



## **POLICY AND RESOURCES COMMITTEE**

**Wednesday, 12 July 2023**

<b>REPORT TITLE:</b>	<b>WIRRAL GROWTH COMPANY ACCOUNTS</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF FINANCE</b>

### **REPORT SUMMARY**

This report requests Policy and Resources Committee to approve the 2021 (retrospectively) and the 2022 accounts for Wirral Growth Company Limited Liability Partnership (WGC) following the approval of the accounts by the WGC LLP board.

The Wirral Plan 2021 - 2026 sets out the Council's vision to secure the best possible future for the Council's residents. The proposals within this report are relevant to the following themes of the plan:

- Brighter futures for all regardless of their background;
- Safe and pleasant communities that our residents are proud of; and
- A thriving and inclusive economy, creating jobs and opportunities for all
- Sustainable Environment working towards a clean-energy, sustainable borough that leads the way in its response to the climate emergency and is environmentally friendly

The proposals within this report affect all wards. This is not a Key Decision.

### **RECOMMENDATION/S**

Policy and Resources Committee is recommended to:

- (1) Approve the Wirral Growth Company LLP accounts for year ending 31<sup>st</sup> December 2022;
- (2) Retrospectively approve the Wirral Growth Company LLP accounts for year ending 31st December 2021;.

## **SUPPORTING INFORMATION**

### **1.0 REASON/S FOR RECOMMENDATION/S**

- 1.1 The Partnership Agreement (as amended) between the Council, Muse Development Ltd and WGC requires that after the annual accounts are approved by the WGC Joint Venture (JV) Board they be referred to each of the two joint venture partners for their approval. This report is seeking that approval.
- 1.2 There is therefore a requirement to approve the accounts.

### **2.0 OTHER OPTIONS CONSIDERED**

- 2.1 As it is a requirement for the WGC accounts to be approved by this committee there, is no reasonable alternative option to this report.

### **3.0 BACKGROUND INFORMATION**

- 3.1 WGC is constituted as a limited liability partnership owned in equal share by Wirral Borough Council and Muse Developments Limited. Under a Corporate Services Agreement Muse Developments Limited provide a range of financial services including managing of accounting transactions and preparation of the statutory accounts and any required tax returns. Under the same agreement the Council provides secretariat and internal audit support.
- 3.2 A WGC Partnership Business Plan was agreed by Cabinet on 24<sup>th</sup> February 2020. The full business case in respect of the Birkenhead Commercial District was also agreed at this meeting. Operational activity began during 2021 and is reflected in the accounts before this committee.
- 3.3 WGC activity has been largely focused upon the Birkenhead Commercial District development. WGC is accounting for profit on the development on an 'accrual' basis linked to the percentage completion of the development. This is in accordance with accounting standards on the basis that construction costs payable by WGC are determined from fixed fee contracts and there is a funding agreement in place with Canada Life and a headlease arrangement in place at completion with the Council.
- 3.4 The WGC financial year is on a calendar year basis running from 1<sup>st</sup> January to 31<sup>st</sup> December. Statutory accounts are required annually which are externally audited by Ernst and Young. The accounts require submitting to Companies House nine months after the financial year end i.e. by 30<sup>th</sup> September each year.
- 3.5 After external audit the accounts should be approved by the WGC JV board and then referred onto the two shareholders for approval. Once approved the accounts can then be submitted to Companies House.
- 3.6 The WGC JV board on 14<sup>th</sup> March 2023 approved WGC's draft accounts for 2022. The accounts were approved on the basis that no material changes were anticipated to the draft accounts. The accounts were undergoing the external audit process and in the event of any material change they would be brought back to the WGC JV Board for further approval. The audit of the 2022 accounts has now been concluded

and accounts were signed on 30<sup>th</sup> June 2022. The committee is asked to approve the WGC 2022 accounts attached as appendix 1 to this report.

- 3.7 The WGC accounts for year ending 31st December 2021 were erroneously submitted to Companies House in June 2022 without the formal minuted agreement of the JV Board and shareholders. The JV board meeting of 27th October 2022 retrospectively approved the 2021 accounts. The accounts are attached at appendix 2 and members are requested to retrospectively approve these.
- 3.8. The statutory accounts for 2021 are attached as appendix to this report. A summary of the Profit and Loss and Balance Sheet position for 2022,2021 and also 2020 is shown in the tables below.
- 3.9 The profit and loss accounts in table 1 show that WGC's profit for the 2022 year was £10.536m and £0.098m for 2021. Cumulatively profits total £10.512m. The overwhelming majority of activity has been concentrated upon the Birkenhead Commercial District development. For this project, revenue and profit recognition is recognised as stages of the development are completed. Revenue and profit is recognised but actual receipt of all of income will follow practical completion.

