costs to fund new bids

	2018/19	2019/20	2020/21	2021/22
	£000	£000	£000	£000
Additional revenue cost	90	1,230	1,940	2,330

- 4.5 The Budget 2018/19 includes a reduction of £3.8 million in capital financing costs arising from changes in the Council's Minimum Revenue Provision policy. The 2018/19 Budget projections account for the above additional revenue costs as well as covering costs associated with the probability that

the process of internal borrowing will have to be reversed as reserves are reduced or when there are likely significant increases to interest rates. For 2018/19 the growth item of £1 million for borrowing costs is no longer required and has been factored into the 2018/19 revenue budget assumptions.

- 4.6 These projections might change during the year and the Programme and related Prudential Indicators will be updated accordingly.

5.0 LEGAL IMPLICATIONS

- 5.1 There are none arising directly from this report as they will be identified as each scheme is progressed.

6.0 RESOURCE IMPLICATIONS: ICT, STAFFING AND ASSETS

- 6.1 The Programme is about investment into the Council assets so does include schemes relating to IT and assets.

7.0 RELEVANT RISKS

- 7.1 The Programme will not be delivered as projected. This could see individual schemes progressing ahead of, or being behind, the projected timetable. The regular monitoring and reporting of the Programme allows actions to be taken to manage the financial position.

- 7.2 Capital receipts are below the level estimated. Regular reporting to ACG on progress of asset disposals allows the Capital Programme to be reviewed should this eventuality arise.

- 7.3 Interest rates increase to a level greater than budgeted for. Regular monitoring of economic forecasts should assist in determining the best time to borrow to fund the Programme.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 There has been no specific consultation with regards to this report. In terms of the delivery of schemes consultation will take place as part of the scheme development and implementation.

9.0 EQUALITY IMPLICATIONS

- 9.1 There are none arising directly from this report as they will be identified as each scheme is progressed. Individual schemes within the Programme will have a direct impact upon groups for example the Aids and Adaptations investment within Regeneration.

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APPENDICES

Appendix 1 – Capital Strategy 2018/19-2020/21

Appendix 2 – Scoring mechanism for assessing capital bids.

Appendix 3 – Summary of new capital bids 2018/21.

Appendix 4 – Proposed Capital Programme 2018/19 to 2020/21.

SUBJECT HISTORY

Council Meeting	Date
Cabinet - Capital Programme 2017/20	20 February 2017
Council – Capital Programme 2017/20	6 March 2017
Cabinet / Council - Capital Monitoring 2017/18	Quarterly reports

Overview and Purpose of the Capital Strategy

The capital strategy sets out the strategic direction for the Council's capital management and investment plans. It is an integral part of our financial and service medium-long term planning and budget setting process. It sets the principles for prioritising our capital investment under the prudential system.

Capital plays an important role in delivering long term priorities as it can be targeted in creative and innovative ways to meet, for example, the Council Plan which was approved by Council on 13 July 2015 and then adopted by all our strategic partners from the public, private and third sectors to create the first Wirral Plan. This is based on three priority areas, People, Business, Environment underpinned by 20 pledges defining outcomes to be achieved by 2020. Partners have committed to playing a lead role in achieving 8 of the 20 pledges.

With a challenging financial environment for the foreseeable future that is influenced by a variety of external factors, there will only ever be a limited amount of capital resources available. Therefore, it is vital that we target limited resources to maximum effect with a focus on our strategic and financial priorities.

The pressure on the Council's 2018/19-2020/21 revenue budgets does limit the scope for unsupported capital expenditure (that generate revenue costs) compared to schemes that generate revenue savings. This is evidenced by the fact that there are significant savings included in the financing costs budget for 2018/19 and all new borrowing costs will be funded within a reduced amount of budget provision.

The Council does have a duty of care and certain statutory responsibilities. Therefore, priority will be given to:

- a) Invest to Save schemes (cost reduction or income generation)
- b) Essential health and safety works
- c) Grant funded schemes
- d) Essential business continuity.

