



2019/20 Budget Proposals

Report of the Business Overview & Scrutiny Committee

22nd January 2019



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1. Introduction

A dedicated 2019/20 budget proposals workshop for Members of the Business Overview and Scrutiny Committee was held on Tuesday 11th December 2018.

The workshop provided the committee with the opportunity to examine in greater detail a number of budget proposals affecting services that fall under the remit of the committee. Four budget proposals selected for further examination were identified through engagement with the Chair and Party Spokespersons as those deemed to be of greatest significance in terms of value and the public interest. This report summarises both the budget proposals and the comments of Members attending the workshop.

At the commencement of the workshop, a statement was read out by the Party Spokesperson for the Conservative Party and it was requested that this be recorded as part of the scrutiny process into the budget proposals. The statement is detailed below:

“The Conservative Members do not believe that a workshop is the appropriate way for the Cabinet’s budget proposals to be considered by this committee. The budget proposals have a wide ranging impact on many communities in our Borough and we believe that the discussions should be held in public at a formal meeting of this committee which is minuted and recorded”

2. Budget Proposals

2.1 Benefits of Economic Regeneration

Summary of Proposal

Wirral Council is working alongside Muse to identify key development opportunities across Wirral. A key development is the Birkenhead Commercial District (BCD). Initial plans have been drawn up for the BCD which includes the development of four office buildings, a new market, new leisure facility and improved public realm.

On 26th November 2018 Cabinet approved a draft business case for the BCD. This will be refined through public consultation and engagement with a funder. Specifically, Cabinet agreed the following:

- To initiate a consultation programme with a view to informing a Masterplan for the redevelopment of Birkenhead, recognising that the Commercial District will be a key element.
- The recommended funding approach and authorisation for the S151 Officer to initiate work on a Forward Funding model of finance with Wirral Growth Company.

Wirral Growth Company is also proposing to progress public consultation on other phase one sites. These include Moreton (Foxfield & Pasture Road), Bebington and West Kirby, as well as consultations with stakeholders for Bromborough's Industrial Estate. This will inform future development plans and master planning. It is anticipated that, alongside Birkenhead, these sites will form part of the phase one development programme for Wirral Growth Company.

As part of its bid and as reported to Cabinet, Muse calculated that the total return to the Council from 11 identified sites would be £30.4m (net). This was a combination of payments for sites, profit from developments and interest on the Council's investment. This was on the basis of a first phase development programme of £250m across residential, commercial and industrial developments.

As part of the set up phase of Wirral Growth Company, work is being undertaken to plan and coordinate development work over the next three years. These details will be incorporated into the Partnership Business Plan (PBP) that Wirral Growth Company will submit early 2019. The plan is intended to help smooth the development timetable and explore how Wirral is able to maximise revenue over capital. It is also intended to avoid peaks and troughs in the supply of labour and to try and maximise the social benefits of these developments for residents and businesses in Wirral. In its bid, Muse delivered the vast proportion of returns to the Council within three years. It is likely that the PBP will profile a slightly longer period to ensure the Council has a longer, sustainable income stream and is also able to fund sites which would otherwise be less viable.

It is expected that Wirral Growth Company will submit planning applications and commence development of Foxfield, Pasture Road, MOD site Bromborough and locations within Birkenhead town centre during 2019/20. The Council will receive income from each of these developments. Additionally, the proposed funding approach

for BCD will provide payments to compensate for the use of the Council's land over a 35-40 year period. Reflecting the above, £4.15 million has been assumed for additional income in the 2019/20 budget (Benefits of Economic Regeneration).

