



## **POLICY AND RESOURCES COMMITTEE**

**Wednesday, 19 February 2025**

<b>REPORT TITLE:</b>	<b>CAPITAL FINANCING STRATEGY 2025/26</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF FINANCE</b>

### **REPORT SUMMARY**

The Council's treasury management activity is underpinned by the Chartered Institute of Public Finance and Accountancy (CIPFA) 2021 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 Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

The report supports the delivery of the Council Plan: Wirral Working Together 2023-27 specifically in terms of the Efficient, Effective and Accessible Council theme. The Capital Programme also contributes towards projects that support all five Council Plan delivery themes.

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

### **RECOMMENDATION/S**

The Policy & Resources Committee is requested to recommend to Council the approval of:

- 1 the Capital Strategy for 2025/26;
- 2 the associated Prudential Indicators to be adopted, contained within this report; and
- 3 the Council's Minimum Revenue Provision policy as set out in Appendix 1 of this report.

## **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.

### **2.0 OTHER OPTIONS CONSIDERED**

- 2.1 CIPFA's 2021 Prudential Code requires the production of an annual Capital Strategy. The accompanying 2025/32 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, revisions will be reported.

### **3.0 BACKGROUND INFORMATION**

- 3.1 This Capital Strategy Report gives 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 Council 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, equipment 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 or construct 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.
- 3.4 Comparative expenditure figures are shown below and as can be seen in 2025/26; the Council is planning capital expenditure of £115.6m.

**Table 1: Prudential Indicator: Estimates of Capital Expenditure**

	<b>2023/24 Actual</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>	<b>2027/28 Estimate</b>	<b>Total</b>
	£000	£000	£000	£000	£000	£000
Capital Expenditure	78,316	93,953	115,591	60,385	9,776	<b>358,021</b>
<b>Total</b>	<b>78,316</b>	<b>93,953</b>	<b>115,591</b>	<b>60,385</b>	<b>9,776</b>	<b>358,021</b>

- 3.5 In 2024/25 a change in the accounting for leases and Private Finance Initiative (PFI) was introduced. Upon completion of the 2024/25 Statement of Accounts, any impact on the figures quoted above or on any figures in this strategy will be reported and revised indicators set via the capital monitoring reports.
- 3.6 A summary of the planned Capital expenditure, by Directorate is as follows, with full details available via the 'Capital Programme 2025-32' report, also on the agenda for this Committee meeting:

**Table 2: Planned Directorate Capital Expenditure**

	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>	<b>2027/28 Estimate</b>
<b>Directorate</b>	£000	£000	£000
Adult Care & Health	1,446	1,000	691
Children, Families & Education	6,742	2,000	-
Finance	4,832	2,000	1,000
Neighbourhoods	16,599	19,952	885
Regeneration & Pace	85,972	35,433	7,200
<b>Total</b>	<b>115,591</b>	<b>60,385</b>	<b>9,776</b>

- 3.7 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

**Table 3: Prudential Indicator: Financing of Capital Expenditure**

<b>Capital Financing</b>	<b>2023/24 Actual £'000</b>	<b>2024/25 Estimate £'000</b>	<b>2025/26 Estimate £'000</b>	<b>2026/27 Estimate £'000</b>	<b>2027/28 Estimate £'000</b>	<b>Total £000</b>
External Sources - Grants & contributions	38,354	53,235	79,594	26,790	4,014	<b>201,987</b>
Own Resources - Capital Receipts, Revenue Contributions	5,693	7,003	5,589	2,000	1,000	<b>21,285</b>
Debt - Borrowing	34,269	33,715	30,408	31,595	4,762	<b>134,749</b>
<b>Total Funding</b>	<b>78,316</b>	<b>93,953</b>	<b>115,591</b>	<b>60,385</b>	<b>9,776</b>	<b>358,021</b>

- 3.8 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). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance.