Wirral's budget planning processes integrate both capital and revenue so that coherent decisions are made on a level of borrowing that is prudent, affordable and sustainable for the Council. The difficult financial environment means we have to spend limited money wisely and there is a delicate balancing act in managing these types of potential pressures effectively.

Influences on the Capital Strategy

We are still faced with unprecedented change and uncertainty in the public sector and the following are some of the major influences on our capital strategy.

Local Government Funding

The three year period 2019/20 to 2021/21 sees the Council facing a continued, challenging financial future. The ending of the general Government Grant together with the pressures of demographic changes and inflation mean there is an anticipated funding gap of £76 million over the three years. In addition a budget gap of £63 million was identified relating to 2018/19. The 2018/19 gap has been closed through the implementation of a number of financial proposals including the generation of additional income.

Demand pressures

Furthermore the Council is facing rising demand for its services especially in the area of Adult and Children's Social Care. The Council is seeking creative new ways of providing services which may require capital investment to deliver best value for our communities and taxpayers. Our future capital programme must deliver benefits that support the delivery of the Wirral Council Plan and our financial aims and requirements.

Strategic asset management

Capital and assets are two sides of the same coin and it is vital that our capital programme complements the Asset Strategy. This involves working closely within the Wirral Partnership to develop assets to deliver Wirral's 20 pledges. These include Wirral Chamber of Commerce, private investors, community and friends groups, and other public bodies such as Police, Fire, Ambulance and NHS. The Wirral Partnership has agreed a Wirral Growth Plan and the Council's leadership, engagement, influence, assets and capital investment will be vital to contribute to achieving the objectives of the plan.

Capital investment will also be vital to support the principles contained within the Wirral Asset Strategy. The principles are as follows:

- Delivering more integrated and customer focused services
- Creating Economic growth
- Generating capital receipts and income streams
- Reducing running costs

Wirral has established the "One Public Estate Group" bringing together all public sector bodies in the locality to work together in delivering a new approach to managing their land and property.

The Council has embarked upon a challenging Asset Transformation Programme. This involves the review of assets seeking to reduce costs of operational properties and maximise opportunities for generating returns from investment properties including, where appropriate, from capital receipts.

Additional flexibilities regarding the use of capital receipts were confirmed following the Chancellor's Autumn Statement 2015. Receipts generated between 1 April 2016 and 31 March 2019, excluding Right-To-Buy receipts, can be used to fund Transformation subject to a suitable strategy being in place. This has now been extended to March 2022. Consequently there is an increased challenge to generate capital receipts. Our asset rationalisation and disposals policy must be rigorous in order to generate the necessary receipts. Inefficient properties must be turned into efficient ones or disposed of.

The Council has established the Wirral Growth Company. Subject to approval from members of a preferred joint venture partner and finalisation of setup arrangements, the company will become operational during 2018/19. The joint venture will bring substantial investment, sustainable income and employment opportunities into the local area over an initial 10-15 year period. A number of Council assets will transfer to the Growth Company (subject to best consideration being evidenced), thereby generating capital receipts, development profits and on-going income streams. A strategic acquisitions budget was established within the 2017/18 capital programme and this will complement the work and objectives of the joint venture.

The challenge for any capital programme is that due to the nature of capital projects (e.g. building projects delayed by funding, planning or construction issues) they do not always deliver to anticipated timescales or budgets, which can increase costs and create additional revenue pressures. In a challenging financial environment, effective procurement, robust contract management and strong management grip are essential to manage costs and ensure all spend counts.

Definition and Eligibility of Capital Expenditure

Local authority capital expenditure must comply with legislative and accounting requirements.

Capital expenditure can fall into one of two main categories

The acquisition, creation or installation of a new fixed asset.

The Council must have the right to some future economic benefit. For the public sector this is broadly equivalent to saying the expenditure allows us to provide goods and services in accordance with our objectives.

