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WIRRAL

Audit and Risk Management Committee

Date:	**Monday, 23 July 2018**
Time:	**6.00 p.m.**
Venue:	Committee Room 1 - Wallasey Town Hall

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AGENDA

1. **MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST**

   Members are asked to consider whether they have any disclosable pecuniary interests and/or any other relevant interest in connection with any item(s) on this agenda and, if so, to declare them and state the nature of the interest.

2. **MINUTES** **(Pages 1 - 14)**

   To approve the accuracy of the minutes of the meeting held on 12 March 2018.

3. **HIGHWAYS MAINTENANCE CONTRACT** **(Pages 15 - 26)**

4. **INTERNAL AUDIT UPDATE** **(Pages 27 - 36)**

5. **CHIEF INTERNAL AUDITORS ANNUAL REPORT 2017-18** **(Pages 37 - 86)**

6. **ARMC ANNUAL REPORT 2017-18** **(Pages 87 - 108)**

7. **ANTI-MONEY LAUNDERING POLICY UPDATE** **(Pages 109 - 134)**

8. **IMPROVEMENTS TO THE CORPORATE RISK MANAGEMENT FRAMEWORK** **(Pages 135 - 140)**

9. **MANAGEMENT OF INSURANCE AND CORPORATE RISK** **(Pages 141 - 146)**

10. INSURANCE FUND ANNUAL REPORT (Pages 147 - 160)

11. MERSEYSIDE PENSION FUND

11A Pension Committee Minutes

A verbal update on the Pension Committee recommendations (meeting held on Monday 16 July, 2018) will be provided.

11B External Audit - MPF Audit Findings (Pages 161 – 176)

11C Statement of Accounts MPF 2017/18 (Pages 177 – 224)

12. COUNCIL ACCOUNTS 2017/18

12A External Audit - Wirral Council Audit Findings (Pages 225 – 252)

12B Statement of Accounts 2017/18 - incorporating the Annual Governance Statement (Pages 253 – 440)

13. MEDIUM TERM FINANCIAL STRATEGY 2019/20 - 2022/23 (Pages 441 - 478)

14. ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR (PART 1)

15. EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC

The public may be excluded from the meeting during consideration of the following items of business on the grounds that they involve the likely disclosure of exempt information.

RECOMMENDATION – That in accordance with section 100A (4) of the Local Government Act 1972, the public be excluded from the meeting during consideration of the following items of business, on the grounds that they involve the likely disclosure of exempt information as defined by the relevant paragraphs of Part 1 of Schedule 12A (as amended) to that Act. The public interest test has been applied and favours exclusion.

16. ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR (PART 2)

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AUDIT AND RISK MANAGEMENT COMMITTEE

Monday, 12 March 2018

Present:	Councillor	A Davies (Chair)	
	Councillors	RL Abbey P Doughty D Elderton	P Gilchrist JE Green C Muspratt
Deputies:	Councillors	J McManus (In place of AER Jones) T Pilgrim (In place of J Hale)	

61 **APPOINTMENT OF CHAIR**

Councillor Adrian Jones having given his apologies for the meeting and in the absence of a Vice-Chair, nominations were requested for the appointment a Chair for the meeting. It was:

Proposed: by Councillor Ron Abbey
Seconded: by Paul Doughty

That Councillor Angela Davies be appointed as Chair for this meeting of the Audit and Risk Management Committee.

No other nominations were put forward.

Resolved (7:1) –

That Councillor Angela Davies be appointed as Chair for this meeting of the Audit and Risk Management Committee.

62 **MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST**

Members were asked to consider whether they had any disclosable pecuniary interests and/or any other relevant interest in connection with any item(s) on this agenda and, if so, to declare them and state what they were.

Councillor Phil Gilchrist declared a personal interest in various items pertaining to Children's Services contained within agenda reports by virtue of his serving on the Wirral Improvement Board.

63 **MINUTES**

Resolved – That the minutes of the meetings held on 21 November 2017 (as revised) and 29 January 2018 be approved.

64 **VERBAL REPORT - REF HIGHWAYS MAINTENANCE CONTRACT - MINUTE 54 (29 JANUARY 2018)**

With regard to Minute 54 (29 January 2018), Members expressed their dismay that no written report had been submitted for consideration. David Armstrong, Assistant Chief Executive informed that given commercial dialogue was still ongoing on this matter, it had not been feasible to present a definitive update on negotiations regarding the re-commissioning of highways services at this point in time. A member pointed out that the subject matter had only been presented to Councillors by virtue of a Leader decision published on the Council website (29 November 2017).

The Chair asked the Committee if it wished to receive a written report on the subject at a future meeting. This was confirmed. The Chair advised that given the attendance of the Officers, it would be helpful to Members to receive a verbal report on the background to the re-commissioning of highways services in advance of receipt of the written report.

The Assistant Chief Executive introduced the item and informed that the current contract valued at £6m p.a. (£5m p.a. of which would be contracted out, as at present) was due to end in October 2018 and impacted on 29 staff.

Mr Mark Smith, Strategic Commissioner Environment then addressed the Audit and Risk Management Committee and informed that the Council and contractor Bam Nuttall (BAMN) had recently agreed that the current strategic contract for Highway services would come to an end on 30th September 2018 after one six month extension to the original four year contract that had commenced in April 2014.

As a result, there had been a limited period of time to re-commission these services and an options appraisal exercise using the Highway Maintenance Efficiency Programme (HMEP) Procurement Route Choices Toolkit indicated the most viable way forward was to bring these services back under the direct control of the Council.

For these reasons, re-commissioning of these services, including the commencement of the necessary procurement processes, was based on a ‘direct control/ ownership’ model. The most viable approach was for the contracted service to transfer back under Council control.

The Audit and Risk Management Committee was informed that there were no changes to service policies or standards associated with the re-commissioning of these services however the matter was considered to be a Key Decision based on financial value (BAMN contract around £6m p.a.) and being delivered across all Wards. The decision had been published (subject to call-in) in November 2017.

Members were apprised that commencement of the necessary procurement processes and market engagement had been necessary to ensure service delivery arrangements were in place for October 2018 when the current contract arrangement expired. This was especially important for the day-to-day routine work such as pothole and street lighting repairs that ensured the Council met its statutory obligations as Highway Authority.

The proposed model for re-commissioning the services involved the operational functions currently executed by contractor Bam Nuttall (BAMN) being brought back under the direct control of the Council. Client functions would continue to be discharged by staff in Highways Management (Commissioning Support Unit) as they are now, however the Strategic Outline Case process suggested contracting functions could be either brought into the Council's organisational structure in the traditional manner (ie. they would become part of Delivery Services)

The value of the current contract was around £6m p.a. consisting of approximately £1m p.a. revenue for Routine/ Reactive Works and £5m p.a. capital for Structural/ Planned Works.

In terms of staffing, 29 BAM employees were being reassured that the service would continue in some form following the 30 September 2018 when the current arrangements ceased and that the Transfer of Undertakings and Protection of Employment (TUPE) Regulations would apply to those that may be affected – n.b. staff on the 'client' side (Commissioning Support Unit) were not directly affected by this re-commissioning exercise.

The Strategic Commissioner Environment informed the Audit and Risk Management Committee that, once confirmed, the Business Case was to be the subject of a report and Leader decision as scheduled on the Council's Forward Plan and that the subject was also listed on the Business Overview and Scrutiny Committee Work Programme as a matter for pre-decision scrutiny.

Members questioned the Strategic Commissioner Environment on a number of areas regarding the contract, staffing, service delivery, quality and programming of works.

A Member requested that the issue also be subject of an additional entry in the Council's Risk Register. This was challenged by the Chair and on a show of hands the request to include the issue on the Council's Risk Register was carried eight votes to one.

Members re-affirmed their request that the Audit and Risk Management Committee receive a written report at its July 2018 meeting.

Resolved – Committee wish to be satisfied by way of written report that procedures are in place to ensure full preparation for transfer i.e. costings are in place for plant, equipment, materials, adequate supervision and management resources; and that the issue be subject of an additional entry in the risk register.

65 **IMPROVEMENT JOURNEY – UPDATE**

Mr Paul Boyce, Director for Children introduced his presentation that provided an update on progress following the Inspection of Children Services, and work underway in preparation for the next Ofsted Monitoring Visit scheduled for the 14-15 March 2018.

The Director for Children informed of the importance of creating the right conditions for best practice to thrive these included:

- Clear direction with purpose and pace
- Strong and visible leadership at all levels
- Wrap the Council around the service and find solutions
- Secure a permanent and motivated workforce
- Focus on the child and the child's journey
- Getting the basics right first

The Director for Children detailed the Improvement Journey in 5 key areas of focus:

- Creation of a clear vision and engagement of staff and partners
- Recruitment, retention and professional pathways
- Lines of accountability and proactive decision making
- Effective Integrated Front Door (access path)
- Is practice improving and are children better off?

Re-affirming his earlier report to the Children and Families Overview and Scrutiny Committee Mr Boyce informed Members with regard to the clarity of vision required and the focus on improving practice within the Children’s Service i.e. what the Council is trying to do, and why. He added that by ensuring that the right number and quality of service practitioners were in place to deliver good and outstanding practice, the Council would become an ‘employer of choice’. He added that progress in this area had been demonstrated already with 11 new staffing appointments having been made on the 8/9 February 2018, including the senior role of professional development, and next wave in hand. 21 transfers of agency staff onto the Council’s payroll had also taken place, with an additional 15 transfers currently in process.

The Director for Children's presentation informed of clarity about lines of accountability and 'who was doing what' to support service improvement and the child. The presentation also informed of the requirement for a stable and effective access path (front door) that could evidence a consistent application of multi-agency thresholds and decision making which was timely, child focused and of high quality.

The Director for Children expressed his personal view that quality remained the key challenge of the improvement journey and that this would be the primary criteria by which individual casework practices would be measured. He explained that work was underway to ensure staff and managers had the right tools, systems and support available to enable them to produce consistently good practice. This work included provision of state of the art Information technology enabling agile working and co-location of staff in the Council's Cheshire Lines Offices, Birkenhead.

The Director for Children closed his presentation informing that instability in the staffing of key roles had resulted in a stop / start approach to the delivery of change, and that the Service was not in dispute with Ofsted about the pace of change, however he believed that Ofsted were satisfied with the actions being taken by the Council and that those actions will have a positive impact on children under the Council's care. In conclusion Mr Boyce informed that next Ofsted Monitoring Visit was scheduled for the 14-15 March 2018 with more thematic visits scheduled take place every three months, providing opportunities to check the Council's progress.

The Chair thanked Mr Boyce for his detailed presentation.

Resolved – That the presentation be noted.

66 **INTERNAL AUDIT UPDATE**

The Chief Internal Auditor, Mark Niblock, introduced his report that identified and evaluated the performance of the Internal Audit Service and included details of issues arising from the actual work undertaken during the period 1 January 2018 to 28 February 2018. Three items of note were brought to Members attention:

- Human Resources – HMRC IR35 (Deemed Employment)
- Key Corporate Contracts
- General Data Protection Regulations (GDPR)

The Chief Internal Auditor informed that internal audit were pleased to report that controls were firmly in place to ensure the correct status for employment type for contractors ensuring compliance with HMRC IR35 regulations. Internal audit were also able to confirm that the Council had complied with all legal requirements and as well as its own Contract Procedure Rules leading to the determination of the final partner for the Wirral Growth Company. With regard to GDPR, the Chief Internal Auditor stated that further review was planned prior to the 25 May 2018 deadline, and the findings would be reported to Members. Good progress was being made and comprehensive plans existed for the GDPR delivery and implementation.

The Chief Internal Auditor further informed that for this particular period there were no current outstanding audit actions, although it should be noted that a significant number of follow up audits were currently in progress which may impact on future reports. He added that performance indicators were on track, and feedback from clients was good.

A Member thanked the Chief Internal Auditor for ongoing work that had been undertaken by the internal audit team in respect of initiatives to counter fraud.

A Member questioned the Chief Internal Auditor on the Council's preparation for GDPR. The Head of Internal Audit advised that a detailed update would be presented later in the meeting, but key concerns currently centred on the deadline of implementation on the 25 May 2018 and penalties for non-compliance.

Another Member questioned the Chief Internal Auditor on the subject of HMRC IR35 and deemed employment, and asked how many off-payroll staff this referred to, and whether there was a trend towards this way of engaging staff. The Chief Internal Auditor informed that he would provide the requested numbers to Members of the Audit and Risk Management Committee.

Resolved – that the report be noted.

67 **INTERNAL AUDIT PLAN 2018/19**

The Chief Internal Auditor, Mark Niblock, introduced his report that identified the Internal Audit Plan of work for 2018/19. The report informed that work scheduled for completion had been included to reflect the findings of the extensive planning exercise recently undertaken to ensure relevance of risks previously identified, in addition to any risks to the organisation that had emerged since the original exercise, or that were likely to emerge in the near future. The Audit and Risk management Committee were apprised that the subject would continue to be the basis of ongoing regular report in the future.

The Chief Internal Auditor provided further assurance of the resources allocated to deliver anti-fraud work and advised that internal audit was also contributing to the promotion of appropriate ethics and values within the Council through targeted audit work.

Members questioned the Chief Internal Auditor on a number of matters as detailed in his report, namely Health and Care integration, transformational change, contract management, and regeneration projects e.g. Wirral Growth Company, and asked how these projects would be tracked to ensure benefits were realised. The Chief Internal Auditor informed that, in addition to earlier reports, these topics would continue to be monitored and areas of compliance, calculation of financial savings and procurement processes would continue to be evaluated as part of ongoing work actioned by Internal Audit. A Member requested that the outcome of this work be regularly presented to the Audit and Risk Management Committee. The Chair confirmed that elements of the work were already underway and supported the request stating that findings be reported at the appropriate time.

Resolved – that the work proposed in the Internal Audit Plan be endorsed.

68 PROCUREMENT - AMENDMENTS TO THE COUNCIL CONTRACT PROCEDURE RULES

The Head of Procurement, Ray Williams, introduced his report that highlighted proposed amendments to the Council's Contract Procedure Rules as a result of review by the Assistant Director: Law and Governance (Monitoring Officer), in consultation with the Head of Procurement. The report informed that the existing CPRs had been previously approved by Audit and Risk Management Committee on 24 November 2015.

The report informed that the first amendment referred to where a breach of the Rules had taken place, the process for reporting and recording needed amendment. The second was the use of corporate contracts, where if not used, the Council would be in breach of contract and was at risk of not achieving value for money. The third was to ensure that any financial risk relating to third party suppliers or providers was minimalised. Further additions to the CPRs included a new clause regarding 'Organised Crime' as recommended by the Home Office, the application of the Council's 'Social Value Policy' approved by Cabinet on 6 November 2017 and the application of price/quality criteria when evaluating contracts.

Members questioned the Head of Procurement on a number of issues relating to the new Wirral Growth Company (WGC), job creation and integration of social impact into project design. The Audit and Risk Management Committee was informed that social value was a focus of the new WGC, and a component part of the updated tender process.

