



POLICY AND RESOURCES COMMITTEE
Wednesday, 17 February 2021

REPORT TITLE:	CAPITAL FINANCING STRATEGY 2021/22
REPORT OF:	DIRECTOR OF RESOURCES

REPORT SUMMARY

The Authority's treasury management activity is underpinned by CIPFA's 2017 Code of Practice on Treasury Management ("the Code"), in which there is the requirement for Council to approve an annual Capital Strategy. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

This matter is a key decision which affects all Wards within the Borough.

RECOMMENDATION/S

The Policy & Resources Committee are requested to:-

1. Recommend to Council the approval of the Capital Strategy for 2021/22.
2. Recommend to Council the approval of the associated Prudential Indicators to be adopted.
3. Recommend to Council the approval of the Council's Minimum Revenue Provision policy.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 In order to demonstrate that the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of value for money, prudence, sustainability and affordability the Council should have in place a capital strategy that sets out the longer-term context in which capital expenditure and investment decisions are made. It should give due consideration to both risk and reward and the impact on the achievement of priority outcomes.
- 1.2 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) also places a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to “have regard” to such Guidance under section 21(1A) of the Local Government Act 2003.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 CIPFA’s 2017 Code of Practice on Treasury Management requires the production of annual Capital strategy. The accompanying 2021/26 Capital programme has implications on the levels of borrowing being forecast within this report and resultant prudential indicators. Production of an annual strategy is standard practice however should it become appropriate to amend any key elements of this strategy during the period covered, a revised report will be produced.

3.0 BACKGROUND INFORMATION

- 3.1 The Prudential Code 2017 introduced the requirement for a new report, the Capital Strategy, to be approved by Council. The intention is to give a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 3.2 Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are, therefore, subject to both a national regulatory and local policy framework, summarised in this report.

CAPITAL EXPENDITURE AND FINANCING

- 3.3 Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.

Comparative expenditure figures are shown below and as can be seen in 2021/22, the Council is planning capital expenditure of £71.9 million.

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2019/20 Actual	2020/21 Forecast	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£000	£000	£000	£000	£000
General Schemes	39,115	77,595	80,467	34,424	14,725
Capital Investments	898	8,409	3,380	-	-
Total	40,013	86,004	83,847	34,424	14,725

In 2022/23 a change in the accounting for leases and Private Finance Initiative (PFI) will be introduced. Any impact on the figures quoted above will be reported and revised indicators set.

Table 2: Significant Schemes included in the 2021/22 Capital Programme

Scheme	£000
Future High Streets - Birkenhead	11,872
MHCLG Capitalisation Directive	10,680
Schools Condition & Modernisation	6,001
Aids, Adaptations and Disabled Facility Grants	5,862
Health & Safety - Condition Surveys	4,200
Wirral Waters Investment Fund	3,700
Enterprise Resource Planning System	3,600
Extra Care Housing	2,764
Birkenhead Regeneration Delivery Fund	2,600
Investment in properties	2,600

- 3.4 The Council applied to the MHCLG for a capitalisation directive known also as 'Exceptional Financial Support.' This would allow the Council to charge to capital additional COVID-19 related costs. Under normal accounting convention such costs would be a revenue item, but the exceptional COVID-19 circumstances and financial pressure placed on the Council have required us to seek capitalisation.

The Ministry have indicated that they are content to approve a capitalisation direction up to a maximum value of £14.8m for 2020/21, and £10.7m for 2021/22 subject to conditions. The Policy and Resources Committee as part of the 2021/22 Budget Report, includes a recommendation to Full Council that:

The Council proceeds with the request for exceptional financial support with the conditions outlined in the letter from the Minister of State for Regional Growth and Local Government dated 2 February 2021.

- 3.5 The Council plans to incur £11.8 million of capital expenditure on investments. Of this £10.6 million is 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). The balance of £1.2 million is for

Business Investment Grants in support of inward investment and indigenous investment capital projects.