<b>Table1: Summary Wirral Growth Company Profit and Loss Account</b>	<b>Year ending 31/12/2022</b>	<b>Year ending 31/12/2021</b>	<b>Year ending 31/12/2020</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Revenue	40,673	4,303	-
Cost of sales	(30,000)	(3,973)	-
<b>Gross profit</b>	<b>10,673</b>	<b>330</b>	-
Administrative expenses	(71)	(65)	(65)
<b>Operating profit</b>	<b>10,602</b>	<b>265</b>	<b>(65)</b>
Less Interest payable	(66)	(167)	(57)
<b>Profit available for members</b>	<b>10,536</b>	<b>98</b>	<b>(122)</b>

- 3.10 The profit and loss figures correspond with the development of the Birkenhead Commercial District ("BCD") with as expected a significant increase in activity in 2022 compared with 2021 as construction accelerated. The table shows that in 2020 there was no revenue or costs in relation to the BCD development. The table shows the administrative expenses relating to the provision of services including accounting and auditing of the partnership. Interest payable relates to amounts payable by WGC to the partners in respect of cash flow funding advanced to the company. Interest has reduced in 2022 as under the Canada Life agreement monies advanced were returned to the partners instead being financed by the former.
- 3.11 The balance sheet is shown below in table 2. WGC has no fixed assets. Any land transactions have been designed to be between the council and end users which minimises the liability of double stamp duty tax costs. £12.5m of current assets relates to work in progress to be billed to Canada Life. Net assets at 31<sup>st</sup> December

2022 totalled £11.811m. a significant increase on the previous year (2021) of £1.21 within its balance sheet.

<b>Table 2: Summary Wirral Growth Company Balance Sheet</b>	<b>Year ending 31/12/2022</b>	<b>Year ending 31/12/2021</b>	<b>Year ending 31/12/2020</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fixed Assets	-	-	-
Current Assets ( <i>Stock, debtors, cash</i> )	17,487	3,200	3,366
Creditors ( <i>due within 1 year</i> )	(5,676)	(1,990)	(621)
<b>Net Assets attributable to members</b>	<b>11,811</b>	<b>1,210</b>	<b>2,745</b>
<b>Represented by:</b>			
Members capital ( <i>cashflow loans</i> )	1,010	1,010	2,810
Member other debt ( <i>i.e. rolled up interest on partner cashflow loans</i> )	289	224	57
Members other interests classified as equity ( <i>Accumulated Profits</i> )	10,512	(24)	(122)
<b>Total</b>	<b>11,811</b>	<b>1,210</b>	<b>2,745</b>

- 3.12 On establishing the WGC JV partnership, interest bearing cash flow funding was provided on an equal basis by both partners. The level of cash flow funding has reduced due to the finance provided by Canada Life. Each partner had £0.505m (total £1.1010m) with the partnership at 31<sup>st</sup> December 2022. To limit the WGC's cash flow costs, interest is rolled up with each partner owed £0.1445m of interest at 31<sup>st</sup> December 2022. These monies will be received from the WGC once projects are complete.
- 3.13 The member report and financial statements include a report on activity over the reporting period, details of JV member responsibilities and the independent auditors report. The financial statements are supported by explanatory notes. The external auditors have confirmed that it is appropriate for WGC to be accounted for as a going concern and that the financial statements.
- *give a true and fair view of the state of the limited liability partnership's affairs as at 31 December 2022 (and 2021) and of its profit for the year then ended;*

- *have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; including FRS 102 'The Financial Reporting Standard applicable to the UK and Republic of Ireland; and*
- *have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships.*

3.14 The WGC partnership plan assumed that surpluses arising would be used to support other regeneration activity and close any viability gaps. Policy and Resources Committee agreed on 10 November 2021 that:

*“the Director of Regeneration and Place be authorised to adopt the preferred option, to demolish, design and develop the former House of Fraser site, the cost of which to be met from within the planned Future High Street Fund and Wirral Growth Company Surplus resources allocated”*

The use of these monies was also approved for the market as part of the capital programme approved by Policy and Resources in February 2023.

- 3.15 There are also a number of costs in relation to the Birkenhead Commercial District lease that will fall upon the Council upon handover from WGC, which will require financing. These may require funding from monies derived from the WGC surplus.
- 3.16 As at 31<sup>st</sup> March 2023 the surplus due to the Council from WGC was estimated to be approximately £8.455m. This figure was included on an accrual basis in the Council's 2022/23 financial accounts and added to reserves. Further surplus will flow from WGC activity during 2023. The use of such surpluses beyond capital use requires compliance with a series of local authority accounting standards. Policy and Resources Committee on 14<sup>th</sup> June 2023 was informed that advice was currently being sought in respect of any non-capital use of surpluses. Approval for use of these monies will be brought back to this committee.