A Member raised concern that evaluation criteria be based upon a 70% price / 30% quality ratio. The Head of Procurement advised that during the evaluation process the two elements were separated to ensure one did not influence the other prior to completion of scoring. He added that subject to prior agreement this ratio could be adjusted based on a particular project's priorities.

Members noted that the CPRs and inbuilt controls would assist transparency of process and aid protection of the Council's business against possible infiltration by organised crime groups at both selection and award stages in the tender process.

Resolved – That the amendments to the Council's Contract Procedure Rules be approved (to come into effect on 1 April 2018)

69 **AGS SIGNIFICANT GOVERNANCE ISSUES ACTION PLAN**

The Director of Finance and Investment, Shaer Halewood, introduced her report that provided Members with a progress update on actions taken by officers to address items of concern identified in the Annual Governance Statement for 2016/17. The report informed that progress had been made to address all issues identified in the action plan. Targets, timescales and responsible officers having been identified and tasks allocated and work underway.

The Director of Finance and Investment informed the Audit and Risk Management Committee on the RAG status of each of the significant issues and progress updates as detailed in her report, namely:

- Improvement Notice issued by the Secretary of State for Education (30 September 2016) – status amber.
- ICT Business Continuity Planning – status green.
- ICT Resilience Planning – status amber.
- Compliance – Absence Management – status amber *(sickness target not met – target 10.75 days, current projected levels 10.78 days).*
- Essential Training – status red *(date not met - rated red at 62% of staff RfI training module completed by deadline of 31 October 2017 – figure is now 83%).*
- Compliance – Contract Procedure Rules (CPRs) – status green.
- Performance Appraisals *(not a significant Governance Issue in the 2016/17 AGS, and reported for information only)* – status amber.

Members questioned the Director of Finance and Investment on the procedures in place to track and follow up those issues rated as amber. Members were informed that all significant issues were continually monitored and subject of report to the Audit and Risk Management Committee (ARM), and in the case of the action plan is respect of the OFSTED item the Director of Children had also been invited to provide assurance of progress to the as requested. The Chair added that Members may also request reports on any topics or issues of concern they may have.

The Chair asked Members to note the report, and in doing so requested that Committee's positive feedback be passed back to the relevant officers. The Chair further requested that a quarterly report on staff performance appraisals be brought back to the ARM Committee to include some form of qualitative review, possibly gathered via a satisfaction survey of a proportion of staff. The Chief Internal Auditor informed that a small data sample could be collected for this purpose.

Resolved – That the report be noted.

70 **ORDER OF BUSINESS**

The Chair proposed and it was agreed that the meeting's order of business be varied and that Agenda Item 12 'General Data Protection Regulation (GDPR) Implementation Update' be considered before Agenda Item 8 'Corporate Risk Register' given that visiting officers were in attendance specifically for this item.

71 **GENERAL DATA PROTECTION REGULATION (GDPR) IMPLEMENTATION UPDATE**

The GDPR Project Manager, Gareth Webb introduced a report of the Assistant Director: Law and Governance (Monitoring Officer) that sought to provide assurance to the Audit and Risk Management Committee on the implementation of the Council's GDPR project plan.

The GDPR Project Manager informed that the project was working to achieve the following agreed objectives:

- Create a framework and environment for the Council to become GDPR compliant by 25 May 2018.
- Build GDPR compliance into Council policies and procedures.
- Continually assess the Council's compliance with the GDPR.
- Manage the training and awareness for staff on data protection, in line with the GDPR.
- Create Data Protection Officer (DPO) job description and role.
- Implement all identified requirements for change in high risk areas within the Council.

The GDPR Project Manager informed that the project was at a key phase of its implementation, where it would inform and seek involvement from all Council departments to implement actions to meet the 25 May 2018 deadline. He added that the project was progressing and that the objectives were currently half-way towards completion i.e. codes and guides were still under development, but on target for the planned deadline.

The report provided information on the key features of GDPR, namely:

- Appointment of a Data Protection Officer
- Information, Notification and Consent
- Subject Access Requests
- Security
- Penalties
- Governance Structure
- Risk Management

Members noted that a significant amount of work had already been undertaken and requested further information on the detail of what Elected Members could and could not action under the new regulations. In response to Member enquiries, the GDPR Project Manager informed that specific training would be provided to Members, particularly around data held in respect of day to day case work and personal information held by Councillors in support of their Ward work, past and present.

Resolved – That

(1) the report be noted; and

(2) the GDPR project be supported.

72 **CORPORATE RISK REGISTER**

The Senior Risk and Insurance Officer, Mike Lane introduced a report of the Director of Finance and Investment that informed that the Council was improving and modernising its arrangements for corporate governance. The report informed that risk management framework was a key element of those arrangements. To support the wider programme and to respond to changes both within the Council and the wider environment a number of amendments were proposed to the risk management framework. The progress report dealt specifically with proposals for a revised approach to the oversight of the Council's corporate risks.

Resolved – That

(1) the proposals provided sufficient assurance that the arrangements are able to support the effective governance of the organisation; and

(2) proposals for other improvements to the risk management framework be brought to future meetings of the Audit and Risk Management Committee.

73 **MANAGEMENT OF INSURANCE AND CORPORATE RISK**

The Senior Risk and Insurance Officer, Mike Lane introduced a report of the Director of Finance and Investment that set out the key actions to be taken in relation to corporate risk and insurance management during 2018/19 and highlighted any key decisions that needed to be made. Recent progress made in relation to key actions planned for the current year was also included.

The report informed that regular update reports would continue to be presented to the Committee on work in relation to risk management and insurance in support of the Risk Management framework, thereby maintaining the successful management of the Council's insurance programme.

The Senior Risk and Insurance Officer highlighted that clarification on the actuarial study that had confirmed that the funds held by the authority to cover Liability claims should be sufficient to meet the liabilities that it will have at the end of the current financial year. He added that more detail on the study was to be reported to the Audit and Risk Management Committee in July as part of the Insurance Fund Annual Report. The Senior Risk and Insurance Officer also informed that the study recommended that the annual contribution to the Insurance Fund should be increased in the coming years to cover rises in the cost of self-insured claims, and that this had been reflected in the forecast of the Council's Liability insurance costs for 2018/19.

Resolved – That the report be noted.

74 EXTERNAL AUDIT - WIRRAL COUNCIL CERTIFICATION LETTER 2016/17

Mr Chris Whittingham of Grant Thornton UK LLP, presented the External Auditor's Annual Letter – Certification work for Wirral Council for year ended 31 March 2017.

Mr Whittingham highlighted one particular area, informing that the external auditor had certified the Housing Benefit subsidy claim for the financial year 2016/17 relating to subsidy claimed of £129.2 million. He informed that a number of issues had been identified from the certification work which had been highlighted for Members attention with further detail set out in the Annual Letter Appendix A. As a result of some minor errors identified, the claim was amended (by £259) and qualified, and findings reported to the Department for Work and Pensions (DWP).

Mr Whittingham explained that the HB COUNT methodology required the external auditor to calculate a notional maximum error value where overpayments were based on the 'headline cell value'. This resulted in a potential extrapolated error of 4% of the total subsidy claimed. The external auditor had already discussed and agreed a proposed methodology to review relevant cases with the Chief Internal Auditor.

Mr Whittingham concluded his report stating that the external auditors wished to acknowledge the continued support and co-operation of the Council's Benefits team throughout the audit. The fee for certification work 2016/17 was £23,850.

Resolved – That the report be noted.

75 EXTERNAL AUDIT - WIRRAL COUNCIL AUDIT PLAN 2017/18

Mr Chris Whittingham of Grant Thornton UK LLP, the Council's external auditors, presented a report to Members on work undertaken with regard to progress in the delivery of their responsibilities as External Auditor covering the Year ending 31 March 2017.

Mr Whittingham provided a brief update on a number of key areas contained within his report that included:

- Understanding the challenges and opportunities that faced the Council - commercialisation;

- Changes in financial reporting requirements relevant to the audit – taking account of national audit requirements as set out in the CIPFA Accounting Code 2017/18;

- Value for Money Statement; and

- Significant Risks identified as set out under ISA 240 – The external auditor identified these and presumed risks; and the report set out proposed responses and procedures (completed and planned) in each case.

Mr Whittingham provided Members with additional background information on matters that included Materiality – focusing on greatest risk (and the impact of cumulative errors); Financial Planning and use of balances – the Northamptonshire County Council section 114 notice; Wirral Growth Company – potential to deliver services; and OFSTED – ongoing monitoring of work in response to the 2016 report.

Members questioned Mr Whittingham on a number of items contained within his report that included sustainability and non-pay expenses. Mr Whittingham responded, providing assurances regarding the procedures in place regarding the sampling of data and post year-end analysis.

The Director of Finance and Investment provided further assurance to Members that quarterly financial reporting to the Cabinet and the Business Overview and Scrutiny Committee was set to include savings targets and additional information on percentage savings achieved, and that this information would be shared with Members of the Audit and Risk Management Committee.

The external auditor concluded his report summarising his Value for Money assessment and fees.

The Chair thanked Mr Whittingham for his report.

Resolved – That the report be noted.

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WIRRAL COUNCIL

AUDIT & RISK MANAGEMENT COMMITTEE

23RD JULY 2018

REPORT TITLE	*RE-COMMISSIONING OF HIGHWAY SERVICES FROM OCTOBER 2018*
REPORT OF	*STRATEGIC COMMISSIONER FOR ENVIRONMENT*

REPORT SUMMARY

The Council and contractor Bam Nuttall (BAMN) recently agreed that the current strategic contract for Highway services, worth approximately £6M per annum, would come to an end on 30th September 2018 after a six month extension to the original four year contract that commenced in April 2014.

Following an options appraisal process, approval was given in November 2017 to bring the Highways contract back under Wirral Council's control from 1st October 2018.

At the last meeting of the Committee on 12th March 2018, the high-profile nature and progress of the Highways Re-commissioning Project was discussed and it was resolved that 'the Committee wish to be satisfied by way of a written report that the procedures are in place to ensure full preparation for transfer i.e. costings are in place for plant, equipment, materials, adequate supervision and management resources; and that the issue be subject of an additional entry in the risk register' (Minute 64 refers).

RECOMMENDATION/S

Committee is requested to note the update on service mobilisation/ transfer and management of key risks as outlined in this report.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 Re-commissioning these services to ensure new arrangements are in place for October 2018 when the current contract expires is important to ensure continuity of service delivery. This is especially important for the day-to-day routine work such as pothole and street lighting repairs that ensure the Council meets its statutory obligations as Highway Authority.

2.0 OTHER OPTIONS CONSIDERED

2.1 Alternative re-commissioning options were considered as part of the options appraisal exercise using the Highway Maintenance Efficiency Programme (HMEP) Procurement Route Choices Toolkit. Taking account of the limited time period available, this work highlighted the most viable option is to bring these services back under the direct control of the Council.

2.2 The following critical success factors were used in the options appraisal process:

- Strategic fit – aligns with strategic aims
- Value for money – delivers value for money
- Manageable/ flexible – meets the level of service required
- Affordable – delivered within budget
- Achievable – delivered within timescale

3.0 BACKGROUND INFORMATION

3.1 Wirral's highway network, the Council's biggest asset, is currently worth £2.48 billion and consists of approximately 1,200 kilometres of road, and is currently maintained via the strategic contract with BAM Nuttall (BAMN).

The contract, which started in April 2014 and is worth around £6 million per year, will come to an end on 30th September 2018 having been extended for 6 months past the original four year term. The following service areas are covered by the current contract:

- Carriageways, footways
- Drainage, culverts and drains
- Street Lighting
- Signs and road markings
- Structures
- Winter maintenance

- Coastal protection infrastructure maintenance
- Minor highway improvements

3.2 In summary, the contract consists of two broad types of work:

- Routine/ reactive work – day-to-day revenue-funded activity such as pothole and street lighting repairs, traditionally undertaken by resources directly employed by the main contractor and crucial to enabling the Council to discharge its statutory responsibilities as Highway Authority; and
- Structural/ planned work – capital-funded activity such as 'plane out and resurface' schemes or specialist surface treatments, traditionally undertaken by specialist highway sub-contractors and instrumental in enabling the Council to achieve its overall highway condition performance indicators

4.0 MODEL FOR SERVICE DELIVERY FROM OCTOBER 2018

4.1 The proposed operating model from October will be a part commissioned / part direct delivered model, which roughly equates to 65/35 split respectively.

4.2 Commercial Management Service will commission out planned structural schemes worth approximately £4m per annum. This will be capital-funded activity such as 'plane out and resurface' schemes, specialist surface treatments and transportation improvements approved by the City Region Combined Authority – usually undertaken by specialist highway sub-contractors and instrumental in enabling the Council to achieve its overall highway condition performance indicators.

4.3 Delivery services, supported by external (sub) contracts where necessary, will mobilise operations and carry out day-to-day routine/ reactive revenue-funded activities, such as pothole and street lighting repairs, worth approximately £2m per annum. This is work that was traditionally undertaken by resources directly employed by the main contractor and crucial to enabling the Council to discharge its statutory responsibilities as a Highway Authority. Once under Wirral Council control service level agreements will be in place between Delivery Services and any internal service clients.

4.4 Client based functions such as highway inspections and work scheduling will still continue to be carried out and controlled by the Council.

5.0 UPDATE ON SERVICE MOBILISATION/ TRANSFER AND MANAGEMENT OF KEY RISKS

5.1 Project Management/ Governance and Assurance

- Service mobilisation overseen by Project Board consisting key disciplines (HR, Procurement, Legal, Finance, Communications etc), providing updates to Corporate Investment & Change Board and attended by Internal Audit
- Management/ mitigation of operational risks to ensure smooth service transfer and business continuity has been key consideration
- From zero hours 1st October 18 proposed that Delivery Services Emergency Call-out capability will be in place
- From Day 1 proposed that key Reactive service up-and-running (street lighting/ furniture repairs following road accidents, urgent pothole repairs)
- During Week 1 proposed that full Delivery Services Routine/ Reactive capability will be in place (drainage cleansing, road markings, minor civils/ bridge repairs etc.)
- Performance Management Framework in place from day 1
- Development of service level agreement between new operation and internal clients
- Update to Business Overview and Scrutiny Committee in July 2018

5.2 HR/ Staffing and Health and Safety

5.2.1 In terms of staffing, approximately 25 BAMN employees will be eligible to transfer to the Council under the Transfer of Undertakings and Protection of Employment (TUPE) Regulations when the current arrangements cease on 30th September 2018. Staff on the 'client' side (Commercial Management Services) will not be directly affected by this re-commissioning exercise but are being kept informed via staff briefings and intranet updates.

5.2.2 Key risks exist around the TUPE staff transferring which if not managed effectively may result in staff becoming disengaged and/or not transferring successfully. These risks are being managed through staff briefings, staff and trade union engagement sessions, development of an Organisational and Development Plan and the attendance and support of key roles such as Legal and HR on the project board. The Council have also engaged with a temporary staffing agency to ensure there is cover for key posts should any member of the BAMN staff choose not to TUPE across.