- 3.6 An extensive and long-term capital programme is the key to prevention, better run services and a reduced revenue commitment over time. Significant investment in assets will enable those assets to be used more efficiently and effectively and where there is a need, to generate a revenue return to support the revenue budget.
- 3.7 Capital planning is one of the main drivers in future cost avoidance and there are schemes within the programme where initial investment from the Council will lead to reduced demand on the revenue budget, examples of which include the following:
- Telecare & Telehealth Ecosystem - With a population with more complex needs there is an opportunity to explore how we can support people to remain independent at an earlier stage and for longer with smart technology. Investing early on in things like smart homes this will not only see a reduction in reactive revenue costs in future years but will provide an opportunity for people to remain independent for longer
 - Enterprise Resource Planning (ERP) System – the replacement of critical business systems with a smarter integrated solution that will not only improve the operational effectiveness of the Authority but will also help rationalise multiple contracts with different suppliers and produce budgetary savings in the process.
- 3.8 Capital funding is a key deliverable to regenerating the borough over the next decade. The Council’s partnership with Wirral Growth Company will see significant investment right across the borough that will enable revenue income to be received that will replace lost grant funding and enable vital services to continue to be provided. As developments start to take shape, further income will be realised from new homes and new businesses in council tax and business rates which in turn will be re-invested to grow the local economy.
- 3.9 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council’s own resources (revenue, reserves, capital receipts and business rates growth generated within the Enterprise Zone) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 3: Capital Financing

	2019/20 Actual	2020/21 Forecast	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£000	£000	£000	£000	£000
External Sources - Grants	18,386	31,814	27,985	8,587	9,768
Own Resources - Capital Receipts, Revenue contributions	8,312	1,300	21	-	-
Debt - Borrowing	13,315	52,890	55,841	25,837	4,957
Total	40,013	86,004	83,847	34,424	14,725

- 3.10 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP) repayments. Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. The latest planned MRP repayments and use of capital receipts are as follows:

Table 4: Replacement of Debt Financing

	2019/20 Actual £000	2020/21 Forecast £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Minimum Revenue Provision	6,077	6,262	9,174	11,996	12,709
Capital Receipts - General Fund	8,312	1,200	400	6,200	-
Capital Receipts - MRDF	4,469	4,469	4,469	4,469	4,469
Total	18,858	11,931	14,043	22,665	17,178

*MRDF – Merseyside Residual Debt Fund which is due to be repaid in 2025/26.

The Council's full Minimum Revenue Provision Statement is included at Appendix 1.

- 3.11 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP repayments and capital receipts used to replace debt. The CFR is expected to increase by £41.7 million during 2021/22. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 5: Prudential Indicator: Estimates of Capital Financing Requirement

	31/3/2020 Actual £000	31/3/2021 Forecast £000	31/3/2022 Estimate £000	31/3/2023 Estimate £000	31/3/2024 Estimate £000
General Fund	347,658	381,812	428,545	440,803	428,088
Capital Investments	898	8,409	3,380	-	-
Total CFR	348,556	390,221	431,925	440,803	428,088

In 2022/23 a change in the accounting for leases and Private Finance Initiative (PFI) will be introduced. Consequently, further assets and liabilities may be brought onto the Council's balance sheet and impact on the figures quoted above will be reported and revised indicators set.

Capital Bidding Process

- 3.12 As part of the overall budget process departments are given the opportunity to put forward new schemes that will be considered for inclusion in the capital programme.

A business case submission form has been devised and refined by the Capital and Assets Group (CAG) and includes:

- The scope of the project
- Benefits, objectives and strategic alignment
- Potential constraints and mitigations
- Timescales
- Financial Implications including any ongoing revenue requirement
- Monitoring and evaluation

3.13 New capital requests are prioritised for schemes relating to the following:

- Essential Health and Safety/Disability Discrimination Act schemes.
- Invest to save schemes, including those developed with the intention of avoiding future cost pressures.
- Those considered to be of a strategic nature, as agreed with the Investment and Change Board.
- Those that support the Council's Climate Emergency Action Plan following the declaration of a Climate Emergency by the Council in May 2019
- Schemes that reflect Council priorities that could have wider economic benefits that link in with the Wirral Plan.
- Where external grant funding becomes available to fully fund schemes.