- 3.9 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. According to the estimates in table 3 the CFR is expected to increase by £13.313m during 2025/26. Based on the above figures for expenditure and debt repayments that are estimated, the Council's estimated CFR is forecast as follows:

**Table 4 Prudential Indicator: Estimates of Capital Financing Requirement**

<b>Capital Financing Requirement</b>	<b>31/03/2024 Actual £'000</b>	<b>31/03/2025 Estimate £'000</b>	<b>31/03/2026 Estimate £'000</b>	<b>31/03/2027 Estimate £'000</b>	<b>31/03/2028 Estimate £'000</b>
<b>Opening CFR</b>	<b>376,489</b>	<b>393,989</b>	<b>412,330</b>	<b>425,643</b>	<b>444,050</b>
Debt Funded Capital Expenditure	34,269	33,715	30,408	31,595	4,762
Prior Year Adjustment	- 2,113	-	-	-	-
Repayment of Debt (MRP)	- 10,187	- 10,905	- 12,626	- 13,188	- 14,154
Repayment of Debt (Capital Receipts)	- 4,469	- 4,469	- 4,469	-	-
<b>Closing CFR</b>	<b>393,989</b>	<b>412,330</b>	<b>425,643</b>	<b>444,050</b>	<b>434,658</b>

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

- 3.10 Within table 4 there is the inclusion of capital receipts being applied to reduce the overall CFR on the Council's balance sheet. These receipts are received from neighbouring Authorities regarding their annual repayments to the Merseyside Residual Debt Fund which is administered by the Council and will be fully repaid in 2025/26.

### **Capital Bidding Process**

- 3.11 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 to include:
- 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.
- 3.12 New capital requests are prioritised for schemes relating to the following:
- Essential Health and Safety/Equalities 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 Senior Leadership Team.
- 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 Council Plan.
- Where external grant funding becomes available to fully fund schemes.

## **Governance**

- 3.13 Senior Leadership Team (SLT) via the Section 151 Officer, acts as the portfolio board for the Council's overall investment in change and the benefits delivered. Membership is made up of Senior Responsible Owners of the Council's major strategic programmes. SLT reviews the business cases for potential projects.
- 3.14 Change Advisory Board (CAB) was established to replace the former Technical Design Authority. To streamline new change proposals and IT hardware/software proposals, a revised Strategic Outline Business Case was developed which incorporated the previous requirements and the Change Advisory Board established which considers these business cases for approval/rejection. This board reports to SLT.
- 3.15 Strategic Growth Board has been set up to provide oversight of all regeneration Programmes that fall within scope of the Regeneration & Place Directorate, with the following sub-boards feeding into it:
- Inclusive Growth Board – delivery of place, culture and visitor economy workstreams with place.
  - Planning & Housing Growth Board – delivery of Local Plan and Housing delivery.
  - Corporate Property Board – focus on Council assets, strategic acquisitions and disposals and the Corporate Landlord; and
  - Area Based Regeneration Board – delivery of Masterplans across the Borough.
- 3.16 An overall summary of the various recommendations from SLT during the year is then produced for a final report being prepared for Members' consideration by this Committee for eventual consideration by and formal approval by full Council.
- 3.17 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 the 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.

- 3.18 Full details of the Council's Capital Programme are presented in a separate report to this Committee and Council.
- 3.19 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 monitored through monthly officer monitoring reports and is formally reported to the SLT, this Committee and Council on a quarterly basis. This quarterly report also includes any new requests for funding that may have been reviewed by the Investment & Change Board.

### **Asset Management**

- 3.20 To ensure that capital assets continue to be of long-term use, the Council has an Asset Strategy that was approved by this Committee on 9 November 2022. The strategy sets the high-level framework for managing Wirral's Public Sector land and property for the future. It is 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. This strategy is currently being reviewed, and it is planned that a revision will be presented to this Committee early in 2025 for its consideration.
- 3.21 The current and any future asset strategy is focused on securing the financial stability of the Council delivered within a compliant and fit for purpose estate. This will enable the Council to have the ability to drive forward the service improvements most needed by our communities. To achieve this the Council will need to ensure that its business model provides maximum value for money to ensure the primary focus is on delivering meaningful impact for the benefit of all those who live and work in the Borough.
- 3.22 The Council 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 private investors, business, community and friends' groups and other public bodies such as those in Higher Education, the NHS, Police, Fire and Ambulance services.
- 3.23 The Council is actively engaged in the One Public Estate which is an established national programme delivered by the Office of Government Property within the Cabinet Office and the Local Government Association. The programme is about creating economic growth (new homes and jobs), delivering more integrated, customer-focused services and generating efficiencies, through capital receipts and reduced running costs.
- 3.24 The current Asset Strategy is focussed in six key priority areas:
1. Strategic Delivery of Asset Strategy;
  2. Disposal Policy and Asset Transfer Policy;
  3. Strategic Management of Operational Assets;
  4. Asset Transfer, Community Asset Transfer and Community Wealth Building;
  5. Using assets for delivery of Regeneration and Housing; and
  6. Reduce the impact of the Estate and Services on the Environment.