Summary of Member / officer comments

- In respect of the consultation, it is understood that this will commence in January 2019. There has been a particular focus on Birkenhead and replacing the existing market as well as the redesigning of Europa Pools Leisure Centre. Consultation findings will be made available in May 2019.
- In relation to the investments and benefits to the Council, Members were assured of the robustness of these through expert legal advice taken from a nationally recognised consultant that provides advice to local authorities. The conclusion drawn was that there is a shortage of office space in Wirral and Merseyside and demand outweighs the supply of such premises. Wirral is looking to attract a broader range of businesses to the area as there is currently an overreliance on a small number of key sectors. The aim is to bring in higher paid employment through 'grade A' office space to further stimulate employment and growth opportunities. Wirral Council and the Growth Company will work together to attract both commercial and public sector organisations to the BCD.
- Members were assured that Wirral can compete to attract companies to take up office space in Wirral and this was also evidenced through the feedback from the consultants. Enquires indicate that a mix of businesses including legal, financial and companies looking for a regional centre are interested in relocating. Although competing with Chester, Cheshire and Liverpool, Wirral will have an advantage of pricing if a high quality offer is provided.
- There was a concern in respect of Muse not having signed the contract yet but there was assurance that this will take place soon and possibly in January 2019.
- In terms of the benefits the Council will receive from the transfer of its assets at net present value, it is understood that each site will be assessed and the Council has to ensure that best consideration is given for each site by law. The Council is not compelled to transfer its assets if a good deal is not presented. Benefits include being able to reinvest revenue into front-line services.
- Members were informed that the operating model will work via the Council providing the property and assets and Muse providing the finance and expertise which the Council lacks to unlock its assets. Members were assured of the financial investment which will be put in. £10 million will be invested by Muse to help with site and development costs as well as master planning for the first eleven sites in the first phase. There is no cap on this investment by Muse. The Section 151 officer has delegated authority to seek private finance to support further development.
- Members required assurance around the level of risk to the Council should the partnership arrangements not deliver the agreed outcomes. It is understood that the partnership arrangements are for ten years with a possible 5 years extension. Officers acknowledged the risk and, as part of the agreement, the Council's interests will be legally protected and there are penalties on both sides for failing to meet the agreed contractual requirements. Members noted the £475K indemnity insurance in

place and were informed that this was initially requested by the partner to cover the work they were doing 'at risk' ahead of signing the Partnership Agreement. However, both parties subsequently agreed that it wasn't required.

- Members were assured that the first phase of projects will be delivered quickly as Muse has evidenced its ability to do this through previous developments. Muse is looking at the benefits of doing this within 3-5 years.
- In respect of the approach to master planning and what will be developed over the first 5, 10 and 15 years, it is noted that the first eleven projects will be delivered as part of phase 1 and will also enable the partnership arrangement to see how this will work in practice. It was clarified that the site development plans will consider each project in turn to ensure that all issues, advantages and constraints are fully understood before they are signed off. Importantly, all plans will need to fit within the partnership business plan as well as the Council's own planning framework which will provide checks and balances.
- Members were informed that the 300k square feet of potential office space in Birkenhead may offer some ground floor retail opportunities, including coffee bars, with a view to making the frontages more attractive and therefore providing a better offer for visitors to Birkenhead.
- Members were assured that there will be appropriate governance arrangements in place and that the partnership will be accountable to Members. The Partnership Board will have Cabinet level representation and there will be controls to report back to Cabinet, Council and Overview & Scrutiny to ensure it is operating appropriately. It was noted that regular reports to Overview & Scrutiny can include relevant business plans.

2.2 Disposal of Marine Point Freehold

Summary of Budget Proposal

The development of Marine Point in New Brighton was completed in 2011 by Neptune. Wirral retained its freehold interest and granted Neptune a 250 year lease. The Council currently receives a rental income stream of 6% of the rent received by the lessee (Promenade Wirral Ltd, assigned from Neptune). This amounts to approximately £200k per year which the external purchaser will receive the income stream when the freehold is sold. The proposal is to sell the freehold to generate a £4 million capital receipt. Expert legal advice has been sought and the Council may market it for a higher value to generate an additional £1 million.

Summary of Member / officer comments

- Members received clarification that the income from the sale of the Marine Point Freehold has not been earmarked for funding of any specific project or service but to help the plug the £45 million funding gap.
- There is a concern that the Council may be giving away an asset cheaply for an immediate financial return. With the annual income stream of around £200k, the sale of the freehold at £4 million will result in the Council losing out financially after

20 years. Officers acknowledged this and cited the budget gap facing the Council. Members also recognised that the rental income stream would depend on the unit occupancy levels, with market fluctuations determining how much income would be received over the next 20 years.

- Members were assured that the £4 million estimated sale price of the freehold was feasible and was based on advice taken from property advisors. The market has not been tested but there is no intention to sell it cheaply and Cabinet will determine the threshold.

2.3 Asset Management – Capital Receipts

Summary of Proposal

The proposal is for Estate Management to identify potential assets for disposal in order to generate capital receipts, develop a clear pipeline of disposals with anticipated dates for receipts and to ensure these are monitored by Asset and Finance Officers. £2 million of capital receipts have been identified for 2019/20 but the list in the pipeline indicates £1.44 million which excludes registered provider receipts which could come forward in later years. These include Rock Ferry High, Pensby High and Lyndale and the ring fenced capital receipts will need to be identified as per Department for Education requirements. Asset Management will manage the disposal process and will be monitored through the Assets & Capital Group. Disposals will be administered through auction and the receipts may be subject to a degree of variation. The assets identified for 2019/20 are:

- 81-97 Cleveland Street
- 38 Green Lane
- Dominic House (Freehold)
- New Chester Road / Cambeltown Road
- Riverview Road (Former power station)
- Albany Hall
- Argyle Street South (land)
- Alexander Hall
- 6 Manor Road
- Trafalgar Road (site)
- 550-558 New Chester Road
- Right to Buy share from Magenta/BBCCHA
- Housing Renovation / Relocation Loans

Summary of Member / officer comments

- Members received clarification that the proposal relates to financial efficiency and ensuring that assets are working to their potential. It was explained that significant time has been invested into understanding what assets Wirral has and how they are performing (i.e. income, energy, capacity etc.). Additionally, it was also explained that Wirral has aging buildings and officers have been rationalising the Council estate

to release buildings, whether through a one-off sale or putting it on the open market. There is also potential to put it forward for the Growth Company.

- Members were assured that these sites will be subject to auditing to ensure Wirral gets best value and due consideration of public assets. Members generally acknowledged the importance of assets not lying dormant.

2.4 Treasury Management

Summary of Proposal

Treasury management includes managing the Council's cash flow on a daily basis. On any given day, there may be a surplus cash flow into the Council's bank accounts. This may be due to a large payment of business rates or funding from Government. Instead of retaining cash in the account where no interest will be accrued, it will be invested with other parties on an approved list detailed in the Treasury Management Strategy which is approved each year at Council. Investments may be short term overnight where large payments may need to be made the following day from the capital programme or cash could be a longer term investment from 3 to twelve months. There may be instances of being overdrawn with large payments going out without the cash so cash flow is managed on a daily basis and Wirral will borrow cash and pay the interest. The aim is to minimise interest payments going out and maximise interest payments coming in.

As an alternative to investing surplus cash coming in, it will be used to pay for the capital programme rather than borrowing it to minimise the borrowing element and the interest payable. Where cash is invested, the Council will look at different innovative ideas to invest that may have a greater element of risk but would yield a better rate of return, such as property. Wirral is also looking at its minimum revenue position which it has done over the last two years. A provision for repayments to pay for borrowing has to be identified and officers are currently looking at the amount to set aside. The budget proposal assumes that there will be a £2 million reduction in borrowing costs.

Summary of Member / officer comments

- Although Members acknowledged the reason why Wirral Council would invest and borrow, as outlined by officers at the workshop, the low rates of interest it has previously received from lending to other local authorities against the higher rates paid by Wirral Council for money it borrows, was highlighted. Officers also highlighted that these rates are dependent on the financial markets which are governed by the Bank of England and the PWLB (Public Works Loans Board). Lending or borrowing overnight money can often have lower rates of interest but longer term lending or borrowing may have higher rates of interest as markets / financial institutions look to balance their risk of uncertainty over a longer term. Wirral has to manage the balance of interest rates with delivering on its capital programme if it does not have the cash in its bank account.

- Members received clarification that Wirral will not just lend to other local authorities because it is a more secure investment, but will identify the best deal it can secure on any given day through a money market broker.
- Members were assured of the governance around potentially riskier investments. An explanation was provided that regulated treasury management advisors are consulted to obtain their advice on receiving a greater amount of interest on investments and what opportunities are available. New counterparties have to be approved by Council and included in the Treasury Management Strategy. Due diligence will be taken on those counterparties which are new to the Council, either through the treasury advisors or an alternative independent specialist. Members were informed that there are a number of new companies looking for money for investment and will be offering a higher rate of interest. The Council may choose to invest a small amount with a short repayment term to test the market first before committing further investment.

3. Conclusions

Members attending the workshop were presented with the four budget proposals agreed by the Chair and through engagement with the Party Spokespersons to be presented to the workshop for scrutiny. This report has noted the key points made by both Members and officers in attendance. Members of the Conservative Party in attendance reiterated their view that the scrutiny of the budget proposals should be held in public at a formal committee meeting and no opinion on those proposals presented at the workshop was given.

4. Workshop Attendance

Councillors

Cllr. Pat Hackett (Chair)

Cllr. Jean Stapleton

Cllr. Steve Williams

Cllr. Chris Blakeley

Cllr. Jerry Williams

Cllr. Allan Brame

Officers

Brian Bailey, former Corporate Director for Economic and Housing Growth

David Armstrong, Director for Delivery Services / Assistant Chief Executive

Shaer Halewood, Director of Finance and Investment

Jeannette Royale, Senior Manager, Strategic Asset Management

Philip McCourt, Director of Governance and Assurance

Michael Lester, Scrutiny Officer

Carl Gurnell, Team Leader – Performance and Scrutiny