Increase the service potential of an asset, rather than just maintaining it by.

Lengthening substantially the life of the asset; or

Increasing substantially the asset's market value; or

Increasing substantially the extent to which an asset can be used or the quality of its output.

These rights must also extend into the future, at least more than one year.

A de minimis level is applied – for Wirral this is £10,000 i.e. anything below this value individually is classed and treated as revenue.

Expenditure which merely maintains the value of an existing asset cannot be classified as capital expenditure.

In addition to the categories above an Authority can also give a loan, grant or other financial assistance to any person, whether for use by that person or by a third party, towards expenditure which would, if incurred by the authority, be capital expenditure.

Under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, the secretary of state does however have powers to widen (or indeed narrow) the definition of capital expenditure and can issue specific capitalisation directions to local authorities whereby expenditure that is revenue in nature can be capitalised if a number of strict criteria are met. The flexible use of capital receipts is a prime example of this.

Governance of the Capital Programme

The Section 151 Officer is responsible for:

- The production of the Council's capital programme,
- The development of corporate prioritisation methodologies to assist the Council in determining the capital programme within defined resource limitations.

Directors are responsible for:

- The development, implementation and monitoring of the capital programme;
- Ensuring that the Cabinet is advised of the financial implications of all proposals and that these have been agreed by the Section 151 Officer;
- Ensuring that capital proposals have undergone a project appraisal in the form of a Business Case showing how the project meets Council objectives, how it will be managed, resource implications and expected outcomes.

Upon completion the proposals will be assessed by the Assets and Capital Group and a recommendation made to the Strategic Leadership Team (SLT) as to whether

they should be included in the capital programme, deferred or funded from other resources. Based on the SLT recommendation the proposed capital programme for 2018/19-20/21 will be submitted to Cabinet and finally to Budget Council for approval or otherwise.

During the year quarterly monitoring reports will be presented to Cabinet which will reflect latest expenditure, new resources allocations, re-profiling of schemes and virements between schemes to maximise delivery.

Financial Implications of the Capital Programme

Over the last three years, including the estimated programme for 2017/18, Wirral will have spent on average £40 million per year on capital projects. The latest plans call for an investment of £113 million over the next three years. Out of this £49 million or 43% of the programme will be funded from unsupported borrowing. The estimated borrowing cost associated with this is £3.5 million by March 2022. This can be accommodated within the budget projections for Treasury Management. This is partly due to internal borrowing, the temporary use of cash flow monies arising from the Council's holding of earmarked reserves and balances to delay external borrowing which has been used to reduce interest costs.

Capital resources are not unlimited or "free money" – our capital funding decisions can have major revenue implications. Two funding costs are incurred when a capital scheme is funded from borrowing;

- Minimum Revenue Provision – the amount we have to set aside each year to repay the loan and this is determined by the life of the asset associated with the capital expenditure; and
- Interest - costs incurred for the period of the actual loan.

For budgetary purposes the cost of borrowing has been assumed to vary between an average of 5% and 6%. Exact costs will depend upon the asset life associated with the particular capital investment and available interest rates.

These are in addition to any ongoing maintenance and running costs associated with the investment.

The capital programme should support the overall objectives of the Council and the wider Wirral Partnership and act as an enabler for transformation of the Council's and Wirral Partnership's aims and priorities.

Sources of Capital Funding

There are a variety of different sources of capital funding, each having different complications and risks attached.

Borrowing

By the end of March 2018 it is estimated that Wirral's long term borrowing will be in the region of £182 million. Based on the proposed capital programme the proportion of net debt costs will increase from 7.2% in 2018/19 to 7.8% in 2020/21. This is calculated as a percentage of the forecast net revenue budget over the next three years. The level of borrowing to fund the capital programme must take into account the revenue implications. The Prudential Capital Finance system allows Local Authorities to borrow for capital expenditure without Government consent provided it is affordable. Local authorities must manage their debt responsibly and decisions about debt repayment should be made through the consideration of prudent treasury management practice.