## Asset Disposals

- 3.25 All Council assets will be reviewed to assess which are not essential to the delivery of Council services with a view to disposal where appropriate. If an asset is sold then the proceeds, known as capital receipts, can be spent on new assets or to repay debt. In accordance with the capital receipts flexibilities introduced by the Government capital receipts generated can be used to support expenditure that is 'Transformational' in nature until 31 March 2030. Repayments of capital grants, loans and investments also generate capital receipts. The Council estimates to receive capital receipts in the coming financial year as follows:

**Table 5: Projected Capital Receipt Generation**

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	£000	£000	£000	£000	£000	£000
Anticipated receipts	2,238	8,150	4,600	2,940	-	-

- 3.26 The Council's Flexible Use of Capital Receipts Policy is attached at Appendix B.

## Treasury Management & Borrowing

- 3.27 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.
- 3.28 As a consequence of decisions to approve past Capital Programmes, the Council currently has £337m of borrowing at an average interest rate of 4.5% and £40m treasury investments (as of 31 December 2024).
- 3.29 The Council's main objectives when borrowing is 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 cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher. The Council does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.
- 3.30 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 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement**

<b>Debt</b>	<b>31/03/2025 Estimate £m</b>	<b>31/03/2026 Estimate £m</b>	<b>31/03/2027 Estimate £m</b>	<b>31/03/2028 Estimate £m</b>
Borrowing	355.506	367.081	394.080	394.422
PFI liabilities	24.727	21.296	17.581	13.547
<b>Total Debt</b>	<b>380.233</b>	<b>388.377</b>	<b>411.661</b>	<b>407.969</b>
<b>Borrowing in excess of CFR?</b>	<b>NO</b>	<b>NO</b>	<b>NO</b>	<b>NO</b>

- 3.31 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.

### **Affordable Borrowing Limit**

- 3.32 The Council is legally obliged to set an authorised borrowing 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. The limits are based upon the level of CFR, planned capital borrowing over the current and following two years, along with additional scope to cover potential refinancing of existing debt.

**Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt**

	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>	<b>2027/28 £m</b>
Operational Boundary - Borrowing	430	467	449	445
Operational Boundary - PFI & Leases	48	45	41	37
<b>Operational Boundary - Total External Debt</b>	<b>478</b>	<b>512</b>	<b>490</b>	<b>482</b>
Authorised Limit - Borrowing	440	477	459	455
Authorised Limit - PFI & Leases	53	50	46	42
<b>Authorised Limit - Total External Debt</b>	<b>493</b>	<b>527</b>	<b>505</b>	<b>497</b>

- 3.33 Further details on borrowing can be found in the Treasury Management Strategy report, which is also on the agenda for this Committee meeting.
- 3.34 Property and most other commercial investments are also classed as capital expenditure and purchases will therefore also be approved as part of the Capital Programme.
- 3.35 The level of investment income, both from Treasury and commercial investments, included within the Council budget should not be set too high so that the revenue budget is overly reliant on commercial returns.



**Table 8: Prudential Indicators: Proportionality of Investments**

	<b>2024/25 Forecast £'000</b>	<b>2025/26 Budget £'000</b>	<b>2026/27 Budget £'000</b>	<b>2027/28 Budget £'000</b>
Gross service expenditure	694,906	722,025	743,394	767,777
Investment Income	5,266	5,266	5,266	5,266
Proportion	0.75%	0.73%	0.71%	0.69%

- 3.36 Further details about commercial activities can be found in the Investment Strategy Statement, which is also on the agenda for this Committee meeting.