Governance

3.14 A Capital and Asset Group (CAG) includes officers from finance and from across the business. The role of this group is:

- To review the Capital Investment Strategy to ensure it achieve the Council's strategic priorities
- To prioritise requests for capital funding to best deliver these priorities
- To have delegated authority to make capital investment decisions within defined parameters
- To monitor the Capital Programme to ensure its effectiveness
- The CAG will refer to the Investment and Change Board (ICB) projects that are recommended for funding

3.15 **Investment and Change Board (ICB)** – The ICB acts as the portfolio board for the Council's overall investment in change and the benefits delivered. Chaired by the Director of Resources / Section 151 Officer, its membership is made up of Senior Responsible Owners of the Council's major strategic programmes. ICB reviews the business cases for major projects as well as monitoring approved projects through implementation.

3.16 **Regeneration & Place Programme Board** – This Board has been set up to provide oversight of all regeneration Programmes that fall within scope of the Regeneration & Place Directorate including Wirral Growth Company, Wirral Waters, Local Plan and Strategic Transport. The Regeneration & Place Board is key to managing the interdependencies of these programmes to ensure alignment. The Board should review 'place-based' business cases before they are taken to ICB.

- 3.17 **Technical Design Authority (TDA)** – Chaired by the Head of Business Change the TDA acts as the gateway for all IT hardware and software proposals to ensure coherence with the digital strategy and Council's target operating model. The TDA reports to ICB.
- 3.18 An overall summary of the various recommendations from ICB is then produced for consideration by the Strategic Leadership Team (SLT) of Chief Officers. This provides the opportunity for any comment/amendment and strategic input prior to a final report being prepared for Members' consideration at Policy & Resources Committee for eventual consideration by and formal approval by full Council.
- 3.19 Capital bids can be submitted throughout the financial year for consideration, rather than just having one fixed programme at the start of the year. This enables to Council to react to changing service requirements or incidents as they occur. Likewise, this flexibility in bid submissions allows for the possibility of new bids or supplementary bids, should the resource requirements of an existing bid change after inception. There may also be new opportunities for the Council to bid for external resource e.g., grants that become apparent during the year and the Council needs to be able to react to such potential.
- 3.20 Full details of the Council's capital programme are presented in a separate report to this Policy & Resources Committee and Council.
- 3.21 Regular monitoring of the capital programme is undertaken by the finance department in liaison with the officers responsible for delivery of the capital projects. This information is presented to the Capital & Assets Group and is formally reported to Policy & Resources Committee and Council on a quarterly basis. This quarterly report also includes any new requests for funding that may have been reviewed by both the Capital & Assets Group and the Investment & Change Board.
- 3.22 **Asset Management**

To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy in development building on its 2020 Asset Vision. The strategy will set the high-level framework for managing Wirral's Public Sector land and property for the future. It is being developed to guide the collective strategic asset decisions of all partners and seeks to maximise efficiencies through a collaborative approach to the use and management of the whole asset portfolio.

The strategy centres on the continual corporate review the Wirral estate of assets with the aims of:

- explore every opportunity to reduce asset and related costs
- streamlining processes
- improving asset performance
- generate income by adopting a commercial-minded approach to running Council business
- alignment with the significant regeneration plans for the Borough
- flexibility of asset use as service delivery requirements evolve

3.23 Such asset flexibility has been applied throughout the COVID-19 pandemic, as the Council has successfully utilised various sites across the Borough such as in Bromborough and Bebington as part of its emergency response with partner organisations.

The Authority will continue to work with partner organisations to share and develop assets to deliver strategic goals and objectives around business, people and the environment, these include Wirral Chamber of Commerce, private investors, community and friends' groups and other public bodies such as Higher Education, NHS, Police, Fire and Ambulance.

Examples of this sharing of resources to provide improved effective service provision include a co-location project to deliver community police stations from Council premises and a successful Multi-Agency Safeguarding Hub operates from a former municipal office with benefits being felt across the partnership. Future plans include sharing accommodation space with health partners.

The Asset Strategy Model:

This consists of the following elements:

- All assets are managed strategically.
- Supports economic growth.
- Supports service delivery.
- A modern commercial business.
- Supports communities and partners.
- Provides value for money.
- Assets are flexible and adaptable.



3.24 **Asset Disposals**

When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until the beginning of 2022/23. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £0.4 million of capital receipts in the coming financial year as follows:

Table 6: Capital Receipts Generated

	2019/20 Actual	2020/21 Forecast	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£000	£000	£000	£000	£000
Asset Sales	7,292	700	400	6,200	TBC
Loans Repaid & Right To Buy	612	500	TBC	TBC	TBC
Total	7,904	1,200	400	6,200	-

TBC - To be confirmed.