5.2.3 The Council are currently working with BAMN to ensure the necessary health and safety risk assessments and method statements are in place from midnight October 1st. The senior sponsor of the project will oversee and approve all documentation with the support of the Council's Corporate Health & Safety team.

5.3 Depot/ Premises and ICT/ Communications

5.3.1 BAMN delivers the current contract out of Prenton Depot in Prenton, Wirral. The depot, leased by BAMN is wholly owned by Wirral Council. The lease will expire on the 30th September 2018 after which the depot will pass back to the Council and be used as the operational base for the new service going forward.

5.3.2 BAMN have carried out a number of improvements to the depot since leasing it from Wirral Council 4 years ago which include security features such as CCTV cameras and shuttering. The improvements, the central location and staff familiarity make the site an ideal operational base from October 1st ensuring business continuity.

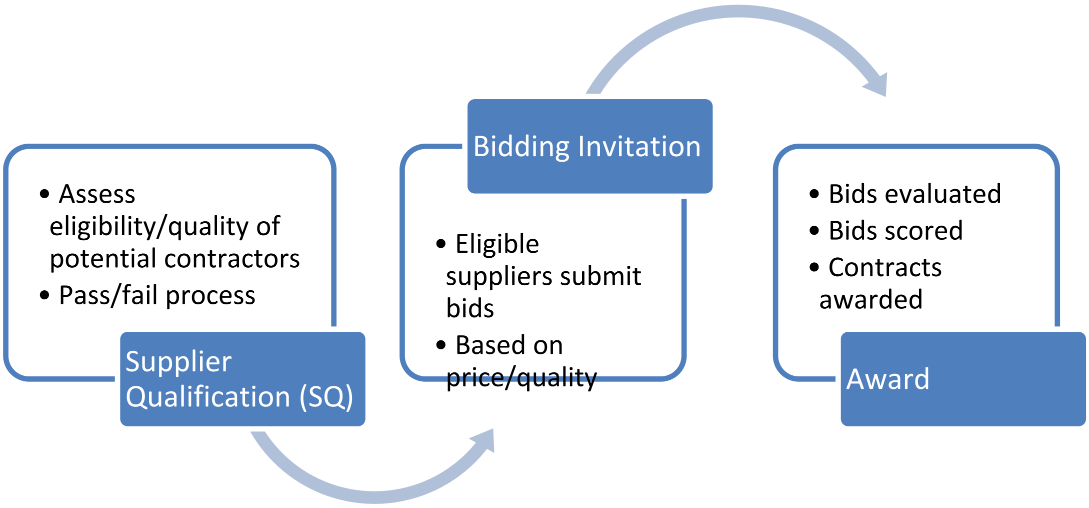
5.3.3 The depot will be fitted with a monitored Wi-Fi system. Procurement of new ICT, which includes Wi-Fi infrastructure, secured laptops, printers and mobile phones is currently underway in order to issue and complete work. This equates to approximately £20k funded from the Service Mobilisation allocation (refer 6.4).

5.3.4 Work is underway to identify the necessary system changes to continue the issuing and completion of work from day 1. To ensure operations continue to run smoothly following transfer the Council is working with all service areas including BAMN to understand current procedures. The intention is to replicate these procedures as near as possible in line with the “lift and shift” philosophy. This reduces the risks associated with system change and eliminates the unnecessary work required as most of the procedures in scope are due to be redesigned and replaced by either the new Customer Access System (CAS) or the new Asset Management System (AMS). However any necessary changes required will go through conference room pilots and user acceptance testing before being rolled out. Training will be provided to officers where applicable.

5.4 Commissioned Work

5.4.1 In accordance with Contract Procedure Rules it is proposed that two procurement routes are taken for the commissioned elements of the contract; Restricted tender for the ‘planned structural work’ capital schemes and the Constructionline framework for the ‘routine and reactive’ revenue work. The routes outlined for each are summarised as follows:

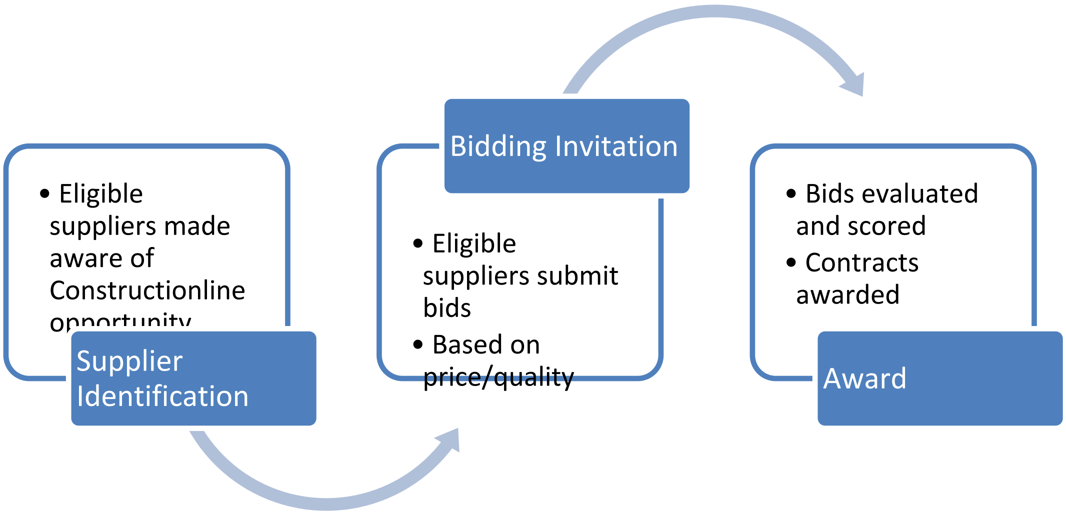
Planned structural work - Restricted tender



The table below details the scope, packaging and values associated with the 'planned structural and transport' contracts:

Contract	Period/Duration	Est. Value
Surface Dressing Processes	12 months (+12 months extension – subject to performance)	£320k
Micro asphalt processes	12 months (+12 months extension – subject to performance)	£800k
Slurry sealing processes	12 months (+12 months extension – subject to performance)	£30k
Carriageway structural resurfacing	12 months (+12 months extension – subject to performance)	£1m
Civil Engineering – Highway and Traffic improvements including drainage	12 months (+12 months extension – subject to performance)	£1m
Civil Engineering – Minor carriageway and footway improvements	12 months (+12 months extension – subject to performance)	£1m
Civil Engineering – Sustainable transport improvements including off-road locations	12 months (+12 months extension – subject to performance)	£200k

Routine and reactive - Constructionline framework



The table below details the scope, packaging and values associated with the 'planned routine and reactive' contracts:

Contract	Period/Duration	Est. Value
Routine/planned bitmac and HRA patching repair (carriageway and footway) North Wirral	18 months	£350k
Routine/planned bitmac and HRA patching repair (carriageway and footway) South Wirral	18 months	£350k
Carriageway markings and white lining	18 months	£90k

5.4.2 All contracts tendered will adopt the NEC3 TSC Option A contract, which is industry standard.

5.4.3 There has been intensive activity over the last couple of months to ensure these arrangements are in place by October 1st. This has included;

- Securing presence on the board by senior officers from Corporate Procurement
- Working with our current contractor to understand their current sub-contractor arrangements
- Holding two soft market testing events to test the appetite of commercial civil contractors including local contractors
- Peer engagement with other councils to understand their current arrangements, their recent tender exercises and any lessons they have learnt

5.4.4 This area remains a high risk area which will continue to be closely monitored over the comings weeks to ensure the necessary arrangements are in place for October.

5.5 Plant, Equipment and Vehicles

5.5.1 BAMN have provided the Council with a list of all known plant and equipment required for day-to-day operations. The majority of plant and equipment is currently hired by BAMN as and when required as the use is dependent on the type of job carried out. This reduces the risks and costs associated with ownership, maintenance and breakdown. The Council intend to continue with this setup and will ensure an arrangement is in place with a local tool hire company from October 2018.

5.5.2 All vehicles used to deliver the contract are in place. Two of the specialist vehicles an 18 tonne DAF drop side Hiab used for street lighting repairs and an 18 tonne LHD Scania Gully Emptier used for gully cleansing, are being purchased from BAMN using capital from the Council's Capital Programme budget (refer 6.4). The Council are working with BAMN and their leasing company to understand the leasing and valuation costs for each of the other remaining vehicles with a view to either continuing the leasing arrangements or purchasing them outright.

5.6 Stock and Materials

5.6.1 The necessary supply chains are already in place for street lighting repairs, personal protective equipment, general office supplies and purchases less than £5k per annum in total.

5.6.2 During a recent board meeting an operational decision was made by the board to source the rest of the stock via a purchase arrangement with BAMN. Wirral Council will purchase the necessary stocks and materials from BAMN to cover the first three months of operation. This mitigates any risk associated with procurement and supply chains. During this period the necessary supply chains going forward will be established.

5.6.3 To gain an idea of the stock levels required the Council is working with BAMN to understand stock usage. This is being done via monthly stock takes.

6.0 FINANCIAL IMPLICATIONS

6.1 The combined annual budget for the Highways contract is £6m per annum. This consists of:

Service Area	**Work Type**	**Approximate**	

		budget £m	
Commercial Management Services	Planned structural and transport schemes	£4.0m approx	Commissioned out through restricted tender to external contractors
Delivery Services	Day-to-day routine / reactive revenue repairs	£1.2m approx	Delivered direct utilising directly employed staff (including 25 staff currently employed by BAMN)
		£0.8m approx	Commissioned out through Constructionline to external (sub) contractors and quotations

6.2 It is anticipated that there will be financial efficiencies by bringing contracting functions back under the direct control of the Council especially on the Routine/ Reactive (revenue funded) side, however these are likely to be in the medium-long term and cannot be confirmed at this stage.

6.3 There will be one-off costs associated with the departure from the existing (BAMN) contract however these costs will be incurred regardless of which future commissioning model is chosen.

6.4 A Service Mobilisation allocation of £100k has been set aside from existing mainstream revenue budgets to cover the cost of mobilising the new operational service as outlined in section 5.0. In addition, £305k has been approved in the Council's Capital Programme to cover costs associated with depot premises, equipment and vehicles.

7.0 LEGAL IMPLICATIONS

7.1 The re-commissioning of these services is essential to enable the Council to fulfil its statutory obligations as Highway Authority, especially the Routine/ Reactive Works side which plays a key role in the Highways Act Section 58 Defence inspection and repair regime.

7.2 Section 41 of the Highways Act 1980 imposes a duty on the Council, as Highway Authority, to maintain highways at the public expense.

8.0 RESOURCE IMPLICATIONS: ICT, STAFFING AND ASSETS

8.1 Investment in new ICT equipment is necessary in order to issue and complete work. This equates to approximately £20k funded from the Service Mobilisation allocation (refer 6.4).

8.2 In terms of staffing, approximately 25 BAMN employees will be eligible to transfer to the Council under the Transfer of Undertakings and Protection of Employment (TUPE) Regulations when the current arrangements cease on 30th September 2018. Staff on the 'client' side (Commercial Management Services) will not be directly affected by this re-commissioning exercise.

8.3 In terms of assets, the current contract is delivered by BAMN who operate from Prenton Depot, currently leased by BAMN from Wirral Council. From 1st October the Prenton Depot will become the new operational base for the new transferring service.

9.0 RELEVANT RISKS

9.1 A project risk log has been established in accordance with the Council's defined project management and risk management protocol.

9.2 The Project Board will continue to manage the progress of the project and to apply measures to mitigate unexpected risks if any should develop.

9.3 After 1st October, Service Risk Plans will be updated to ensure any risks arising from ongoing service delivery for the new arrangements are effectively mitigated.

10.0 ENGAGEMENT/CONSULTATION

10.1 Engagement with the service provider market has taken place via two soft market testing events.

10.2 A number of peer councils were contacted to learn from their experiences during similar exercises they had carried out.

10.3 Regular engagement and updates for trade union representatives and staff, both with the Council and with BAMN, have been an important aspect of the project and will continue over the next couple of months to ensure a smooth transition to the new arrangements.

11.0 EQUALITY IMPLICATIONS

11.1 There are no implications under this heading.

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APPENDICES
None

REFERENCE MATERIAL
None

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Leader Decision Report	November 2017

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WIRRAL

Audit and Risk Management Committee
Monday, 23 July 2018

REPORT TITLE:	**INTERNAL AUDIT UPDATE**
REPORT OF:	**CHIEF INTERNAL AUDITOR**

REPORT SUMMARY

This report identifies and evaluates the performance of the Internal Audit Service and includes details of any issues arising from the actual work undertaken during the period 1st March to 31 May 2018. There are 4 items of note concerning audit work undertaken that are brought to the attention of the Members for this period and these are identified at Section 3.2.

RECOMMENDATION

Members note the report.

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION

1.1 To provide the Members with assurance that the Council is taking appropriate measures to ensure that the control environment is effective and to comply with statutory requirements to provide an adequate and effective internal audit service.

1.2 To ensure that risks to the Council are managed effectively.

1.3 To ensure that the Council complies with best practice guidance identified in the CIPFA publication ‘A Toolkit for Local Authority Audit Committees’.

2.0 OTHER OPTIONS CONSIDERED

2.1 No other options considered.

3.0 BACKGROUND AND AUDIT OUTPUT

3.1. Internal Audit operate an effective reporting mechanism for Members of the Audit and Risk Management Committee that summarises audit work completed and identifies issues raised on timely bi-monthly basis. This report supports these arrangements by focussing on the following:

- Any items of note arising from audit work conducted,
- Any issues arising that require actions to be taken by Members,
- Performance information relating to the Internal Audit Service,
- Developments being undertaken to improve the effectiveness of the Internal Audit Service.

The information contained within this report is for the period 1st March to 31st May 2018.

3.2. **Items of Note**

3.2.a Accounts Payable

Members will recall that in 2017 Internal Audit undertook audit work to evaluate the effectiveness of controls in operation over bank mandates following notification of a potential fraud in this area involving a supplier to the Council. Amendments to the processes for changing bank account details on the Accounts Payable (AP) supplier file were identified, and arrangements to further strengthen controls in this area agreed with management. A follow up systems based audit has now been completed to assess the impact of these changes on the system for processing changes to the AP supplier file regarding bank account details.

The findings from the work undertaken indicate that the internal control framework as designed can provide reasonable assurance if agreed working practices are followed at all times. Further opportunities were identified to enhance the framework and a number of recommendations were agreed with the system managers to address the developing threats in this area of operations.

3.2.b Merseyside Pension Fund

A report was recently presented to the Pensions Board summarising the nature and extent of the audit work undertaken at the Fund during 2017/18 and providing opinion as to the adequacy effectiveness of the overall control and governance arrangements in operation. It is pleasing to note that the overall opinion was very positive and acknowledges the robust nature of the arrangements in operation in what is a very high risk area of operations. More details on this can be found in the Chief Internal Auditors Annual report.