### **Revenue Budget Implications**

- 3.37 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP repayments are charged to revenue. 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.**

<b>Ratio of Finance Costs to Net Revenue Stream</b>	<b>2024/25 Estimat</b>	<b>2025/26 Estimat</b>	<b>2026/27 Estimat</b>	<b>2027/28 Estimat</b>
Financing Costs (£m)	31.5	34.4	35.0	36.1
Proportion of net revenue stream	7.9%	8.3%	8.1%	8.4%

### **Sustainability**

- 3.38 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.
- 3.39 The agreed Capital Programme includes projects costed at current year prices with many being subject to a subsequent tender process which may 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.
- 3.40 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.
- 3.41 The re-profiling and slippage from previous years is fully funded but increases the pressure to deliver the anticipated 2025/26 Programme. Any such delays will impact on the delivery of the intended outcomes of capital schemes.

## **Knowledge and Skills**

- 3.42 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 Finance is a qualified accountant. The Council pays for junior staff to study towards relevant professional qualifications from bodies including CIPFA and the Royal Institute of Chartered Surveyors (RICS).
- 3.43 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, CBRE as consultants related to Regeneration initiatives and 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 the Council to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and the Council is 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 no additional resource requirements arising directly from this report as the Capital Financing Strategy is managed internally from within existing directorate structures.

## **7.0 RELEVANT RISKS**

- 7.1 The possibility of failure to deliver the Capital Programme will be mitigated by regular programme review by a senior group of officers, charged with improving performance. SLT is supported by the Change Advisory Board (CAB), which will provide enhanced Capital Programme review.
- 7.2 The possible failure to deliver the Revenue Budget is being mitigated by:
- Senior Leadership / Directorate Teams regularly reviewing the financial position.
  - Availability of General Fund Balances; and
  - Where possible, reprofiling of projected capital expenditure

7.3 In terms of individual scheme specific risks, these are identified as part of the original business case application and any potential risks to deliverability should be flagged as part of the ongoing scheme review process.

7.4 Within the reviews undertaken by the CAB, schemes which encounter difficulties or additional delivery risk will be subject to additional scrutiny and were necessary escalation to SLT.

## **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 (EIA) consideration may be incorporated into the future business case assessment process. Associated actions may need an EIA and these will be done at the earliest possible time.

## **10.0 ENVIRONMENT, BIODIVERSITY AND CLIMATE IMPLICATIONS**

10.1 Capital bids are welcomed that support the Council's Environment and Climate Emergency Action Plan that was compiled following the declaration of a Climate Emergency by the Council in July 2019.

10.2 The programme also includes projects that focus on environmental initiatives such as energy efficient buildings, sustainable and green travel infrastructure, energy efficient street lighting, urban tree planting etc.

## **11.0 COMMUNITY WEALTH IMPLICATIONS**

11.1 The Community Wealth Building Strategy is a key part of how the Council will tackle economic, social and health inequalities across the borough and make a major contribution to improving the economic, social and health outcomes on the Wirral. Schemes contained within the Capital Programme include several regeneration projects that look to improve the economic outlook for the borough, including job creation, training facilities and enhanced transport links. The Community Wealth Building implications are reported for each scheme separately to the relevant policy and service committee.

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## APPENDICES

Appendix 1 – The Minimum Revenue Provision (MRP) Statement

Appendix 2 – Flexible Use of Capital Receipts Strategy 2025/26

## BACKGROUND PAPERS

CIPFA's Standard of Professional Practice on Treasury Management.

Treasury Management Strategy Statement 2025/26

Investment Strategy Statement 2025/26

## TERMS OF REFERENCE

This report is being considered by the Policy and Resources Committee in accordance with 1.2(a)(i) of the Policy and Resources Committee Terms of Reference:

formulate, co-ordinate and implement corporate policies and strategies and the medium-term financial plan (budget), which includes responsibility for any decision:

(i) that relates to such matters to the extent that they are not reserved to full Council.