3.25 The Council's Flexible Use of Capital Receipts Policy is attached at Appendix 2.

3.26 **Treasury Management**

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

3.27 As a consequence of decisions to approve past capital programmes, the Council currently has £210 million borrowing at an average interest rate of 4.73% and £19 million treasury investments (as at 31 December 2020).

3.28 **Borrowing Strategy**

The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between low cost short-term loans (currently available at around 0.10%) and long-term fixed rate loans where the future cost is known but higher (currently 1.5% to 2.5%).

3.29 Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities, leases and transferred debt from local government reorganisation are shown below, compared with the capital financing requirement (see above).

Table 7: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	31/3/2020 Actual	31/3/2021 Forecast	31/3/2022 Estimate	31/3/2023 Estimate	31/3/2024 Estimate
	£m	£m	£m	£m	£m
Debt	349.9	306.0	358.3	375.0	376.1
Capital Financing Requirement	348.6	390.2	431.9	440.8	428.1

3.30 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. The level of debt exceeded the CFR by £0.1 million at 31st March 2020. This was due to additional temporary borrowing being taken out to ensure sufficient liquidity to meet operational demand as a result of the COVID-19 outbreak. As can be seen from table 7, the Council expects to comply with this in the medium term.

3.31 Affordable Borrowing Limit

The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt

	2020/21 Limit £m	2021/22 Limit £m	2022/23 Limit £m	2023/24 Limit £m
Authorised Limit - Borrowing	505	501	489	474
Authorised Limit - PFI and Leases	65	63	61	59
Authorised Limit - Total External Debt	570	564	550	533
Operational Boundary - Borrowing	495	491	479	464
Operational Boundary - PFI and Leases	60	58	56	54
Operational Boundary - Total External Debt	555	549	535	518

3.32 Further details on borrowing can be found in the treasury management strategy statement.

3.33 Treasury Investment Strategy

Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

3.34 The Authority’s policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash

that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Authority may request its money back at short notice.

3.35 Further details on treasury investments can be found in the treasury management strategy statement.

3.36 **Treasury Risk Management**

The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

3.37 **Treasury Governance**

The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Policy & Resources Committee, and for the execution and administration of treasury management decisions to the Director of Resources who will act in accordance with the Council's Strategy Statement, Treasury Management Practices (TMPs) and CIPFA's Standard of Professional Practice on Treasury Management.

3.38 Further details on the "Policy of Delegation" can be found in the treasury management strategy statement.

3.39 The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close in the form prescribed in its TMPs.

3.40 **Investments for Services Purposes**

The Council lends money to its subsidiaries e.g., Edsential Community Interest Co. (by way of a credit facility) and local businesses to support local public services and stimulate local economic growth. Loans should be self-financing with returns covering financing and administrative costs plus any return.

3.41 **Governance of Investments for Service Purposes**

The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. Appropriate due diligence is undertaken on loan applications and collateral sought to offset risk. In order to further limit this risk and ensure that total exposure to service loans remains proportionate to the size of the organisation, upper limits on the outstanding loans to each category of borrower

have been set. Any such investment must meet the criteria and limits laid down in the Investment Strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

3.42 Further details about these types of investments can be found in the Investment Strategy Statement.

3.43 **Commercial Activities**

The Council can invest in local commercial and residential property with the intention of making a profit that will be spent on local public services. Although there is increased national focus on property, councils have a long history of owning investment properties. Wirral's portfolio includes industrial estates, commercial and leisure properties. Total commercial investments are currently valued at £29.9 million, with the largest being Europa Boulevard.

3.44 **Governance of Commercial Activities**

The Strategic Asset Management Plan sets out how the Council will make the best use of its buildings and land in the future. This will be linked to future property purchase for consideration.

3.45 In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

3.46 The Authority assesses the risk of loss before entering into and whilst holding property investments and has appropriate credit control arrangements in place to recover overdue repayments.