3.2.c Wirral Growth Company

During the reporting period Internal Audit have continued to be involved in the Finance work stream relating to the development of the Wirral Growth Company. It is essential that ongoing risks are identified and properly evaluated with a project of this nature and size, and Internal Audit aim to continue to provide ongoing input into this initiative through attendance at work streams, assisting with risk identification, review of development partner's processes and associated testing as works commence.

3.2.d ICT Audit Work

Audit work has been focussed in the following areas this period and upon completion of detailed audits to evaluate and test the effectiveness of controls in operation actions were agreed with management to address a small number of issues identified for improvement:

- IT Equipment Procurement
- Data Centre Security

It is pleasing to note that management response has been immediate with agreed actions implemented. Follow up work will be conducted later in the year to evaluate the impact of actions taken and outcomes reported to this Committee.

3.3 **Outstanding Audit Recommendations**

3.3.a Attached at Appendix 1 is a 'tracker' table identifying information relating to those audits where recommended actions included in audit reports for the current year to date have not been fully implemented within agreed timescales and yet still present a serious risk.

3.3.b Where items are addressed by officers those entries are removed from the report on a rolling basis.

3.3.c All of the reports identifying outstanding actions are currently BRAG rated as ‘amber’ indicating that progress is being made to address identified issues. A report on developments that are currently taking place to improve corporate risk management arrangements is included elsewhere on the agenda for tonight’s meeting.

3.4 **Internal Audit Performance Indicators**

3.4.a The Service constantly evaluates and measures the effectiveness of its performance in terms of both quality and productivity by means of a number of performance indicators in key areas as identified below. These include delivery of the annual Internal Audit Plan and ensuring that all of the audits identified in the plan are completed on schedule. This is particularly important at the present time as the requirement for Internal Audit involvement in a number of important corporate initiatives has increased dramatically.

IA Performance Indicator	Target & (No)	Actual
Percentage delivery of Internal Audit Plan 2017/18.	10	6
Percentage of High priority recommendations agreed with clients.	100	100
Percentage of returned client survey forms for the reporting period indicating satisfaction with the Internal Audit service.	90 (18)	100
Percentage of internal audit reports issued within 10 days of the completion of fieldwork.	100	100

3.4.b There are currently no significant issues arising.

3.5 **Internal Audit Developments**

3.5.a Continuous Improvement

This is important to the overall efficiency and effectiveness of the Internal Audit Service and as such a Continuous Internal Audit Improvement and Development Plan has been formulated that incorporates new and developing areas of best practice from across the profession, ensuring that the service continues to constantly challenge how efficient and effective it is at delivering its service to all of its stakeholders and making any relevant changes and improvements as required. Some of the actions currently ongoing include:

- Ongoing improvement of corporate counter fraud awareness across the Council as evidenced in Counter Fraud Update reports presented to this Committee;
- Continuing development of more automated utilisation and storage of audit working papers and reports to evidence and support audit findings and comply with GDPR;
- Continued ongoing development of the Mersey Region Counter Fraud group led by Wirral Internal Audit to include more joint fraud exercises and training across the local region and the North West of England;
- Completion of self-assessment against QAIP, and reporting to ARMC;
- Continuing development of the Wirral Assurance Map identifying areas of assurance for the Council for utilisation in audit planning process;
- Ongoing improvements to the audit reporting format;
- Improvements to Schools assessment questionnaire incorporating more emphasis on information governance following GDPR;
- Improvements to the audit planning process for 2018/19.

4.0 FINANCIAL IMPLICATIONS

4.1 There are none arising from this report.

5.0 LEGAL IMPLICATIONS

5.1 There are none arising from this report.

6.0 RESOURCE IMPLICATIONS

6.1 There is none arising from this report.

7.0 RELEVANT RISKS

7.1 Appropriate actions are not taken by officers and Members in response to the identification of risks to the achievement of the Council's objectives.

7.2 Potential failure of the Audit and Risk Management Committee to comply with best professional practice and thereby not function in an efficient and effective manner.

8.0 ENGAGEMENT/CONSULTATION

8.1 Members of this Committee are consulted throughout the process of delivering the Internal Audit Plan and the content of this regular routine report.

9.0 EQUALITY IMPLICATIONS

9.1 There are none arising from this report.

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APPENDICES

Appendix 1: Audit Recommendations Status Report

REFERENCE MATERIAL

Internal Audit Plan 2017/18 & 2018/19

SUBJECT HISTORY (last 3 years)

Council Meeting	**Date**
Audit and Risk Management Committee	Routine report presented to all meetings of this Committee.

INTERNAL AUDIT OUTSTANDING AUDIT RECOMMENDATIONS
PERIOD: 01 APRIL 2016 TO 31 MAY 2018

Summary	Total	R	A
1. Completed Audits	1	0	1
2. Follow Up Audits Completed	1	0	1
3. Advice And Guidance / Consultancy	0	0	0

INTERNAL AUDIT OUTSTANDING AUDIT RECOMMENDATIONS
PERIOD: 01 APRIL 2016 TO 31 MAY 2018
1. Completed Audits - RED or AMBER flag

Audit	Date	Business Area	Organisational Risk	Summary of Findings and Conclusions	Total Recs (H,M)	Implementation timescale for all actions Responsible Officer	Status	RAGB Status
Risk Management	13/06/2017	Business Services	Moderate	Risk Management arrangements need to be completed in respect of: - Risk Champions being elected within Business Services and the Strategic Hub - Risk Management arrangements, including the completion and routine review of risk registers, as per the updated Corporate Risk Management policy, should be finalised for each of Strategic Hub, Business Services and Delivery Services; Transformation projects and all Wirral Plan Pledge Strategies.	2 (0,2)	September 2017 Senior Manager Corporate Finance	Recommendations and implementation timescales were agreed at the time of issuing the report. As reported in the 2017/18 Internal Audit Annual report, progress in completing risk registers and assessing risk in a structured way across the various aspects of the Council in 2017/18 has been mixed, with the corporate risk management policy not consistently applied across the Council during 2017/18. Progress is being made with proposals for a planned refresh of the corporate risk management arrangements during 2018/19, and a report on this is being presented to ARMC on 23/07/2018.	A

INTERNAL AUDIT OUTSTANDING AUDIT RECOMMENDATIONS

PERIOD: 01 APRIL 2016 TO 31 MAY 2018

2. Follow Up Audits Completed - RED or AMBER flag

Audit	Follow up date	Original Report date	Audit Area as per plan	Organisational Risk Position as at the date of the original audit	Summary of Findings and Conclusions	Original Total Recs (H,M)	Implementation timescale for all actions Responsible Officer	Status	RAGB Status - Current position	Organisational Risk - Current Position
Grievances 14/15	24/05/2017	Oct 15	Business Services [Human Resources & OD]	Minor	Two recommendations were made which did not present a significant risk to the organisation.	2 (0)	December 2017 Assistant Director - HR/OD	Senior HR Manager confirmed that training has not yet been completed within Children Services due to the department resolving issues from Ofsted report. Training for Children Services is to be included within a programme of personal development to be rolled out by December 2017. Internal Audit are satisfied that this issue was appropriately covered by the head of HR and OD at November's meeting, and will continue to be monitored.	A	Minor

KEY:

Organisational Risk	
MAJOR	A major organisational risk opinion indicates that the likelihood/impact of the risks identified during the review, should they materialise, would leave the Council open to major risk of a fundamental or material nature. This opinion suggests that there are some potentially serious weaknesses in the design and/or operation of the control environment that may have a significant impact on the achievement of systems and or corporate objectives if not addressed.
MODERATE	A moderate organisational risk opinion indicates that the likelihood/impact of the risks identified during the review, should they materialise would leave the Council open to moderate risk of a fundamental or material nature. This opinion suggests that there are some weaknesses in the design and/or operation of the control environment that may have varying degrees of impact on the achievement of the systems and/or corporate objectives.
MINOR	A minor organisational risk opinion indicates that the likelihood/impact of the risks identified during the review, should they materialise, would leave the Council open to minor risk.
NEGLIGIBLE	A negligible organisational risk opinion indicates that there were no weaknesses identified during the review and that the Council is not exposed to any risks directly associated with the findings.

RAGB status		
B	**Audits**	All actions agreed and implemented, with no further Internal Audit action necessary.
	Follow Ups	All actions implemented, with no further Internal Audit action necessary.
G	**Audits**	Most actions agreed and implemented, e.g. low priority recommendations are outstanding, with no further Internal Audit action planned.
	Follow Ups	Most actions implemented, e.g. low priority recommendations are outstanding, with no further Internal Audit action planned.
A	**Audits**	Actions agreed and officers committed to implement within agreed timescale.
	Follow Ups	Actions in process of being implemented within agreed timescale with some implemented.
R	**Audits**	Actions agreed
	Follow Ups	Little or no progress made to implement actions within agreed timescale.

Recommendation Priority Rating	
HIGH	A matter that is fundamental to the control environment for the specific area under review. The matter may cause a system objective not to be met. This needs to be addressed as a matter of urgency (suggested timescale: within one month).
MEDIUM	A matter that is significant to the control environment for the specific area under review. The matter may threaten the achievement of a system objective.
LOW	A matter that requires attention and would improve the control environment for the specific area under review. The matter may impact on the achievement of a system objective.

Audit and Risk Management Committee
Monday, 23 July 2018

REPORT TITLE:	**CHIEF INTERNAL AUDITORS ANNUAL REPORT 2017-18**
REPORT OF:	**CHIEF INTERNAL AUDITOR**

REPORT SUMMARY

The Internal Audit Service plans and completes audits to review all relevant areas of risk.

Reports, including recommendations produced following audits are presented to managers. A summary report is produced annually by the Chief Internal Auditor and an overall opinion provided as to the effectiveness of the Council's control environment.

This report presents the Chief Internal Auditors Annual Report for 2017/18.

RECOMMENDATION

That the report be considered by the Members and noted.

SUPPORTING INFORMATION

1. REASON FOR RECOMMENDATION

1.1 To provide the Members with assurance that the Council is taking appropriate measures to comply with statutory requirements to provide an adequate and effective internal audit service.

1.2 To ensure that risks to the Council are managed effectively.

1.3 To ensure that the Council complies with best practice guidance identified in the CIPFA publication 'A Toolkit for Local Authority Audit Committees'.

2. OTHER OPTIONS CONSIDERED

2.1 No other options considered.

3. BACKGROUND INFORMATION

3.1 The Accounts and Audit Regulations require that a local authority "shall maintain an adequate and effective system of internal audit".

3.2 In order to meet the statutory requirements the Internal Audit Section has conducted audits to review the operation of the internal control systems. The work has been conducted in accordance with professional standards set by the Audit Practices Board, CIPFA and the Chartered Institute of Internal Auditors.

CHIEF INTERNAL AUDITORS ANNUAL REPORT 2017/18

3.3 The attached Chief Internal Auditors Annual Report specifies the Internal Audit assurance opinion on key areas of the Council's activity for 2017/18.

3.4 The audits conducted during the year were principally planned to review the financial control systems in compliance with the requirements of the Accounts and Audit Regulations. However significant attention was also paid to key risks in the following areas:

Performance Management,
Counter Fraud and Corruption
Corporate Governance,
Risk Management,
ICT Systems,
Service Delivery.

3.5 The Audit Plan was compiled on a risk assessment basis that included consideration of the sensitivity and complexity of all risks identified. Client requests, systems being developed and the availability of resources were also other factors also taken into account during the year.

3.6 The Internal Audit Plan for 2017/18 was approved by this Committee in March 2017.

4. FINANCIAL IMPLICATIONS

4.1 There are none arising from this report.

5. LEGAL IMPLICATIONS

5.1 There are none arising from this report.

6. RESOURCE IMPLICATIONS

6.1 There are none arising from this report.

7. RELEVANT RISKS

7.1 Appropriate actions are not taken by officers and Members in response to the identification of risks to the achievement of the Council's objectives.

7.2 Potential failure of the Audit and Risk Management Committee to comply with best professional practice and thereby not function in an efficient and effective manner.

8. ENGAGEMENT/CONSULTATION

8.1 Members of this Committee are consulted throughout the process of delivering the Chief Internal Auditors Annual Report.

9. EQUALITY IMPLICATIONS

9.1 There are none arising from this report.

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APPENDICES

Chief Internal Auditors Annual Report 2017/18

REFERENCE MATERIAL

Internal Audit Plan 2017/18

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Audit and Risk Management Committee	Annual Report

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Chief Internal Auditor’s
Annual Report and Opinion on the System of Internal Control
2017/18

Mark P Niblock
Chief Internal Auditor
Wirral Internal Audit Service

June 2018

CONTENTS

1 Executive Summary

1.1 Introduction

The Public Sector Internal Audit Standards (PSIAS) note that a professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector. The role of the Chief Internal Auditor, in accordance with the PSIAS, is to provide an annual opinion, based upon (and limited to) the work performed, on the overall adequacy and effectiveness of the organisation's governance, risk management, and control processes (i.e. the organisation's system of internal control). This is achieved through a risk based plan of work, agreed with management and approved by the Audit and Risk Management Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described in this report.

1.2 **My Overall Opinion is that**:

On the basis of our programme of work for the year, I can provide good assurance overall that there is a generally sound system of internal control, designed to meet the Council's objectives, and controls are generally being applied consistently.

However some weaknesses in the design and inconsistent application of controls put the achievement of some key objectives at risk. The key governance, risk and internal control issues of which the Chief Internal Auditor was made aware during the year and that impact the overall opinion are included within sections 3 and 4 of this report.

1.3 Basis of the Opinion

My opinion has been based on:

- Our assessment of the governance arrangements;
- Our assessment of the risk management arrangements and the framework of assurance; and
- The outcomes of our risk-based assignments.

1.3.1 Corporate Governance

An assessment of the Council's Code of Corporate Governance was jointly undertaken by Internal Audit and Legal against the CIPFA/SOLACE Good Governance Framework (2016 edition). Overall design of controls was seen to be satisfactory and compliant with the requirements of the framework. As part of the assessment the Code has been reviewed and refreshed and is due to be presented to the Audit and Risk Management Committee in July 2018 for approval.

Internal Audit has standing membership on the Corporate Governance Group and uses this to raise governance issues highlighted in Internal Audit reports, as well as reviewing evidence of the progress being made in respect of Significant Governance Issues highlighted in the Annual Governance Statement.

1.3.2 Risk Management Arrangements

During the year, an updated Risk Management policy was approved by Cabinet. In accordance with the Policy, the Corporate Risk Register is populated with risks to the achievement of the Council's corporate objectives, and each risk is allocated to a responsible Lead Officer. The highest rated ("red") risks, and changes to the risk ratings are considered regularly by the Strategic Leadership Team; and the Audit and Risk Management Committee also receives regular reports on risk.