Policy and Resources Committee is recommended to refer the decision to Council in accordance with 2(a)(i)(1) of the Functions Reserved to Council:

The Council reserves to itself the following functions (in accordance with the rules and procedures contained in this Constitution):

(i) The Budget – The approval or adoption of a plan or strategy for the control of the Council's borrowing, investments, or capital expenditure or for determining the Council's minimum revenue provision, which includes the overarching annual: -

(1) Capital Programme

(2) Capital Financing Strategy

## SUBJECT HISTORY (last 3 years)

<b>Council Meeting</b>	<b>Date</b>
Council – 2021/22 Capital Monitoring Q3	28 February 2022
Council – 2021/22 Capital Outturn Report	11 July 2022
Council – 2022/27 Capital Programme	28 February 2022
Council – 2022/27 Capital Financing Strategy	28 February 2022
Council – 2022/23 Capital Monitoring Q1	10 October 2022
Council – 2022/23 Capital Monitoring Q2	5 December 2022
Council – 2022/23 Capital Monitoring Q3	27 February 2023
Council – 2022/23 Capital Outturn Report	10 July 2023
Council – 2023/28 Capital Programme	27 February 2023
Council – 2023/28 Capital Financing Strategy	27 February 2023
Council – 2023/24 Capital Monitoring Q1	09 October 2023
Council – 2023/24 Capital Monitoring Q2	13 December 2023
Council – 2023/24 Capital Monitoring Q3	26 February 2024

Council – 2023/24 Capital Outturn Report	17 July 2024
Council – 2024/29 Capital Programme	26 February 2024
Council – 2024/29 Capital Financing Strategy	26 February 2024
Council – 2024/25 Capital Monitoring Q1	17 July 2024
Council – 2024/25 Capital Monitoring Q2	2 December 2024
Council – 2024/25 Capital Monitoring Q3	3 March 2025

## APPENDIX 1

### Annual Minimum Revenue Provision Statement 2025/26

- 1.1 Where the Council 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 Council to have regard to the former Ministry for Housing, Communities and Local Government's (MHCLG) Guidance on Minimum Revenue Provision most recently issued in April 2024.
- 1.2 The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is aligned with that over which the capital expenditure provides benefits.
- 1.3 The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and provides a number of options for calculating a prudent amount of MRP but does not preclude the use of other appropriate methods. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.
- 1.4 MRP is calculated by reference to the Capital Financing Requirement (CFR) which is the total amount of past capital expenditure that has yet to be permanently financed, noting that debt must be repaid and therefore can only be a temporary form of funding. The CFR is calculated from the Authority's balance sheet in accordance with the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Expenditure in Local Authorities, 2021 edition.
- 1.5 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).
- 1.6 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 with the principal repayment on an annuity with an annual interest rate equal to the average relevant PWLB rate for the year of expenditure. The default stance will be that repayments will start in the year after the expenditure has been incurred. However, the Council may begin MRP repayments the year after an asset becomes operational, for example the 'Mallory' and 'Irvine' office building repayments will start the year after the assets become operational.
- 1.7 MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
- 1.8 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.

- 1.9 Should the Council enter into a lease agreement where the lease term is shorter than the useful life of the asset being leased, the Council may instead charge MRP over the useful economic life of the asset.
- 1.10 Where former operating leases have been brought onto the balance sheet due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the MRP charges will be adjusted so that the overall charge for MRP over the life of the lease reflects the value of the right-of-use asset recognised on transition rather than the liability.
- 1.11 Capital expenditure incurred during 2025/26 will not be subject to an MRP charge until 2026/27 or later.
- 1.12 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.
- 1.13 Based on the Council's estimate of its Capital Financing Requirement on 31st March 2025, the budget for MRP has been set as follows:

	<b>31.03.2025 Estimated CFR £m</b>	<b>2025/26 Estimated MRP/Receipts £m</b>
Supported Capital Expenditure	169.20	3.13
Unsupported Capital Expenditure	213.44	8.20
Finance leases and Private Finance Initiative	24.73	3.43
Transferred debt	4.96	4.96
Transferred debt - Capital Receipts Received	-	-4.47
Use of Prior Year Overpayments	-	-2.63
<b>Total General Fund</b>	<b>412.33</b>	<b>12.63</b>

### **Capital Loans**

- 1.14 For capital expenditure on loans to third parties which were made primarily for financial return rather than direct service purposes, MRP will be charged in accordance with the policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. This MRP charge will be reduced by the value any repayments of loan principal received during in the year, with the capital receipts so arising applied to finance the expenditure instead.
- 1.15 For capital expenditure on loans to third parties which were made primarily for service purposes, the Authority will make nil MRP except as detailed below for expected credit losses. Instead, the Authority will apply the capital receipts arising from the repayments of the loan principal to finance the expenditure in the year they are received.
- 1.16 For capital loans made on or after 7th May 2024 where an expected credit loss is recognised during the year, the MRP charge in respect of the loan will be no lower

than the loss recognised. Where expected credit losses are reversed, for example on the eventual repayment of the loan, this will be treated as an overpayment.