3.47 Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

3.48 Further details about commercial activities can be found in the Investment Strategy Statement.

3.49 **Liabilities**

In addition to the forecast debt of £306 million detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £472.4 million at 31 March 2020). Actuarial valuations are carried out every three years. Contributions are set with a view to targeting the Fund's solvency. The most recent valuation was carried out as at 31 March 2019, which showed a surplus of assets against liabilities of £26.5 million as at that date, equivalent to a funding level of 101%.

3.50 **Revenue Budget Implications**

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP repayments are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs;

this is compared to the net revenue stream i.e., the amount funded from Council Tax, business rates and general government grants.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2020 /21	2021 /22	2022 /23	2023 /24
	Forecast	Estimate	Estimate	Estimate
Financing Costs (£m)	16.87	19.9	22.35	23.01
Proportion of net revenue stream	5.62%	6.45%	7.16%	7.21%

3.51 Sustainability

Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future.

3.52 The agreed Capital Programme includes projects costed at current year prices with many subject to a subsequent tender process which lead to variance in the final cost. In some areas, the design brief may not yet be finalised, again giving rise to potential price variance. This is a known risk and can be managed through phasing or reduction in specification.

3.53 In assessing the robustness of the Capital Programme, the risk of being unable to fund variations outside of the Programme is minimal mainly due to the phasing of projects. If necessary, the Council can choose to freeze parts of the Programme throughout the year to ensure spend is kept within the agreed budget.

3.54 The re-profiling and slippage from previous years is fully funded but increases the pressure to deliver the anticipated 2021/22 Programme. Any such delays will impact on the delivery of the intended outcomes of capital schemes.

3.55 Knowledge and Skills

The structure of the Council ensures that professionally qualified and experienced staff are in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director of Resources is a qualified accountant. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA, RICS.

3.56 Where Council staff do not have the knowledge and skills required use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers, Avison Young as property consultants, Lambert Smith Hampton for property valuations/appraisals/disposals and external legal firms and Counsel as legal consultants. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

4.0 FINANCIAL IMPLICATIONS

4.1 This report is focussed on providing clarity on the Capital financing strategy, and although there are financial implications to the delivery of this strategy, there are none directly arising from this report.

5.0 LEGAL IMPLICATIONS

5.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) also places a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to “have regard” to such Guidance under section 21(1A) of the Local Government Act 2003.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 There are none arising directly from this report.

7.0 RELEVANT RISKS

7.1 The Council is responsible for treasury, investment and expenditure decisions and activity and none of these are without risk. The successful identification, monitoring and control of risk are important, the main risks and mitigations are:

Risk	Mitigation
Loss of expertise from the Council's in-house resource	Working knowledge of operations and technical issues are shared by the resource pool on a regular basis
The fair value of the Authority's investment property portfolio is no longer sufficient to provide security against loss	That there is suitable diversification of investment within the property portfolio to retain a suitable level of overall security
The cost of borrowing increases at a rate higher than estimated leads to increased revenue pressure and/or curtailment of the capital programme	That the borrowing profile is balanced both in terms of loan maturity and also in terms of the nature of the interest rate of the loan portfolio (fixed rate and variable interest rate debt)
The programme does not deliver the outcomes as intended	The programme is subject to regular monitoring processes and reporting cycles for updates
Council issues S114 notice	Should the Council encounter difficulties in obtaining borrowing following a S114 notice, the Authority has access to borrow from the PWLB as a lender of last resort. Any such borrowing would be subject to higher rates of interest.

8.0 ENGAGEMENT/CONSULTATION

8.1 There has been no specific consultation with regards to this report.

9.0 EQUALITY IMPLICATIONS

9.1 There are none arising directly from this report. The business case assessment process is currently under review. An Equality Impact Assessment consideration may be incorporated into the future business case assessment process.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 Capital bids for investment are welcomed that support the Council's Climate Emergency Plan that was compiled following the declaration of a Climate Emergency by the Council in May 2019.