The corporate Risk Management policy envisages risk management arrangements to be in place for the Strategy, Delivery and Business Support hubs, Wirral pledges, and key Transformation and other projects. Progress in completing risk registers and assessing risk in a structured way across the various aspects of the Council in 2017/18 has been mixed and the corporate risk management policy has not been consistently applied and embedded across the Council. In recognition of the risks and challenges facing the Council and feedback received from various parties including ARMC, on aspects of the Council's current arrangements, the Council's Senior Risk and Insurance Officer has reported to the SLT on proposals for a planned refresh of the corporate risk management arrangements. Progress is being made to take forward these proposals and Internal Audit will continue to monitor and support the development of the refreshed risk management arrangements.

1.3.3 **Framework of Assurance**

The Corporate Governance Group now chaired and supported by the Director for Governance and Assurance , a member of the Strategic Leadership Team, met regularly during 2017/18 to demonstrate how assurance is provided to the Chief Executives Strategic Leadership Team and the Audit and Risk Management Committee. Regular updates were provided to this group during the year on all of these key assurance components and action plans covering key areas for development and improvement monitored. This included the comprehensive action report covering the Significant Governance Issues arising from the 2016/17 Annual Governance Statement and on which significant progress has been made.

1.3.4 **Risk Based Assignments**

Arising from the agreed plan of work a total of 93 individual assignments including reports, actions plans, briefing notes and memos have been issued. The work undertaken contributes to my overall opinion on the control environment.

Opinions provided in audit reports produced during 2017/18 are very similar to the previous year when making a direct comparison, with slight increases in the number of audits identifying 'Major' and 'Moderate' risk opinions possibly reflecting the current challenging nature of the public sector landscape. The modest nature of these increases does not at this moment in time present any cause for concern and is counteracted to some degree by the increase in those audits identifying 'Negligible' opinions and reflecting strong control environments. The vast majority of the opinions provided remain within the 'Minor' and 'Negligible' risk categories, and the underlying message certainly suggests that there remains an awareness and understanding amongst officers and management of the need for robust systems of control and governance across the organisation.

1.3.5 Key Control Developments in year that support the Opinion

There have been a number of significant improvements to the organisation's governance and control environment during the year in the following areas that have reduced the Council's exposure to controllable risk:

Constitution and Scheme of Delegation reviewed and updated;
Senior Management Appointments/Restructuring;
Code of Corporate Governance assessment/development;
Ongoing Risk Management improvements;
Enhanced Stakeholder engagement;
Updated Contract Procedure Rules;
Implementation of formal constituted Project Boards;
Improved Whistleblowing arrangements.

2. Introduction

UK Public Sector Internal audit Standards (PSIAS) 2013

The Public Sector Internal Audit Standards (PSIAS) note that a professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector. The role of the Chief Internal Auditor, in accordance with the PSIAS, is to provide an annual opinion, based upon (and limited to) the work performed, on the overall adequacy and effectiveness of the organisation's governance, risk management, and control processes (i.e. the organisation's system of internal control).

The CIPFA Statement on the role of the Head of Internal Audit (Chief Internal Auditor) in Local Government issued during 2013 noted that the Head of Internal Audit in a local authority plays a critical role in delivering the authority's strategic objectives by:

- Championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and
- Giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.

3. Assurance

3.1 Roles and Responsibilities

The Council is accountable collectively for maintaining a sound system of internal control and is responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system.

The Annual Governance Statement (AGS) is an annual statement by the Council setting out:

- How the responsibilities of the Council are discharged with regard to maintaining a sound system of internal control that supports the achievement of policies, aims and objectives;
- The purpose of the governance arrangements as evidenced by a description of the risk management and review processes; and
- The conduct and results of the review of the effectiveness of the system of internal control including any disclosures of significant control failures together with assurances that actions are or will be taken where appropriate to address issues arising.

The Council's framework of assurance should bring together all of the evidence required to support the Annual Governance Statement.

The role of the Chief Internal Auditor (CIA), in accordance with the CIPFA Code and the new Public Sector Internal Audit Standards (PSIAS), is to provide an annual opinion, based upon (and limited to) the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes i.e. the organisation's system of internal control. This is achieved through a risk based plan of work, agreed with management and approved by the Audit and Risk Management Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below.

The opinion does not imply that internal audit have reviewed all risks and assurances relating to the Council. The purpose of the opinion is to contribute to the assurances available to the Council which underpin the Council's own assessment of the effectiveness of the organisation's governance arrangements and system of internal

control. My opinion is one component that the Council takes into account in compiling its Annual Governance Statement. In particular, apart from the overall opinion, where ‘Major’ or ‘Moderate’ organisational risk opinions have been issued against individual audits, then the Council should assess whether or not the sources of those opinions and subsequent actions taken to address issues necessitate the need for a disclosure of a significant issue.

3.2 Chief Internal Auditors Opinion

My overall opinion is that:

On the basis of our programme of work for the year, I can provide good assurance overall that there is a generally sound system of internal control, designed to meet the Council’s objectives, and controls are generally being applied consistently.

However some weaknesses in the design and inconsistent application of controls put the achievement of some key objectives at risk. The key governance, risk and internal control issues of which the Chief Internal Auditor was made aware during the year and that impact the overall opinion are included below.

3.3 Basis of the Opinion

The basis for forming my opinion is as follows:

- An assessment of the Code of Corporate Governance and its operation including underpinning processes;
- An assessment of the risk management arrangements and the framework of assurance; and
- An assessment of the range of individual opinions arising from risk based audit assignments, contained within the internal audit risk based plan that have been reported throughout the year. This assessment has taken account of the relative materiality of these areas and management’s progress in respect of addressing control weaknesses. A number

of reports have identified major or moderate organisational risks opinions during the year however all of these reports have recommended actions which when implemented will reduce the level of risk to the organisation. Internal Audit perform work to gain assurance that the recommendations have been implemented and report the findings to the Strategic Leadership Team and Audit and Risk Management Committee Members bi-monthly; and progress to date in year is good.

Corporate Governance

3.3.1 The Code of Corporate Governance

An assessment of the Council's Code of Corporate Governance was jointly undertaken by Internal Audit and Legal against the CIPFA/SOLACE Good Governance Framework (2016 edition). Overall design of controls was seen to be satisfactory and compliant with the requirements of the framework. As part of the assessment the Code has been reviewed and refreshed and is due to be presented to the Audit and Risk Management Committee in July 2018 for approval. The Code is publicised on the Council's Intranet and available for reference via the Council website.

Internal Audit has standing membership on the Corporate Governance Group and uses this to raise governance issues highlighted in Internal Audit reports, as well as reviewing evidence of the progress being made in respect of Significant Governance Issues highlighted in the Annual Governance Statement.

Progress has been made during the year to address the Significant Governance Issues highlighted in the Annual Governance Statement (AGS) 2016/17 as outlined in the following section. There remains one Significant Governance Issue that is reported in the 2017/18 AGS and will be actively addressed in 2018/19.

3.3.2. **Significant Governance Issues**

Compliance with Council Policy

The 2016/17 AGS included three Significant Governance Issues in respect of compliance with Council Policy and procedure:

- Absence Management

  Absence management remained a governance issue throughout 2017/18 with reported concerns relating to consistent compliance with corporate policy and procedure and effective utilization of the Council's Selfserve system. However senior management have taken steps to attempt to address this problem and a revised and updated action plan for attendance management was agreed by SLT and is being implemented. Incorporated within this are a series of actions aimed at improving and developing effective control over absence. Actions include the production of a new suite of management information reports that have been developed to support the management of absence and these have improved management oversight. Specific areas have been identified for targeted action by service managers supported by HR and a system of regular case conferences are now in place to ensure that issues are being managed in accordance with policy. Training for line managers is currently being rolled out, starting with managers in identified 'hotspot' areas. It is recognised that it will take time for significant improvement to be evidenced in overall absence management performance indicators, although absence levels are in line with comparator organisations. Recent initiatives have already seen some success in resolving some of the longest term cases. There is also evidence that cases are being progressed through the stages of the absence procedure quicker.

- Training

  Action has been taken by the organisation during 2017/18 to improve completion rates for essential training and by 31 March 2018, completion rates for the two essential training (e-learning) modules, were 86.7% and 84.6% respectively. Going forward, strategic training and development issues will be addressed through the People Strategy and Organisational Development Plan.

- <u>Contract Procedure Rules</u>

  A full review of the CPR's has been undertaken as required every two years. Recommendations for amendments were presented for Member approval at the March 2018 ARMC. The recommendations further enhance and support compliance. The Use of Procurement Rules Approval Documents (PRAD) is reported on a six monthly basis to ARMC. The new Corporate Procurement Structure has been finalised and came into operation, subject to the consultation and recruitment process, from April 2018.

It is commendable that targeted actions taken in year by senior management have clearly improved arrangements across the areas identified however the findings from recent audits undertaken indicate that overall corporate compliance with policy and procedure remains inconsistent across the Council and suggests that more work is required by senior management in this area including more activity to strengthen accountability for non-compliance. Senior management acknowledge this and are currently taking the necessary steps to address this issue, including the establishment of a sub group of the Corporate Governance Group tasked with improving corporate compliance across a number of different disciplines. Internal Audit are members of this sub group and will have direct input to developments in this area. In addition audit work is scheduled for later in 2018/19 to assess progress in this area and undertake targeted testing as appropriate.

ICT Business Continuity Planning

Concerted actions undertaken by the Council in year have improved operational arrangements in this area and ensured that Business Continuity plans are now in place for all identified critical services and are stored electronically on the secure Cabinet Office hosted website. All plans have been subject to a walkthrough exercise with the Business Continuity & Environment Officer supported by a representative from Digital.

ICT Resilience Planning

The significant corporate risk of having two data centers in the same building has been addressed with all production services now running from Georges Dock in Liverpool. The review of disaster recovery capabilities in the Treasury Building was completed by end of April 2018, marking the closure of the project.

Children's Services

There is ongoing action to address significant issues of concerns raised in the Ofsted inspection in July 2016 which provided an overall opinion that arrangements in place for Children's Services in Wirral were inadequate. In response to the Ofsted findings good progress is being made to ensure that the Improvement Plan is being delivered with oversight being provided by the independently chaired Improvement Board. The Board convenes monthly to consider progress against the Ofsted recommendations and monitor the impact of the delivery of the improvement plan. Ofsted monitoring visits occur at three monthly intervals providing independent oversight of progress. Additional oversight for the improvement plan is provided by the Council's Children and Families Overview and Scrutiny Committee.

More detail on this is provided in the Annual Governance Statement for 2017/18.

3.3.3 **ICT Governance**

Internal Audit have undertaken a full programme of risk based work in this area during 2017/18 identifying and evaluating key system controls for effectiveness and efficiency, some of the work undertaken includes the following:

Equipment Acquisitions and Disposal

Security

Disaster Recovery and Continuity

Records Management

One of the key risks identified related to data being maintained on the Councils shared drive, this issue has now been discussed at Information Governance Delivery Group (IGDG) and escalated to the Strategic Leadership Team for action. As a direct result of this a specific project is being overseen by the Transformation Team to identify and implement necessary actions to mitigate all key risks in this area.

A further piece of audit work undertaken in year involved identification and evaluation of key risks in place to mitigate Cyber threats. A key action area arising from this work was for Digital to develop and utilise an IT Risk Register which has now been developed and captures all risks associated with this type of threat. The process of managing and maintaining ICT equipment can however be better controlled, this has been acknowledged by Digital who have recently had agreement from SLT to centrally control the ICT equipment budget which should improve control arrangements in this area. Internal Audit will continue to meet with the Head of Digital on a monthly basis during 2018/19 to ensure that any outstanding actions arising from completed audit work are addressed in a timely fashion.

Internal Audit are now a member of the newly formed Technical Design Authority whose role is to approve the technical design of new systems, ensure systems are future proofed and projects are prioritised We will continue to provide an independent objective opinion on risks and controls matters that may arise.

3.3.4 **Information Governance**

Internal audit remains an active participant on the Information Governance Delivery Group who are overseeing the implementation of actions to ensure compliance with the new General Data Protection Regulations, with progress by the Council being made. Information Governance remains a developing area and a number of recommended actions still require some attention however. It should be noted that one of the key actions related to the appointment of a permanent Senior Information Risk Officer and It is pleasing to note that this particular issue has now been addressed and related actions to improve arrangements are in hand. To support this the Information Governance Policy was updated during the year and this should help facilitate necessary improvements and ensure ongoing compliance with the legislation. In addition, progress on implementing the Information Commission Officers (ICO) recommendations is regularly reported to the IGDG who are overseeing required actions in this area. Internal Audit are scheduled to undertake targeted reviews during 2018/19 evaluating evidence of implementation of high risk actions identified.

Our review of Information Assets owners identified that a comprehensive Information Asset Register has now been developed by the Council in line with GDPR and will remain a key repository of the Authority's data systems and asset owners. In the future it is anticipated that this will become a working document. The audit work identified actions specific to Information Asset Owners, mainly regarding their understanding of their roles and responsibilities and specifically the identification of key information risks and we are assured that this is being addressed, although some slight concerns remain regarding the resources available to implement all of the requirements in a timely manner. Internal Audit will continue to meet with the Information Governance & Security Officer on a monthly basis to discuss progress on this as well as any emerging risks.

3.3.5 **Risk Management Arrangements/Assurance**

Corporate risk management arrangements are well established, including the corporate Risk Management Policy and Corporate Risk Register. An update to the Council's Risk Management Policy was approved by ARMC in November 2017 and formally adopted by Cabinet on behalf of the Council in November 2017.

The Internal Audit input during 2017/18 has focussed on liaising with the Council's Senior Risk and Insurance Officer (SRIO) to track progress with the implementation of recommendations from the 2016/17 review, and monitoring, and supporting, where able, The Council's plans to further develop the existing arrangements.

The main recommendation from the 2016/17 review was to finalise risk management arrangements, including the completion and routine review of risk registers, as per the updated Corporate Risk Management policy, for each of the following:

- Strategic Hub, Business Services and Delivery Services
- Transformation projects
- All Wirral Plan Pledge Strategies.

Progress in completing risk registers and assessing risk in a structured way across the various aspects of the Council in 2017/18 has been mixed. There are examples where risk registers were completed and used during 2017/18; these include for example for Delivery services, the Customer Experience programme within Transformation and for some Wirral Plan pledges. The corporate Risk Management policy however has not been consistently applied and embedded across the Council during 2017/18.

The other recommendation from the 2016/17 review was to appoint Risk Champions for each department. This has been addressed as part of the current refresh of the Council's risk management arrangements.

In recognition of the risks and challenges facing the Council and feedback, including from ARMC, on aspects of the Council's current arrangements, the SRIO has reported to the SLT on proposals for a planned refresh of the corporate risk management arrangements. Proposed initiatives include:

- Improved reporting to and management of the Corporate Risk Register at SLT and Cabinet. Proposals include a monthly SLT review, based on a new performance dashboard, and arrangements for escalation and de-escalation of risks from / to service registers (this will require up to date and comprehensive risk registers for all service plans and programmes to be available to inform regular reporting to SLT);
- The production of a revised corporate risk register;
- Improved accountability, with senior officers subject to quarterly review by the Corporate Director for Business Management;
- An improved focus on operational risk;
- Enhanced capacity including identifying officers support from within each functional area of the Council;
- New reporting arrangements, across officer and Member groups, and;
- Additional training and development opportunities.