As a guide, borrowing incurs a revenue cost of approximately 5.75% of the loan each year, comprising interest charges and the repayment of the debt (known as the Minimum Revenue Provision or MRP). The Council needs to be satisfied that it can afford this annual revenue cost i.e. for every £1 million of borrowing our revenue borrowing costs are around £58,000.

For capital expenditure incurred before 1st April 2008, and for supported capital expenditure incurred on or after that date, MRP will be determined by charging the expenditure based on the expected useful life of the relevant assets using an annuity method, (Option 3 in England and Wales). The annuity rate used in determining the charge is 2%, equal to the Bank of England's Monetary Policy Committee's rate of inflation target.

For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset or as the principal repayment on an annuity with an annual interest rate equal to the average relevant PWLB rate for the year of expenditure, starting in the year after the expenditure has been incurred.

Grants

Government grants are reducing, or changing in nature. Ring-fenced grants are expected to finance those schemes for which the grant was allocated. Where possible we will not use unsupported borrowing as a 'top up' for a scheme unless there is a sound business case or an element of match funding is required. We must however meet our statutory obligations and where the grant is not sufficient, other sources of funding will be sought to fund the gap.

Capital Receipts

Capital receipts are estimated and are based upon the likely sales of assets as identified under the Asset Management Plan. These include development sites, former school sites and the agreement with Wirral Partnership Homes for the sharing of receipts from sales of former Council houses. Receipts are an important source of finance in reducing the level of borrowing. For 2017/18 and 2018/19 the emphasis will switch to funding the Transformation Programme.

Flexible use of capital receipts

Additional flexibilities regarding the use of receipts were confirmed following the Chancellor's Autumn Statement 2017. Receipts generated between 1 April 2016 and 31 March 2022 can be used to fund Transformation provided the Council has agreed a Transformation Programme setting out the projects, costs and deliverable benefits / savings. The flexible use of capital receipts strategy for 2018/19 is set out at annex 2.

Table 1: Projected Capital Receipts for traditional capital schemes

	2017/18	2018/19
	£000	£000
Capital Receipts Reserve	2,604	1,984
Estimated receipts	632	550
Funding required	-1,252	-792
Closing Balance	1,984	1,742

Table 2: Projected Capital Receipts for the Transformation Programme

	2017/18	2018/19
	£000	£000
Capital Receipts Reserve	2,954	-4,574
Estimated receipts	5,022	12,697
Funding required	-12,550	-13,370
Future Capital Receipts Required to be achieved	4,574	673
Closing Balance	0	0

The anticipated receipts are only estimates at this stage and will likely change.

The Council's asset portfolio is constantly under review in order to highlight those assets that Members may wish to consider for disposal, a critical decision given the funding of the Transformation Programme is reliant upon the generation of capital receipts.

Revenue / Other Contributions

The Prudential Code allows for the use of additional revenue resources within agreed parameters. There is no intention to fund capital from revenue for the foreseeable future.

Investment decisions and options appraisal

The strategy requires a mechanism for determining the future capital programme. A pro-forma is issued to enable services to make new bids for inclusion in the Capital Programme 2018/19-2020/21. Upon return these will be reviewed by the Assets and Capital Group (ACG) for consideration by the Strategic Leadership Team (SLT). A capital programme report will be produced for Cabinet in February that provides an update on existing projects, a prioritised list of new schemes and includes comments on the resource implications. Cabinet will make recommendations to Council and it is Council which decides on the capital programme.

The schemes considered for inclusion in the capital programme include one or more of the following prioritisation criteria:

- Compliance with essential health and safety matters;
- Invest to Save;
- Pump priming schemes where grant funding might be available;
- Essential business continuity.

In order to aid the decision making process a scoring template is completed for each proposed new scheme. This is set out at Annex 1.