- 1.17 For capital loans made before 7th May 2024 and for loans where expected credit losses are not applicable, where a shortfall in capital receipts is anticipated, MRP will be charged to cover that shortfall over the remaining life of the assets funded by the loan.

### Overpayments

- 1.18 In earlier years, the Council has made overpayments of MRP that are available to reduce the revenue charges in later years. It is planned to draw down £2.6m of this in 2025/26. The final overpayment will be drawn down in 2028/29, after which full MRP payments on the 'Supported Capital Expenditure' element of the CFR will resume.

<b>MRP Overpayments</b>	<b>£m</b>
<b>Balance 31.03.2024</b>	<b>13.15</b>
Drawdown 2024/25	-2.63
<b>Expected Balance 31.03.2025</b>	<b>10.52</b>
Drawdown 2025/26	-2.63
<b>Expected Balance 31.03.2026</b>	<b>7.89</b>

### Capital Receipts

- 1.19 Proceeds from the sale of capital assets are classed as capital receipts and are typically used to finance new capital expenditure. Where the Authority decides instead to use capital receipts to repay debt and hence reduce the CFR, the calculation of MRP will be adjusted as follows:
- 1.20 Capital receipts arising on the repayment of principal on capital loans to third parties will be used to lower the MRP charge in respect of the same loans in the year of receipt, if any.
- 1.21 Capital receipts arising on the repayment of principal on finance lease receivables will be used to lower the MRP charge in respect of the acquisition of the asset subject to the lease in the year of receipt, if any.
- 1.22 Capital receipts arising from other assets which form an identified part of the Authority's MRP calculations will be used to reduce the MRP charge in respect of the same assets over their remaining useful lives, starting in the year after the receipt is applied.
- 1.23 Any other capital receipts applied to repay debt will be used to reduce MRP in equal instalments starting in the year after receipt is applied.



## **Appendix 2**

### **Flexible Use of Capital Receipts Strategy**

#### **Purpose**

- 2.1 This report provides background information with regards the statutory guidance on the flexible use of Capital Receipts and its application within this Council. As part of the finance settlement for 2016/17 the government announced new flexibilities allowing local authorities to use capital receipts received in 2016/17, 2017/18 and 2018/19 to be used to fund transformational expenditure, which can include redundancy costs. This was extended in 2018/19 as part of the 'Local Government Finance Settlement' for a further three years until 2021/22. MHCLG announced two further extensions to the capital receipts flexibility programme, firstly for a further 3 years to 31 March 2025 and then for a period of 5 years to 31 March 2030. This will continue to give local authorities the freedom to use capital receipts from the sale of their own assets (excluding Right to Buy receipts) to help fund the revenue costs of transformation projects and release savings.
- 2.2 The use of capital receipts to fund transformational costs (up to the value of those capital receipts), rather than applying revenue resources / reserves that would have been previously necessary, allows for these revenue resources to be directed to service areas to facilitate further service re-development and mitigates the financial pressures of the Council for the current and ensuing year.

#### **Background**

- 2.3 The Secretary of State, through Section 15 (1) of the Local Government Act 2003, gave local authorities the power to spend up to 100% of capital receipts from the disposal of property, plant and equipment assets on the revenue costs of reform projects. This flexibility is limited to the application of those capital receipts received in the years to which this direction applies and does not allow borrowing to finance the revenue costs of service reform. Receipts are only permitted to those from the Council and not group entities to be used and for those where the Council does not retain some direct or indirect control of the assets.
- 2.4 In November 2024 the MHCLG published its 'Local Government Finance Policy Statement 2025 to 2026' in which it was stated that "The government will also remove the restriction with respect to redundancy costs, imposed from April 2022, that limits the use of the flexibility to statutory redundancy costs only.
- 2.5 Capital receipts can only be used for specific purposes, and these are set out in Regulation 23 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 made under Section 11 of the Local Government Act 2003. The main permitted purpose is to fund capital expenditure, and the use of capital receipts to support revenue expenditure is not allowed by the regulations. The Secretary of State is empowered to issue Directions allowing expenditure incurred by local authorities to be treated as capital expenditure. Where such a direction is made, the specified expenditure can then be funded from capital receipts under the Regulations.