Progress is being made to take forward these proposals. Action to date includes:

- An initial SLT discussion of the context of strategic risk management at Wirral. This was facilitated by the Council's risk and insurance providers. It is envisaged that a further workshop will be held in the near future to agree the strategic risks facing the Council and next steps to strengthen the Council's risk management arrangements;
- The drafting of proposals on the monitoring of key operational risks for consideration by SLT;
- Service plans are in the process of being finalised, with close links to the risk context for services.

Internal Audit will continue to monitor and support the development of the refreshed risk management arrangements that will include targeted work in key areas during 2018/19.

3.3.6 Risk-Based Assignments

This element of the opinion is based on an assessment of the range of individual opinions arising from risk based audit assignments, contained within the internal audit plan that have been reported throughout the year. On 14 March 2017 the Annual Internal Audit Plan was agreed by the Audit and Risk Management Committee. During the year regular updates including any necessary changes to the plan were reported to, and agreed by, the Audit and Risk Management Committee. Arising from the agreed plan of work a total of 93 reports, action plans, memos and briefing notes have been issued. All of the work undertaken contributes to my overall opinion on the control environment; all of the reports issued contained a formal organisational risk opinion and have informed the opinion in this report. This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses. The Outcomes and Effectiveness sections of this report give fuller details of:

- Performance against plan;
- Unplanned work undertaken;
- Key points arising where our organisational risk opinion was 'major'; and
- Follow up work undertaken.

3.3.7 Fundamental Financial Systems

This work focusses on the control arrangements within the council's core financial systems to assess whether they are adequate to allow the council to conduct its business appropriately. The work provides the Section 151 Officer with a key element of assurance that the council has effective arrangements for the proper administration of its financial affairs.

We have continued to develop and utilise a suite of Computer Assisted Audit Techniques (CAATs) that enable us to test whole databases wherever possible as well as samples of individual transactions. It is used to support the work of External Audit in their review of the Statement of Accounts and significantly informs the Chief Internal Auditor's opinion.

The work completed within each core financial system was focused on emerging risks within the area of operation where these were identified. i.e. new legislation, staffing restructures and reorganisations. An audit of Capital Financing was completed having been brought forward into the Internal Audit Plan from 2016/17 following a re-evaluation of risk and the available resources during the year. A summary of the opinions from these audits completed in the year are identified below:

Audit	Organisation Risk
Accounts Payable – Bank Mandates	Moderate
Accounts Receivable – System Overview	Negligible
Benefits – Discretionary Housing Payments	Minor
Benefits – Subsidy Claim	Negligible
Capital Financing – Strategy & Programme	Moderate
Financial Accounting – International Auditing Standards	Negligible
Financial Management – Public Liability Claim	Minor
Income Control	Minor
Payroll – Teachers Pension Enhancement	Moderate
Payroll – IR35 (Deemed Employment)	Negligible
Revenues - Council Tax - Recovery	Moderate
Revenues - Non-Domestic Rates – Credits & Refunds	Negligible

3.3.8 **Merseyside Pension Fund**

Given the complex nature of the Local Government Pension Scheme (LGPS) operations and the materiality of the finances involved, its inherent risk level is significant. The delivery of the internal audit function to the Merseyside Pension Fund (MPF) by the Wirral Internal Audit Service has been developed and mutually agreed via a service level agreement (SLA). The purpose of the SLA is to formalise the audit relationship; clarify responsibilities and obligations on both sides; and embed positive practices. The SLA has now been operational for five years and has enhanced the effectiveness of the Internal Audit Service to MPF, who have provided very positive feedback on the assurance work undertaken.

In line with the Society of County Treasurers report *'Good practice guidance: gaining assurance over the governance and administration of pension funds, and pension fund investment management – a guide for the internal auditor'*, the Internal Audit Service aim to review all expected controls in relation to; governance and strategy; pensions administration; and investments on a cyclical basis over a three year period. This coverage allows the Internal Audit Service to provide an opinion on the adequacy and effectiveness of the organisation's control environment. The Internal Audit Plan is set through discussions with the MPF Management Team to deliver pension and investment audits taking into account the key risks facing the Pension Fund. The approved programme of audits for 2017/18 included some assurance work on systems under development at the Fund which was undertaken at the request of the Fund Operating Group (FOG). A summary of the opinions from the programme of completed audits is provided below:

Audit	Organisation Risk
Governance Review	Minor
Debtors Recovery	Minor
Employer Covenants	Negligible
Retirement Benefits Payments	Negligible

A significant and high level audit review was conducted to evaluate the effectiveness of the governance arrangements of the MPF. The audit programme was produced by reference to the CIPFA / SOLACE 'Delivering Good Governance' (2016) guidance. Large elements of the review focused on the developing governance arrangements in respect to the formation of the Collective Asset Pool called the 'Northern Pool' primarily due to the significant inherent risks associated with this initiative. Pooling will result in fundamental changes to oversight and management of LGPS assets and it is essential that appropriate governance arrangements are put in place to ensure that Pensions Committee can exercise its responsibilities in accordance with the Council's constitution. The review identified systems and processes that consistently demonstrate effective compliance with the principles of good governance and that the Fund fully complies with the best practice guidelines on governance issued by the Department for Communities and Local Government (DCLG) as reported within the MPF Governance Policy.

An audit was conducted to review the effectiveness of the MPF Debt Recovery system. The conclusion drawn from the work carried out is that MPF have appropriate working practices and systems in place to identify and collect monies due for the services provided outside of the Council's Oracle Accounts Receivable system, but there are opportunities for improvements and recommendation agreed with management.

An audit was conducted to review the effectiveness of the employer covenant arrangements for the MPF. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces and influences the funding strategy, pace of recovery of deficit and required collateral. This review concluded that the MPF systems and processes for assessing and monitoring the employer covenants comply with the approved policy within the Funding Strategy Statement and the regulatory guidance issued by the Pensions Regulator.

As in previous years, the review of the Benefits system focused on providing assurance on the validity and accuracy of a sample of retirement benefits payments. Detailed compliance testing on a pre-selected sample of members was carried out in order to evaluate the effectiveness of the key controls identified, in a manner that could be relied upon by the external auditors for MPF, Grant Thornton. The conclusion drawn from the work carried out is that there is a satisfactory audit trail - from an individual becoming a member of the scheme, through their service history, to the request to process a benefit crystallisation event – for the retirement benefits calculation. Reasonable assurance can be placed that the immediate and recurring financial transactions for the sample tested are valid and accurate for all members, as the calculations made for retirement benefit and new payroll payments are correct, within a tolerance of +/-1%.

The overall assessment of the MPF systems based on the audits completed found there is a sound system of control in place, those controls are consistently applied and fully effective and no significant weaknesses were identified. The MPF Management Team continues to ensure identified risks are effectively managed and the recommendations emanating from the audit work are consistently and effectively implemented within the agreed timescales. This conclusion was reported directly to the Local Pensions Board on the 13th June following a request by the MPF Management Team for an independent annual report to be produced and presented to demonstrate transparency and further enhance good governance at the Fund.

3.3.9 **Legislative Compliance**

Under the Local Planning Act 2004 Councils are required to have a clear local plan for development in place that identifies those areas that are protected and those that are earmarked for development for commercial and housing use. Wirral, whilst having undertaken work in this area over previous years currently does not have a fully finalised and approved local plan in place. I am aware however that actions are in progress and that a report is scheduled for presentation at Cabinet during July 2018 on this matter. It is vital that progress is made with some urgency if the Council is to avoid the potentially significant risks of not achieving its stated objectives in this area as well as possible Government intervention by the Secretary of State. Senior management and Members should continue to take all necessary steps with some urgency to ensure that this situation is resolved within agreed timescales.

3.3.10 **Key Control Developments In Year**

- From discussions with partners and commissioners it is evident that, for many of the Wirral Plan partnerships, there has been further improvement in the effectiveness of partnership working, with partnerships generally reflecting a well-co-ordinated approach, strong communication between partners and commissioners, a clear understanding of pledges and strategies and robust arrangements for the monitoring and delivery of outcomes. In addition, the Wirral Together initiative is scheduled for launch in 2018/19 which should further improve arrangements in this area;
- The organisation has updated its Corporate Risk Management Policy. The Corporate Governance Group, the Strategic Leadership Team and the Audit and Risk Management Committee regularly and routinely consider reports on risk, in accordance with the Risk Management Policy;

- Some risk registers have been reviewed and refined to ensure that they reflect the critical risk issues that the organisation currently faces;
- Enhanced engagement with all stakeholders including the Council's budget consultation;
- The Councils Constitution and Scheme of Delegation has been reviewed during the year and amendments approved through full Council or Standards and Constitutional Oversight Committee to ensure continued ongoing fitness for purpose;
- All Internal Audit reports issued with a major or moderate organisational risk opinion in 2017/18 have had follow up work undertaken, in line with agreed timescales, and significant improvements have generally been made in these areas, with any exceptions reported to ARMC;
- A comprehensive Performance Management Framework continues to operate, supported by robust systems and processes (although scope exists for additional steps to be taken to further enhance these processes to assure the robustness of data quality);
- Whistleblowing arrangements across the Council have improved with the quality of record keeping, ongoing communication with whistleblowers and evidence trails particular examples of good practice;
- The establishment of formal boards, properly constituted and comprising officers from multiple disciplines to oversee transformation and commissioning projects eg: highways maintenance and travel assistance is a significant improvement;
- Key improvements in year to the Liquidlogic system should ensure that any potential risks regarding Children's Services payments are significantly reduced in the future;
- The introduction of an annual internal audit report and opinion and quarterly updates for the Pension Fund Board and Pensions Committee during the year should enable more effective scrutiny by these bodies in fulfilling their respective roles;
- Reviewed and Updated Code of Corporate Governance and Contract Procedure Rules;
- The establishment of an Investment and Change Board to oversee co-ordination and appropriate governance for all of the Council's regeneration, investment and major change programmes;
- The completion of a financial resilience review in light of recent national commentary on the sustainability of council financing and reserves.

4. Audit Outcomes 2017/18

4.1 Assurances Issued During 2017/18

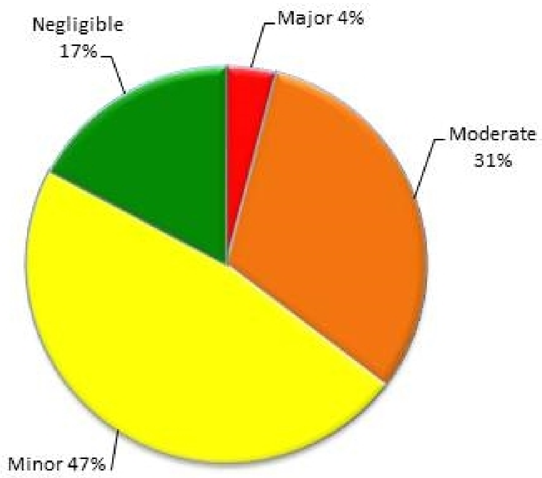
My opinion has taken account of the relative materiality of areas reviewed and management’s progress in respect of addressing control weaknesses. Whilst all audit outcomes have contributed to the overall opinion, the following reviews and their outcomes are considered particularly relevant in determining my overall opinion.

4.2 Audit Opinions Provided

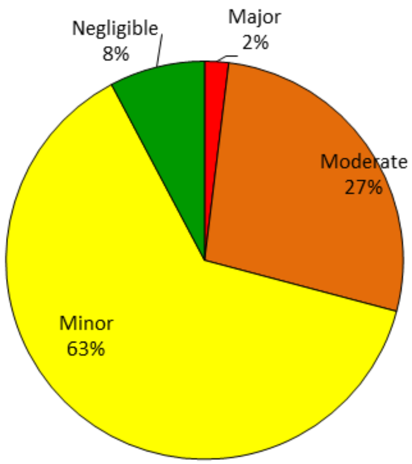
The charts below illustrate the organisational risk opinions provided in audit reports produced during 2017/18 and the previous year 2016/17. These opinions identify the risk to the organisation of the audit findings taking account of the impact and likelihood of occurrence with ‘Major’ being the most significant and ‘Negligible’ presenting the least risk opinion to the organisation.

It is notable that opinions provided in audit reports produced during 2017/18 are very similar to the previous year when making a direct comparison, with slight increases in in the number of audits identifying ‘Major’ and ‘Moderate’ risk opinions possibly reflecting the current challenging nature of the public sector landscape. The modest nature of these increases does not at this moment in time present any cause for concern and is counteracted to some degree by the increase in those audits identifying ‘Negligible’ opinions and reflecting strong control environments. The vast majority of the opinions provided remain within the ‘Minor’ and ‘Neglible’ risk categories, and the underlying message certainly suggests that there remains an awareness and understanding amongst officers and management of the need for robust systems of control and governance across the organisation.

2017/18



2016/17



These opinions are explained in more detail below:

4.2.1 **Negligible Organisational Risk Opinion**

A Negligible organisational risk indicates that there were no weaknesses identified during the audit review and that the Council is not exposed to any risks directly associated with the findings. This opinion was provided for the following audits:

Accounts Receivable
Anti-Bribery Policy
Brackenwood Junior School
Bus Subsidy Grant
Elleray Park School
HMRC - IR35
Housing Benefit Subsidy Claim 2016/17
International Auditing Standards
Leasowe Primary School
MPF Benefits Payable
MPF Employer Covenants
NDR - Credits & Refunds
Selective Licensing
St Annes Catholic Primary School
St Peters Catholic Primary School (B'Head)

4.2.2 **Minor Organisational Risk Opinion**

A Minor organisational risk indicates that the likelihood/impact of the risks identified during the review, should they materialise, would leave the Council open to minor non fundamental or material risk. This opinion was provided for the following audits:

Advantage Digital Portal
Anti Fraud and Corruption Policy

Bidston Avenue Primary School
Bidston Village Primary School
Council Tax - Recovery
Counter Fraud and Corruption Strategy
CRC Testing
Devonshire Park Primary
Discretionary Housing Payments
Dock Bridges Grants
Fraud Response Plan
Gayton Primary School
Greasby Infant School
Greasby Junior School
Highways Assets
Income Control
Insurance - In-House Handling of Public Liability Claims
Intensive Housing Management
Irby Primary School
IT Equipment Procurement
Leisure Petty cash
Manor Primary School
Mersey Regional Fraud Group
MPF Debt Recovery Review
MPF Governance Review

National Fraud Initiative Co-ordination & Monitoring
National Fraud Initiative Reporting
Performance Management
Public Fraud Awareness Campaign
Scrutiny Function
Serious Organised Crime Audit
St Andrews CE Primary School
St Josephs Catholic Primary School (Upton)
St Werburgh's Primary
STEP Grants Q1
STEP Grants Q2
TF Claim Certification 1
TF Claim Certification 2
The Priory Parish CE Primary School
Whistleblowing
Wirral Growth Company
Woodchurch CE (Aided) Primary School

4.2.3 **Moderate Organisational Risk Opinion**

A Moderate organisational risk opinion indicates that the likelihood/impact of the risks identified during the review, should these materialise, would leave the Council open to a moderate risk of a fundamental or material nature. This opinion suggests that that there are some weaknesses in the design and/or operation of the control environment that may have varying degrees of impact on the achievement of systems and/or corporate objectives. This opinion was provided for the following audits:

Accounts Payable Bank Mandates
Annual Governance Statement Review
Anti Bribery Policy
Bank Mandate - Identity Fraud Review
Capital Financing
Car Parking
Court of Protection
Cyber Risk Management
Data Quality - Childrens Dashboard
Digital Information Storage
Direct Payments - Adults
Direct Payments - Children
Ethical Framework
Floral Pavilion
GDPR
Golf Course Operation
Highway Service Contract
IT Equipment Disposal
Liquidlogic
Partnerships
Planning Approvals
Risk Management
Social Care Integration
Social Care Integration - Integrated Commissioning Hub
Social Care Transformation - Transfer to Community Trust
Strategic Alignment
Teacher Pension Enhancements
Wirral Tennis & Sports Centre

4.2.4 **Major Organisational Risk Opinion**

A Major organisational risk opinion indicates that the likelihood/impact of the risks identified during the review, should these materialise, would leave the Council open to a major risk of a fundamental or material nature. This opinion suggests that that there are some potentially serious weaknesses in the design and/or operation of the control environment that may have a significant impact on the achievement of systems and/or corporate objectives if not addressed.