CAPITAL PROGRAMME 2018/19-20/21

SCORING MECHANISM FOR ASSESSING CAPITAL BIDS ANNEX 1

Scheme Title	Score 1-10	Multiplier	Weighted Score
Essential Health & Safety Is there a clearly identifiable requirement to meet essential health and safety or DDA obligations?	10	20	
Objectives and outputs Are the stated objectives specific, measurable, achievable, realistic and timely? Have any outputs been quantified? Have any project constraints been assessed and full consideration given to addressing these? Will not doing the scheme result in a significant drop in the level of service the Council provides?	10 10 10 10	5 5 5 5	
Identification of Alternative Options Have alternative options been fully considered with detailed reasons for rejection evidenced?	10	5	
Finance Business case demonstrates achievable/realistic revenue savings OR generates additional income If yes, score by comparing to the cost of borrowing In which year are revenue savings first anticipated? The scheme requires additional revenue resources over and above capital financing costs Does the scheme receive specific funding from external sources?	10 10 20 10 10	10 10 10 10 10	
Risk Have risks been properly identified and scored?	10	10	
Overall Weighted Score			XXXX

Capital Programme and Financing 2018/19-2020/21

Council on 5 March 2018 will agree the capital programme and financing 2018/19-2020/21.

PROGRAMME TO BE INCLUDED AFTER IT HAS BEEN AGREED

CAPITAL PROGRAMME 2018/19-20/21

Flexible Use of Capital Receipts Strategy 2018/19

ANNEX 2

Background

The Government believes that it is important that individual authorities demonstrate the highest standards of accountability and transparency. The guidance on the flexible use of capital receipts recommends that each authority should prepare a strategy that includes separate disclosure of the individual projects that will be funded or part funded through capital receipts flexibility and that the strategy is approved by full Council or the equivalent.

The latest guidance by the Secretary of State directs that:

Authorities may treat expenditure which is incurred in the design of projects that will generate on-going revenue savings in public services or that will transform service delivery to reduce costs or manage demand in future years for public service partners as capital expenditure. Such expenditure must be incurred between 1 April 2016 and 31 March 2022.

Flexible Use of Capital Receipts Strategy 2018/19

The Council has reviewed the Flexible Use of Capital Receipts guidance and identified the following schemes as meeting the eligibility criteria laid out in the guidance document, in that they are forecast to generate on-going revenue savings through reducing costs of service delivery. These schemes are encapsulated within the Transformation Programme which has two main strands; Customer Experience and Assets.

The Council's intends to use the following use of capital receipts to fund the following:

Transformation Programme 2018/19

Projects	Further Details	Cost £000	Benefit £000
Children's Services	Funding for transformation of service and Improvement Plan to improve services and outcomes.	10,000	5,200
Total		10,000	5,200

CAPITAL PROGRAMME 2018/21

SCORING MECHANISM FOR ASSESSING CAPITAL BIDS

Scheme Title	Score 1-10	Multiplier	Weighted Score
Essential Health & Safety Is there a clearly identifiable requirement to meet essential health and safety or DDA obligations?	10	20	
Objectives and outputs Are the stated objectives specific, measurable, achievable, realistic and timely? Have any outputs been quantified? Have any project constraints been assessed and full consideration given to addressing these? Will not doing the scheme result in a significant drop in the level of service the Council provides?	10 10 10 10	5 5 5 5	
Identification of Alternative Options Have alternative options been fully considered with detailed reasons for rejection evidenced?	10	5	
Finance Business case demonstrates achievable/realistic revenue savings OR generates additional income If yes, score by comparing to the cost of borrowing In which year are revenue savings first anticipated? The scheme requires additional revenue resources over and above capital financing costs Does the scheme receive specific funding from external sources?	10 10 20 10 10	10 10 10 10 10	
Risk Have risks been properly identified and scored?	10	10	
Overall Weighted Score			xxxx