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APPENDICES

Appendix 1 – The Minimum Revenue Provision (MRP) Statement
Appendix 2 – Flexible Use of Capital Receipts Strategy 2021/22

BACKGROUND PAPERS

CIPFA's Standard of Professional Practice on Treasury Management.
Treasury Management Strategy Statement 2021/22
Investment Strategy Statement 2021/22

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Capital monitoring reports presented to Cabinet/Policy & Resources Committee	Various
18/19 Capital Programme – Council	5 March 2018
19/20 Capital Programme & Strategy – Council	4 March 2019
20/21 Capital Programme & Strategy – Council	2 March 2020

APPENDIX 1

2021/22 MINIMUM REVENUE PROVISION (MRP) STATEMENT

- 1.1 Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Ministry for Housing, Communities and Local Government's (MHCLG) Guidance on Minimum Revenue Provision most recently issued in 2018.
- 1.2 The broad aim of the MHCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.
- 1.3 The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.
- 1.4 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).
- 1.5 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.
- 1.6 For assets acquired by finance leases or the Private Finance Initiative and for the transferred debt from Merseyside County Council, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
- 1.7 The Council, if it considers it prudent for a particular financial year, will set aside capital receipts to be offset by the matching MRP liability amount.
- 1.8 With regards to loans granted by the Council no MRP will be charged on them. The MRP will be equated to the principal repayment of the individual loans.
- 1.9 Capital expenditure incurred during 2021/22 will not be subject to an MRP charge until 2022/23.
- 2.0 The MRP Statement will be submitted to Council before the start of the financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Council at that time.

Based on the Authority's estimate of its Capital Financing Requirement on 31st March 2021, the budget for MRP has been set as follows:

	31.03.2021 Estimated CFR £m	2021/22 Estimated MRP £m
Supported Capital Expenditure	170.2	0
Unsupported Capital Expenditure	158.3	6.4
Finance leases and Private Finance Initiative	36.9	2.7
Transferred debt	24.8	4.9
Total General Fund	390.2	14.0

APPENDIX 2

Flexible Use of Capital Receipts Strategy 2021/22

Introduction

As part of the November 2015 Spending Review, the Government announced that it would introduce flexibility for the period of the Spending Review for local authorities to use capital receipts from the sale of non-housing assets to fund the revenue costs of service reform and transformation. Guidance on the use of this flexibility was issued in March 2016 which applies to the financial years 2016/17 through to 2019/20. In the Provisional Local Government Settlement 2018/19 (announced 19 December 2017) the Government confirmed that the flexibility to use capital receipts to help meet the revenue costs of transformation will be extended for a further 3 years to April 2022. The Guidance requires local authorities to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy. This document constitutes the Wirral Council Strategy.

The Guidance

The Guidance issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003 specified that;

- Local authorities will only be able to use capital receipts from the sale of property, plant and equipment received in the years in which this flexibility is offered. Following the Provisional Settlement announcement 19 December 2017, the period of offer is 1st April 2016 to 31st March 2022. They may not use their existing stock of capital receipts to finance the revenue costs of reform.
- Local authorities cannot borrow to finance the revenue costs of the service reforms.
- The expenditure for which the flexibility can be applied should be the up-front (set up or implementation) costs that will generate future ongoing savings and/or transform service delivery to reduce costs or to improve the quality of service delivery in future years. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.
- In using the flexibility, the Council will have due regard to the requirements of the Prudential Code, the CIPFA Local Authority Accounting Code of Practice and the current edition of the Treasury Management in Public Services Code of Practice.

The Guidance provides a definition of expenditure which qualifies to be funded from the capital receipts flexibility. Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners.

There are a wide range of projects that could generate qualifying expenditure. The key determining criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings to an authority's net

service expenditure. Within the above definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.

The Council's Proposals

The Council intends to use the capital receipts flexibility to fund or part fund the following project:

Service Transformation Programme – Examples of suitable projects to which Capital receipts may be applied include:

- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation.
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible.

The expected receipts to be allocated to this project are set out in the table below.

	2020/21	2021/22
	£m	£m
Service Transformation Programme	1.200	TBC

TBC - To be confirmed.

The Prudential Code

The Council will have due regard to the requirements of the Prudential Code and the impact on its prudential indicators from implementing the proposed project. The capital expenditure prudential indicators will be amended and approved as appropriate.

The Council will also have due regard to the Local Authority Accounting Code of Practice when determining and including the entries required from undertaking and funding this project within the Council's Statement of Accounts.

Monitoring the Strategy

The strategy will be monitored throughout the financial year and may be updated and replaced as proposals are developed and expenditure is incurred.