The schedule below identifies those reports produced during the year that contained 'Major' organisational risk opinions. In all cases management action to address reported weaknesses was agreed and appropriate actions either taken or started during the year as indicated.

Audit	Outcome
Access Wirral Transformation Project	Following an audit review undertaken at the request of the Corporate Director for Business Management a number of actions were agreed with management to significantly develop and improve the control environment in operation that included the following: - Improved and more timely reporting to Business Overview and Scrutiny Committee. - The development of more robust processes for verifying the technical validity of projects. - Improved communications regarding roles and responsibilities. - Project wide lessons learned exercises to be routinely completed. - Robust risk management processes to be established for all projects. A detailed action plan has been agreed with senior management and implementation is underway with all actions either implemented or in progress. Internal Audit are scheduled to undertake follow up work during 2018/19 to ascertain progress being made to address identified issues and evaluate effectiveness of revised arrangements.

Attendance Management	Issues identified during audit reviews of Attendance Management have been escalated for inclusion within the Significant Governance Issues Action Plan and actions in this area subject to oversight by the Corporate Governance Group as well as ongoing reporting to the Strategic Leadership Team and the Audit and Risk Management Committee. Targeted actions have been taken during the year to address reported issues and improvement has been made, as identified in Section 3.3.2 of this report. Follow up work conducted by Internal Audit late in the year indicates that whilst much improvement has been made their remains work to be undertaken by the organisation to ensure that corporate compliance with policy and procedure is consistent across the whole of the organisation. Senior management are currently taking actions to address this and further audit follow up work is scheduled for 2018/19 to evaluate progress made.
Information Asset Owners Accountability	The audit review identified a number of areas of weakness in compliance with the Data Protection Act, the General Data Protection Regulations and Data Handling Guidelines in the following areas: • Clarity regarding roles and responsibilities of designated Information Asset Owners (IAO); • Senior Information Risk Officer (SIRO); • Information Risk Register; • Documented judgement on security and use of business assets. Following the audit and escalation of this matter to SLT and ARMC appropriate actions are being undertaken by senior management to address the weaknesses identified that have already included the appointment of a permanent Senior Information Risk Owner (SIRO). Internal Audit are scheduled to undertake further work in this area during 2018/19 that includes an assessment of progress made.
Overpayments To Carers	An audit review of the payments of Special Guardianship Orders resulted in a major organisational risk opinion as system weaknesses were identified allowing overpayments to be made to carers, specifically due to originally assessed valid payments not ceasing at the due date entitlement ended. Follow up work during the year has provided evidence that key improvements have been made within the Liquidlogic system which now flags in advance a warning to managers that entitlement is to cease, and this is considered to effectively reduce the risk of any recurrence of the previous overpayments situation.

4.3 Additional Work during 2017/18

Additional work by internal audit during the year has included involvement in investigation work, input to developing systems and a separate programme of work for Counter Fraud, including strategy development and raising awareness.

4.3.1 Counter Fraud

The Internal Audit Counter Fraud Team has continued to chair and co-ordinate the activities of the Mersey Region Fraud Group (MRFG), which consists of a number of neighbouring authorities and partner organisations. The group is still committed to developing a regional approach to counter fraud and much work has been undertaken during the year to facilitate this, including the production of generic policies and procedures and undertaking collaborative working in targeted areas, such as data matching and other counter fraud exercises.

To ensure that the Council continues to maintain a strong awareness of the threats posed by fraud and demonstrates a commitment to combatting this type of activity the Team has during the year produced the Council's Counter-Fraud and Corruption Strategy, which clearly identifies the Council's commitment to an effective Counter-Fraud and Corruption approach as part of its overall Corporate Governance arrangements. The Strategy outlines the principles that the Council is committed to in preventing and reporting fraud and corruption.

In addition the team has reviewed and amended the following policy documents during the year, which form an important part of the Counter-Fraud and Corruption Strategy by setting the tone, culture and expectations of the Council, as part of the corporate framework:

- Anti-Fraud and Corruption Policy -
- Fraud Response Plan
- Anti-Bribery Policy

These Counter-Fraud and Corruption documents as well as the various related Strategies and Policies were promoted across the Authority and are now identified as key documents that all employees are required to read on an annual basis, as part of one to one or performance appraisal meetings.

The team continues to maintain the fraud register which is used to collate details of all reported fraudulent activity across the Council, whether investigated by the Counter Fraud Team or by the relevant department. This facilitates the completion of the CIPFA Fraud and Corruption Tracker, which is coordinated by the Team on behalf of the Council. The information contained within the register has been used to identify potential weakness and areas that may be susceptible to increased attempts of fraud and as such where Counter Fraud resources need to be directed.

The Team coordinated its annual week long Public Fraud Awareness Campaign in November 2017, in collaboration with the Fraud and Compliance Team, Insurance & Risk, Publicity and other neighbouring authorities. The aim of the exercise was to raise public awareness of fraud and encourage Wirral Residents/Businesses to help spot and report fraud - *"Spot it and Stop it".* The campaign involved posters and leaflets in Council run public buildings, advertisements in the local media and messages on the Council's Website, Facebook/Twitter pages.

The Counter Fraud Team also provide advice and guidance to departmental officers investigating suspected frauds and irregularities in cases where these are investigated within the department. The last year has seen an increase in the number of referrals from Departments as the profile of the team has continued to rise and become more widely known to management of the Council.

4.3.2 **CIPFA Fraud and Corruption Tracker (CFaCT)**

In June 2017 CIPFA's CFC carried out an annual survey of fraud and corruption detected in local authorities in England. The survey includes questions commissioned by the Fighting Fraud Locally Board and the Home Office, to provide a picture of the amount of detected fraud, emerging risks and actions taken by local authorities across the country to combat fraud and corruption.

The CFaCT identified that procurement, adult social care and council tax single person discount are perceived as the three greatest fraud risk areas

These areas have, as in previous years been incorporated into the annual Internal Audit planning process and audit work has been identified that will be undertaken during 2018/19.

4.3.3 **National Fraud Initiative**

The Counter Fraud Team facilitates and co-ordinates the Council's participation in the National Fraud Initiative which the Council is required by law to participate in.

Data sets were submitted in October 2016 for the 2016/17 National Fraud Initiative biennial data matching exercise and results of data matches were received at the end of January 2017. For this current NFI exercise £384,226.91 has been identified to date, of which £328,712.82 is/or is the process of being recovered.

4.3.4 **Referrals**

For the financial year 2017/18 Internal Audit received 73 reports and referrals via a number of sources. This represents an increase of 16% from 2016/17 and is partly due to an increased awareness of fraud risks amongst employees and members of the public as a result of successful publicity campaigns run during the past two years. The type of issues covered a broad spectrum of the Council's activities including:

- Bank Mandates
- Blue Badges
- Theft of Income

4.3.5 **Developing Systems**

During the year Internal Audit has had input to a number of systems being developed that includes the following, advising on the control environment and proportionate risk responses:

- Wirral Growth Company

- Local Government Pension Scheme Annual Return
- Utility Electronic Billing
- Information Governance
- Licencing
- Risk Management arrangements
- Integrated Commissioning Hub

4.3.6 Value for Money /Consultancy work

Whilst value for money work is implicit within all audit work a limited number of specific exercises has been undertaken during the year as detailed below. Time has been included within the Audit Plan to develop this approach and increase our focus in this area on proactive, value adding reviews to support the organisation in delivering increased budget savings and managing service redesign. Work in this area will undoubtedly increase and this has been reflected in the work plan.

- Housing Benefit – Intensive Housing Management
- Social Care Transformation
- ERP System
- Advantage Digital Portal (C Tax)
- HMRC IR35 compliance

4.3.7 **Schools Work**

The objective of the schools' audits was to form an opinion on the effectiveness of the controls within schools in ensuring appropriate levels of governance are exercised by the governing body and school's management over the delegated budget.

The risk self-assessment approach developed to ensure a more effective use of internal audit resources has continued. This approach targets those schools which are most in need of independent review and advice in a more timely fashion and also ensures that all schools are audited over a three year cycle.

The questionnaire utilised was developed based on the '*Scheme for Financing Schools'* which is statutory guidance provided by the Department for Education for local authorities. It relates to Section 48 of the School Standards and Framework Act 1998, and Schedule 14 to the Act.

The audit questionnaire is designed to enable the assessment of controls currently in operation at schools on a more timely basis. The questionnaire highlights a range of high risk controls and systems, including those affected by recent changes in LA procedures, such as the introduction of SelfServe. Audit findings and feedback during the year suggest that the approach continues to be well received by Schools and has encouraged them to take greater ownership of their systems and with ongoing support and guidance from Internal Audit and the LMS Unit ensure that appropriate and effective systems of control are in operation. It is our intention to continue to develop this approach in the future to incorporate more emerging risks such as data management as well as some targeted audits at schools rated as being at higher risk.

The Wirral Electronic School Communications Website (WESCOM) continues to be utilised by Internal Audit to convey best practice learning points in response to issues raised during individual audits for the collective benefit of all schools. Customer feedback in response to our audit approach, questionnaire supported by school visits, and resulting recommendations remains extremely positive.

Attendance at schools Headteachers and Bursars forums have continued to be a feature of our approach to these audits during 2017/18, involving regular engagement with representatives from schools and advising on risks, threats and the utilisation of effective controls to mitigate. This will continue during 2018/19 as feedback indicates that this is well received and adds enormous value to schools operations.

In addition, an ICT/Information Governance related questionnaire was developed during 2017/18 and despatched to all schools. This included targeted questions on GDPR, data security and the use of IT systems. The results from the exercise have been extremely useful in identifying potentially significant control risks and areas for improvement. This information has been utilised to inform the 2018/19 audit planning exercise that has resulted in some additions to the Audit Plan for 2018/19 that includes some targeted thematic audit work in areas such as GDPR compliance across a small sample of schools with the results and any required actions being cascaded across the whole sector.

4.3.8 **External Work**

Edsential

As part of a two year SLA with Edsential to provide Internal Audit Services, a range of audit projects to evaluate the effectiveness and good governance of the service provider were completed in 2016/17, in line with the audit plan agreed with the Edsential Board. No audit reviews were completed during 2017/18 although the service continues to liaise with Edsential regarding the provision of Internal Audit services during 2018/19.

Evolutions

Internal Audit work was performed at Wirral Evolutions during the year that involved investigatory work and number of risk based audits covering governance, income and financial policies and procedures. Audit work is presented to the Managing Director and the Board, and all recommendations made have been implemented in a timely fashion.

Wirral Evolutions are retaining Internal Audit services for the 2018/19 year at least and and advise us that they find the 'critical friend' approach very useful as they continue to develop. Work planned for 2018/19 includes further work on financial and governance systems as well as risk based operational audits and reactive advice and assistance.

4.3.9 **Other Work**

The Internal Audit team’s resources have been applied in several other respects:

- Support to the Audit and Risk Management Committee including training provision;
- Attendance at monthly meetings with the Chair of the Audit and Risk Management Committee;
- Support to and attendance at the Corporate Governance Group;
- Support to and attendance at the Information Governance Delivery Group;
- Support to and attendance at the Governance Review Group;
- Support to prepaid card user group by attendance at meetings with service provider;
- Attendance at regular meetings with the Section 151 Officer;
- Regular attendance at the Strategic Leadership Team;
- Attendance at Departmental Management Team meetings
- Regular meetings with Directors
- Grant claims;
- Provision of ad-hoc advice;
- Annual planning and reporting,
- Collation of evidence for the preparation of the 2017/18 Annual Governance Statement.

5 Effectiveness of Internal Audit

5.1 Internal Audit Standards

Internal Audit fully complies with the CIPFA Code of Practice for Internal Audit which has until recently been the pre-eminent best practice standard for public sector internal audit providors.

From 2013 Internal Audit are required to adhere to the new Public Sector Internal Audit Standards (PSIAS) which replace the Code of Practice and require all public sector internal audit providers to be fully compliant with by 2018. Regular update reports on this have been presented to the Audit and Risk Management Committee during 2017/18 advising Members of the evolving requirements and progress being made by the service to become compliant.

The new Public Sector Internal Audit Standards (PSIAS) note that a professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector. The PSIAS require an external assessment of the service at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.

Wirral Council has adopted the peer challenge assessment approach developed by the North West Chief Audit Executive's Group. This approach is acknowledged and supported by the Chartered Institute of Public Finance Accountants (CIPFA), the Chartered Institute of Internal Auditors (CIIA) and External Audit colleagues as being a best practice method of satisfying the requirements of the Standards and ensuring that internal audit are providing a robust and effective service. This actual assessment took place in March 2018 and provided Wirral Council with 'full compliance' assessment opinion.

Grant Thornton in its reporting continue to acknowledge that Internal Audit provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment to the Council.