		Appendix 3			
Capital Bids/Additional Requirements for inclusion		2018-19	2019/20	2020/21	Total
SCHEME	Comments	£000	£000	£000	£000
Coastal Parking - New Style Pay & Display Machines	Invest to save and increased efficiency.	350			
Key Route Network (LGF3) - Operate Key Roads / Routes Efficiently	Health & Safety. Increased efficiency. 90% grant funded	329	2,293	361	2,983
LED street lighting - Replacement	Invest to save. £3.2m interest free Salix loan	1,490	1,490	1,490	4,470
Street Lighting Column - Replacement or Upgrade	Health & Safety. Increased efficiency.	2,000	2,000	1,950	5,950
Illuminated Lighting and street signage - upgrade / replace	Health & Safety	250	250	250	750
Major Infrastructure Development & Strategic Transport Forward Planning - Traffic Management	Health & Safety. Increased efficiency	200	200	200	600
Tower Road National Productivity Investment Fund - ease congestion / upgrade national or local networks	Health & Safety. Increased efficiency. 80% grant funded.	200	2,800	0	3,000
Highways Asset Management System - procurement of integrated system	Critical to ensure future grant funding (Incentive Fund assessment)	350	0	0	350
New Brighton - Traffic & Pedestrian Infrastructure, Services & CCTV for events	Health & Safety	250	0	0	250
Beach Cleaning - Replacement of equipment	Health & Safety	175	0	0	175
Hand Arm Vibration Equipment (Havmeter) - replace current equipment	Health & Safety	75	0	0	75
Heswall Day Centre - Roof replacement	Health & Safety	350	0	0	350
Public Toilets - Upgrade	Invest to save.	50	0	0	50
Williamson Art Gallery Refresh - to support accreditation	Reputational damage if Museum Accreditation lost.	100	0	0	100
Special Needs & Disabilities Assisted Travel - Replace Adult Fleet Vehicles.	Health & Safety. Maintenance of safeguarding standards.	250	0	0	250
Dock Bridges Replacement	To complete existing scheme	700	0	0	700
	Total Capital Cost	7,119	9,033	4,251	20,403

Appendix 3 (continued)

Capital Bids 2018-21 to be agreed relating to the leisure and cultural review

SCHEME	Comments	Total Scheme Estimate £000
Arrowe Country Park - New Machine Shed & Wash Bay	Various upgrades	200
Arrowe Country Park Depot: Re-Surfacing, Material Bays & Electronic Entrance Barrier	Various upgrades	200
Arrowe Park Golf Works Depot - Demolish & Replace	Depot not fit for purpose. Part health & safety.	250
Birkenhead Park Depot Resurfacing	Severe deterioration	164
Europa Pools Flumes	Replace to ensure sustainability. Health & Safety.	300
Hoylake Golf Works Depot - Demolish & Replace	Depot not fit for purpose. Part health & safety.	250
Play Area Improvements	Outdated facilities. Health & Safety.	790
West Kirby Concourse/Guinea Gap Reception upgrade / improve	Invest to Save	360
Williamson Art Gallery Refresh - apart from Accreditation	Maintain quality of exhibits	150
Wirral Tennis Centre - Facility Upgrade	Invest to Save	780
Victoria Park Depot Modernisation	Various upgrades	250
Deferred Capital Bids 2018-21 referred to Technical Design Authority		3,694
Creative & Digital Team - specialist software and hardware	Required to maintain efficiency of the Communications division.	48
CYPD Mobile Connectivity - Increase volume of Agile IT kit	Assist social worker case management work. Phase 2.	180
Digital Corporate Storage - upgrade & refresh technologies	Replace storage, networking and server infrastructure systems.	2,525
Williamson Art Gallery Documentation - replace system and document all assets	Insurance implications	136
CYPD Systems Improvements (Liquid logic) to support partnership working & performance review	Expand functionality	198
Digital Client Hardware - upgrade / replace all officer hardware	Linked to Windows 7 project.	1,500
Deferred Capital Bids 2018-21 referred to Technical Design Authority		4,587
Overall Total of Deferred Bids 1 and 2		8,281