- 2.6 The Secretary of State for Communities and Local Government issued guidance in March 2016 giving local authorities greater freedoms with how capital receipts could be utilised. This Direction allows for the following expenditure to be treated as capital: “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.”
- 2.7 To take advantage of this freedom, the Council must act in accordance with the Statutory Guidance issued by the Secretary of State. This guidance requires the Council to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy, with the initial strategy being effective from 1 April 2016 with future strategies included within future annual budget documents and reported as appropriate.
- 2.8 Government has provided a definition of expenditure that qualifies for funding from capital receipts: “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. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.
- 2.9 Set up and implementation costs of any new processes or arrangements can be classified as qualifying expenditure. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure. In addition, one off costs, such as banking savings against temporary increases in costs/pay cannot be classified as qualifying expenditure. As per paragraph B4, with respect to redundancy payments, qualifying expenditure is no longer limited to those amounts that are necessarily incurred as statutory redundancy payments provided the other requirements of qualifying expenditure are met. This restriction does not apply to other severance costs, including pension strain costs; the treatment of these costs remains unchanged from the previous direction.

### **Monitoring of transformation costs for use of Flexible Capital Receipts**

- 2.10 A number of measures are in place to ensure that the qualifying criteria are met. These include a robust approval process that is applied whenever the use of capital receipts is considered, to ensure that this funding source is only applied to qualifying expenditure. Additionally, detailed monitoring will be undertaken to provide assurance over the value of qualifying spend.

### **Financial Overview**

- 2.11 The Secretary of State’s direction requires that details of the actual and proposed application of capital receipts are published within this strategy, including updates from the previous financial year to the Strategy.
- 2.12 The application of this strategy relies on the availability of sufficient capital receipts to fund the qualifying transformation expenditure. If capital receipts generated are insufficient to meet these commitments other funding sources will need to be identified or expenditure reduced.

2.13 A summary of how the flexibility has been utilised by the Council is shown below, with a variety of works across the organisation undertaken to implement more efficient working practices.

Table 1: Use of Flexible Receipts

Year	Project	£m	£m
2021/22	No spend capitalised under the flexibility		-
2022/23	Corporate Change, Project Management and Organisational Development Offices	1.700	
	Asset Management	0.376	
	I.T Developments	0.402	
	Community Asset Transfer Projects	0.424	
	Statutory Element of Redundancy Payments	0.028	
			2.930
2023/24	Corporate Project Management Office	1.693	
	Adult Care & Health Service Activiy	0.361	
	I.T Developments	0.239	
	Statutory Element of Redundancy Payments	0.607	
			2.900
<b>Total</b>			<b>5.830</b>

2.14 The Capital Programme for 2025/26 includes £4.832m utilisation of any usable capital receipts to fund transformational spend. Should this position change, an update will be made via the Capital Monitoring reports to Members, seeking approval for a revised Capital Programme. The following transformational schemes are anticipated to be funded via capital receipts in 2025/26.

- Digital Transformation £2.000m - Digital transformation is about embedding and adopting technologies across the Council to drive change. It underpins delivery of objectives within the Council plan alongside required efficiencies to deliver the Medium-Term Financial Plan (MTFP).
- Revenue & Benefits System £0.232m – to transform the document management system to a cloud-based solution.
- Strategic Change Function £2.000m – to implement transformational change across the Council.
- Estate Transformation £0.600m – transforming the delivery of operational services via management of the Council's estate.

2.15 Any future utilisation of these capital receipt flexibilities will be allocated to transformational work across the council to ensure recurrent savings can be made and council services, both internally and externally, improved and made more efficient and effective to support the delivery of the Council Plan. This work cannot be achieved by using core budgets alone.

2.16 Transformational work mainly takes place within the Strategic Change function which provides the delivery of the Council's new operating model, and strategic change programme. However, there will be other transformational work taking place across the Council that may utilise the capital receipt flexibilities. The Strategic Change activity is being delivered via a series of continuous improvement service reviews that will ensure all services the council provides can generate beneficial outcomes.