#### **4.0 FINANCIAL IMPLICATIONS**

- 4.1 WGC declared a profit in the year to 31<sup>st</sup> December 2022 after finance costs of £10,536m following a profit of £98,000 for the year ending 31<sup>st</sup> December 2021. Accumulated profits since inception total £10.512m.
- 4.2 In accordance with accounting standards the accounts are produced on an accruals rather than a cash basis. The Council has recorded an accrued share of profits of £8.455m in its accounts for the year ending 31<sup>st</sup> March 2023.
- 4.3 WGC's balance sheet shows net assets of £11.811m at 31<sup>st</sup> December 2022 (£1.210m at 31<sup>st</sup> December 2021). These assets are represented by cash flow loan balances and rolled up interest on loans to be returned to the partners along with the accumulated profit balances.

## 5.0 LEGAL IMPLICATIONS

- 5.1 The LLP and its shareholders have responsibilities to ensure the annual financial statements and associated returns are submitted in accordance to necessary standards and timetables as laid down by the Companies Act 2006.
- 5.2 The WGC Partnership Agreement requires the following action to be taken in respect of approval of the accounts.

*“the LLP [Limited Liability Partnership] shall prepare the Annual Accounts for each Financial Year in accordance with the Companies Act. The Annual accounts (together with a report by the Auditors) shall be put to the JV [Joint Venture] Board for approval as soon as reasonably practicable following their preparation and, if approved laid before a meeting of the JV Partners for consideration if thought fit approved subject only to any approve variation,*

*Following approval of the Annual Accounts by the JV Partners in accordance with clause 9.2.2(a) the JV Partners shall sign the Accounts and file them with the Registrar of Companies.”*

## 6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 There are no direct resource implications arising from this report. Relevant members and officers are engaged under existing arrangements either as board members or support to WGC activity

## 7.0 RELEVANT RISKS

- 7.1 Were the WGC accounts to be submitted late (i.e. post 30<sup>th</sup> September 2023), the WGC would be subject to penalty fines. There would also be reputational harm. In very serious cases criminal proceedings could be taken by Companies House against the WGC or its members.
- 7.2 The filing of annual confirmation statements, financial statements and appropriate tax returns is, under the WGC Corporate Services Agreement the responsibility of Muse Developments Limited. Their officers are experienced in such requirements and are aware of necessary requirements and deadlines.

## 8.0 ENGAGEMENT/CONSULTATION

- 8.1 The WGC JV board has approved the 2021 and 2022 accounts and had opportunity to clarify any issues. The Council’s finance officers have been engaged in reviewing the presented accounts. No further consultation or engagement has taken place beyond this.

## 9.0 EQUALITY IMPLICATIONS

- 9.1 The Council has a legal requirement to make sure its policies, and the way it carries out its work, do not discriminate against anyone. An Equality Impact Assessment is a tool to help council services identify steps they can take to

ensure equality for anyone who might be affected by a particular policy, decision or activity.

9.2 There are no equality and diversity implications arising out of the proposals set out within this report.

## **10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS**

10.1 There are no environment and climate implications approval of the WGC accounts.

## **11.0 COMMUNITY WEALTH IMPLICATIONS**

11.1 There are no direct implications from the approval of the accounts. The underlying investment in the BCD involves injection of significant finance from outside of the borough and WGC has engaged in delivering social value benefits during its activities.

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## **APPENDICES**

Appendix 1 – Wirral Growth Company Members’ Report and Financial Statements to 31<sup>st</sup> December 2022

Appendix 2 – Wirral Growth Company Members’ Report and Financial Statements to 31<sup>st</sup> December 2021

## **BACKGROUND PAPERS**

Wirral Growth Company Partnership Agreement

Wirral Growth Company Business Plan

Wirral Growth Company JV Board Agendas and Minutes

## **TERMS OF REFERENCE**

This report is being considered by the Policy and Resources Committee in accordance with Section 1.2 (v) of its Terms of Reference,

(v) regarding companies or limited liability partnerships including acquisition and disposals

## **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
Cabinet	24 <sup>th</sup> February 2020
Policy and Resources	10 <sup>th</sup> November 2021
Policy and Resources	14 <sup>th</sup> June 2022
Policy and Resources	15 <sup>th</sup> February 2022