PROPOSED CAPITAL PROGRAMME 2018/19 TO 2020/21

APPENDIX 4

	2018/19	2019/20	2020/21
SUMMARY	£000	£000	£000
Overall Programme			
Strategy and Partnerships	26,145	26,183	8,256
Business Services	15,083	1,960	1,490
Adult Social Care	7,912	-	-
Children's Services	18,849	2,500	2,500
Corporate Resources and Reform	2,700	-	-
Total Programme	70,689	30,643	12,246
Funding			
Unsupported borrowing	29,712	15,239	3,926
Capital Receipts	14,162	-	-
Grants	20,815	10,404	3,870
Business Rates (Wirral Waters only - ringfenced)	6,000	5,000	4,450
Total Resources	70,689	30,643	12,246

	2018/19	2019/20	2020/21
Strategy and Partnerships	£000	£000	£000
Growth Fund	580	-	-
Business Investment Grants	205	-	-
Eureka	248	-	-
Highway Maintenance	3,470	3,200	-
Sustainable Transport (STEP)	763	440	1,045
Investment in Properties	10,000	10,000	-
Wirral Waters Investment Fund	6,000	5,000	4,450
Coastal Parking	350	-	-
Key Route Network	329	2,293	361
Street Lighting Column Replacement	2,000	2,000	1,950
Illuminated Lighting and Street Signage	250	250	250
Major Infrastructure Development	200	200	200
Tower Rd National Productivity Investment Fund	200	2,800	-
Highways Asset Management System	350	-	-
New Brighton Traffic and Pedestrian Infrastructure	250	-	-
Special Needs and Disabilities Assisted Travel	250	-	-
Dock Bridges Replacement	700	-	-
Total Programme	26,145	26,183	8,256

	2018/19	2019/20	2020/21
Business Services	£000	£000	£000
Building Refurbishment to Increase Occupancy	223	-	-
Cleveland St. Transport Depot	370	-	-
Cyber Security	562	-	-
Millennium Centre Re-modelling	80	-	-
Coast Protection	115	-	-
West Kirby Flood Alleviation	2,950	-	-
Park Depot Rationalisation	43	-	-
Transport Museum	77	-	-
West Kirby Marine Lake Integrated Accommodation	511	-	-
Leasowe Leisure Outdoor 3G	720	-	-
Aids, Adaptations and Disabled Facility Grants	3,939	-	-
Restore Empty Homes	298	-	-
Clearance	1,130	-	-
Home Improvements	958	470	-
New house building programme	217	-	-
Housing infrastructure fund	1,000	-	-
LED Street Lighting	1,490	1,490	1,490
Beach Cleaning Equipment	175	-	-
Hand Arm Vibration Equipment	75	-	-
Public Toilets Upgrade	50	-	-
Williamson Art Gallery Accreditation	100	-	-
Total Programme	15,083	1,960	1,490

	2018/19	2019/20	2020/21
Adult Social Care	£000	£000	£000
Extra Care housing (learning disabilities)	3,000	-	-
Extra Care housing	3,000	-	-
Community Intermediate Care	500	-	-
Citizen and Provider Portal/Integrated I.T.	250	-	-
Assistive Technology	415	-	-
Pensby Wood Day Service Re-modelling	397	-	-
Heswall Day Centre Roof	350	-	-
Total Programme	7,912	-	-

	2018/19	2019/20	2020/21
Children's Services	£000	£000	£000
PFI	85	-	-
Condition/Modernisation	4,685	2,500	2,500
School Re-modelling (Primary Places)	1,800	-	-
Basic Needs	1,609	-	-
Transformation Programme	10,670	-	-
Total Programme	18,849	2,500	2,500

	2018/19	2019/20	2020/21
Corporate Resources and Reform	£000	£000	£000
Transformation Programme	2,700	-	-
Total Programme	2,700	-	-