5.2 Quality Assurance Improvement Programme

The Internal Audit Service operates a Quality Assurance Improvement Programme (QAIP) that is designed to provide all stakeholders with reasonable assurance that the service performs its work in accordance with the Internal Audit Charter and Strategy and is compliant with the Public Sector Internal Audit Standards and Internal Audit Code of Ethics. The QAIP is designed to cover all elements of internal audit activity in accordance with PSIAS Standard 1300 ensuring compliance, adding value and helping improve organisational operations. The QAIP has a number of different elements that contribute towards an ongoing assessment of the nature and effectiveness of the service delivered and the performance of individual auditors, identifying areas for improvement and development on a continuous and ongoing basis. Included within the QAIP are the following and any improvement actions arising in year have been included within both Internal Audit Service and Personal development plans and reported to the Audit and Risk Management Committee:

- Customer Satisfaction Surveys
- Post Audit Assessments
- Auditor Skills Appraisal
- Core Competencies

5.3 Internal Audit Developments

A number of improvements have been made during the year to the Internal Audit Service that have been designed to increase the overall efficiency and effectiveness of systems of internal audit across the Council. Some of these improvements include:

- The implementation of revised audit working papers to reflect current best professional practice;
- Enhanced reporting arrangements for Chief Officers and Members to reflect organisational change;
- Further development of the self-assessment approach to auditing Schools promoting ownership of issues and utilising audit resources more efficiently;
- Development of Information Governance/GDPR questionnaire for Schools;

- Improved performance management utilising quality assurance improvement programme outcomes;
- Continuous development of the approach to the AGS work incorporating changes resulting from new CIPFA/SOLACE best practice guidance and updated Governance Assurance Statement;
- Further utilisation of the Wescom system to communicate more effectively the outcomes of Schools audits and best practice points of note,
- Continuous ongoing improvements to engagement arrangements with Chief Officers, managers and Members;
- Developed reporting arrangements for ARMC members;
- New reporting arrangements introduced for the Merseyside Pension Fund including annual/quarterly reporting to the Pensions Board;
- Reviewed and revised Internal Audit Strategy and Charter incorporating changes resulting from Public Sector Internal Auditing Standards (2016), endorsed by ARMC;
- Regular scheduled attendance at management meetings and the Strategic Leadership Team by the Chief Internal Auditor;
- Ongoing benchmarking against other audit service providers;
- Developed relations with Chief Audit Executives from across the Mersey and North West regions;
- Further development of the Mersey Counter Fraud Group including the establishment of more proactive collaborative cross boundary working;
- Further development of the Intranet facility as a vehicle for communicating audit and risk related issues to clients;
- Development of automated working papers and reports;
- Ongoing restructuring of automated working folders to reflect GDPR requirements regarding information governance;
- Implementation of local arrangements to ensure compliance with the Local Audit and Accountability Act, specifically regarding the procurement of external audit services through Public Sector Audit Appointments Ltd;
- Increased utilisation of mobile technology to enhance efficiency and effectiveness;
- Full compliance with the Public Sector Internal Audit Standards;
- Update and development of counter fraud strategy, policies and procedures.

Many of these initiatives will continue to be the subject of ongoing review during 2018/19 to ensure that the very best use of all available resources is made and that Internal Audit continues to provides a value added service to the Council.

5.4 Performance Indicators

For 2017/18 the internal audit service continued to set some challenging targets for all of its key measures, but particularly 'plan delivery' and 'acceptance of High priority recommendations'.

These indicators form part of the overall service performance reporting information for senior management and the Audit and Risk Management Committee.

For 2017/18 summaries of the post audit feedback forms indicate an overall satisfaction rate of 100% with the audit service, with 80% of those respondents actually noting that they were 'very satisfied' and none indicating any grading of dissatisfaction with the service provided.

The table below details the key performance measures relating to Internal Audit and actual performance for 2017/18:

IA Performance Indicator	Target	Actual
Percentage delivery of IA Plan 2017/18	100	100
Percentage of High priority recommendations agreed with clients.	100	100
Percentage of returned client survey forms indicating 'satisfaction' with the IA service.	80	100
Percentage of internal audit reports issued within 10 days of completion of fieldwork.	100	99

5.4.1 Completion of the Internal Audit Plan for 2017/18:

The plan was 89% complete as at the 31 March with 11% carried over into 2018/19 with completion during April/May 2018. This predominately related to audit work started late in the financial year and carried over for completion. At the time of writing this report the IA Plan for 2017/18 was 100% complete. All of the contingency days were utilised, predominately on referrals and investigations work, this equates to 6% of the total audit days available.

5.4.2 **Final reports issued within 10 working days of completion of fieldwork:**

The average delay on top of this was 1 day and the majority were delays in obtaining management responses to the reports, a factor largely beyond the control of Internal Audit management.

5.4.3 **Some of the comments received on the Customer Survey Feedback Questionnaires:**

"Excellent service, really helpful and useful advice, felt at ease and very supported, I feel a lot more confident in my role"

"Actions will support us in making our systems more effective"

"Very pleased with the succinct wording of the report and the overall approach of the audit"

"The Auditor's comments were fair and action points achievable"

"Rigorous and professional service"

"Effective and timely, the support of Internal Audit has been very much appreciated"

Minuted feedback received from the Audit and Risk Management Committee during 2017/18:

"The Members congratulated the Chief Internal Auditor and his team in respect of the work undertaken"

Feedback from the Deputy Chair of the Audit and Risk Management Committee:

"Spending time with the Internal Audit Team helped me understand the attention to detail that the staff employ whilst undertaking their day to day work"

"Many thanks for arranging the CIPFA training on Audit & Risk Management Committees – it was and continues to be extremely useful"

5.5 Follow up Procedure

Internal Audit undertake a follow up audit of every completed assignment and report the findings to senior management, the Strategic Leadership Team and the Audit and Risk Management Committee. A summary of all recommendations made for each report is provided for the Audit and Risk Management Committee Members bi-monthly identifying:

- The actual number of recommendations made for each report and the summary narrative for each High risk recommendation made;
- The opinions provided in each audit report;
- The position statement for each High risk recommendation;
- RAG ratings indicating actions required and follow up status.

Where there is a failure to implement agreed critical or high priority recommendations by the due date, without any justification for not doing so, a formal process of notification to the Chief Officer and SLT followed by referral to the Audit and Risk Management Committee is in operation.

5.6 Working with External Audit

The Government introduced legislation for local audit during 2013. The legislation abolished the Audit Commission and in line with the government changes the Audit Commission appointed Grant Thornton as the Council's external auditors until 2017. During 2017, Public Sector Audit Appointments (PSAA) on behalf of local Council's undertook a procurement exercise to appoint external auditors to these bodies for a period of five years. Grant Thornton were appointed as the external auditors for Wirral Council.

Throughout 2017/18 the close links with External Audit continued to be important particularly given this change and Internal Audit have liaised closely during the year with External Audit to ensure that any unnecessary duplication has been avoided and resources have been utilised to the best effect. Close links with External Audit have been evidenced by:

- Provision of our plan to them for comment,
- Sharing of our reports and working papers,
- Local progress meetings on a regular basis; and,
- The development and implementation of a formal working protocol.

5.7 Working Relationships

Internal audit have continued to enjoy positive working relationships with staff at all levels of the Council. This assistance is acknowledged and welcomed.

1 Scope, Responsibilities and Assurance

1.1 Approach

1.1.1 In accordance with the CIPFA Code of Audit Practice and the Public Sector Internal Auditing Standards, the scope of internal audit encompasses all of the Council's operations, resources and services including where they are provided by other organisations on their behalf.

1.2 Responsibilities of Management and Internal Auditors

1.2.1 It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework assisting management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal auditors cannot therefore be held responsible for internal control failures.

1.2.2 However, we have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. We have reported all such weaknesses to Chief Officers as they have become known to us, without undue delay, and have worked with them to develop proposals for remedial action.

1.2.3 Internal audit procedures alone do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

1.2.4 Internal audit's role includes assessing the adequacy of the risk management processes, key internal control systems and corporate governance arrangements put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review.

1.3 Basis of Our Assessment

1.3.1 My opinion on the adequacy of control arrangements is based upon the result of internal audit reviews undertaken and completed during the period in accordance with the plan approved by the Audit and Risk Management Committee. We have obtained sufficient, reliable and relevant evidence to support the recommendations that we have made.

1.4 Limitations to the Scope of Our Work

1.4.1 There have been no limitations to the scope of our work.

1.5 Limitations on the assurance that internal audit can provide

1.5.1 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from our work as internal auditors. These limitations include the possibility of faulty judgement in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Also there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.

1.5.2 Decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.

1.6 Access to this Report and Responsibility to Third Parties

1.6.1 This report is prepared solely for Wirral Council and forms part of a continuing dialogue between the Internal Audit Service, the Section 151 Officer, Chief Executive, Audit and Risk Management Committee and management of the Council. It is not therefore intended to include every matter that came to our attention during each internal audit review.

1.6.2 I acknowledge that this report may be made available to other parties, such as the external auditors. I accept no responsibility to any third party who may receive this report for any reliance that they may place on it and, in particular, I expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

Audit and Risk Management Committee
Monday, 23 July 2018

REPORT TITLE:	**ARMC ANNUAL REPORT 2017-18**
REPORT OF:	**CHIEF INTERNAL AUDITOR**

REPORT SUMMARY

To comply with best professional practice the Audit and Risk Management Committee is required to complete an annual report to Cabinet on the work undertaken by the Committee.

Attached at Appendix A is the Annual Report prepared by the Chair in consultation with Internal Audit.

RECOMMENDATION

That the draft Annual Report be approved and submitted to Cabinet.

SUPPORTING INFORMATION

1. REASON FOR RECOMMENDATION

1.1 To comply with best practice identified in the CIPFA publication 'Practical Guidance for Local Authority Audit Committees'.

2. OTHER OPTIONS CONSIDERED

2.1 No other options considered.

3. BACKGROUND INFORMATION

3.1 The Department for Communities and Local Government (DCLG) issued amended regulations in 2006, to the 2003 Accounts and Audit Regulations – 'The Accounts and Audit (Amendment) (England) Regulations 2006.

3.2 One of the amended regulations impacts on the process for preparing the Statement of Internal Control (SIC) which is subsumed within the Annual Governance Statement (AGS) and relates specifically to the the systems of internal audit in operation. This is:-

- Regulation 6 requires bodies to regularly review their system of internal audit, and for the findings to be considered by a committee of the body, or by the body as a whole.

3.3 Advice from CIPFA includes the assertion that the "systems of internal audit" can be considered to include the role and effectiveness of the Audit Committee which therefore should be assessed and evaluated.

3.4 To assist Councils in this evaluation exercise CIPFA has provided a self-assessment checklist and recommended that this be completed annually by the Committee.

3.5 An annual report for 2017/18 has been prepared by the Chair in consultation with Internal Audit and is attached at Appendix A for consideration and approval by the Members.

4. FINANCIAL IMPLICATIONS

4.1 There are none arising from this report.

5. LEGAL IMPLICATIONS

5.1 There are none arising from this report.

6. RESOURCE IMPLICATIONS

6.1 There are none arising from this report.

7. **RELEVANT RISKS**

7.1 Potential failure of the Audit and Risk Management Committee to comply with best professional practice and thereby not function in an efficient and effective manner.

8. **ENGAGEMENT/CONSULTATION**

8.1 Members of this Committee have been consulted throughout the process regarding the content of the annual report and their views are reflected in the final document attached.

9. **EQUALITY IMPLICATIONS**

9.1 There are none arising from this report.

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APPENDICES

Audit and Risk Management Committee Annual Report 2017/18

REFERENCE MATERIAL

CIPFA Publication 'Practical Guidance for Local Authority Audit Committees'

SUBJECT HISTORY (last 3 years)

Council Meeting	**Date**
Audit and Risk Management Committee	Annual Report

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APPENDIX A

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Audit and Risk Management Committee

Annual Report 2017/18

Councillor A Jones, Chair
July 2018

ARMC Annual Report	2017/18

Contents — Page

1. Foreword

By the Chairman of the Audit & Risk Management Committee
Councillor Adrian Jones

I am pleased to present the Audit and Risk Management Committee's Annual Report for 2017/18. It records the activities undertaken by the Committee across a wide range of control, risk and corporate governance matters.

During the year, the Committee met on five occasions and received reports in connection with the full range of issues that fall within its remit. This report indicates the breadth of the Audit and Risk Management Committee's activities in ensuring that every aspect of the council's work should be compliant with standards and transparent to its stakeholders.

I strongly believe that this Annual Report demonstrates the immense value that the Committee brings to the Council and the public in ensuring that improvements to the governance arrangements of the authority are being delivered. As the Chair I can clearly see the enormous contribution that the Audit and Risk Management Committee has made to the improvement and development of operational standards and protocols across a wide range of governance areas during what has clearly been a very challenging year.

Looking forward, the Council is facing yet another period of unprecedented change and transformation in local government with financial budgets being squeezed more than ever before and the enormous impact of this on services delivered being highly evident. Change such as this presents enormous challenges to the Council not least in the nature of the risks that are presented but also the corresponding need for more effective governance has never been more in evidence.

Finally, I would like to acknowledge the sterling work of the Members of the Audit and Risk Management Committee and the supporting officers, during the past year.

2. Background

2.1 What drives Governance Policy ?

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

Effective corporate governance is a fundamental feature of any successful public sector organisation.

A sound corporate governance framework involves accountability to service users, stakeholders and the wider community, within which authorities take decisions, and lead and control their functions, to achieve their objectives. It thereby provides an opportunity to demonstrate the positive elements of an authority's business and to promote public confidence.

Wirral Council has adopted the revised local Code of Corporate Governance based on the following seven core principles which underpin and define the meaning of good governance:

2.2 Why do we need an Audit Committee ?

While there is no statutory obligation to have such an arrangement, Audit Committees are widely recognised as a core component of effective governance and therefore reflect good practice. Wirral's Audit and Risk Management Committee is properly constituted and, as such, is given sufficient authority and resources by the Council. In effect, the Committee has the right to obtain all the information it considers necessary and to consult directly with senior managers. In line with best practice from both the public and private sectors, the Audit and Risk Management Committee can report its observations and concerns directly to Cabinet/Council.

A local authority has a duty to ensure that it is fulfilling its responsibility for adequate and effective internal control, risk management, and governance, as well as the economy, efficiency and effectiveness of its activities. The Audit and Risk Management Committee has a key role in overseeing and assessing the internal control, risk management, and corporate governance arrangements and advising the Council on the adequacy and effectiveness of these arrangements.

2.3 **What does an Audit Committee do ?**

The Audit and Risk Management Committee's main responsibilities are to oversee the Council's corporate governance arrangements, the work of internal audit, and the Council's response to external audit and other external inspections.

This purpose is reflected in the committee's terms of reference which are reviewed and adopted each year (Attached at Appendix 1).

2.4. **How do Officers Support the Committee ?**

The Audit and Risk Management Committee is supported by:

- The Monitoring Officer who is required by law to ensure that the Council acts within its legal powers at all times; and,
- The Director of Finance and Investments, as Section 151 Officer who is responsible under the law for ensuring the proper administration of the council's financial affairs.
- The Chief Internal Auditor who has a key role to play in supporting the Committee because of the importance of the Internal Audit service to governance.
- Any other officer of the Council as required.

3. 2017/18 Financial Year

This Annual Report for 2017/18 produced by the Audit and Risk Management Committee has been prepared in accordance with the CIPFA best practice publication *'A Toolkit for Local Authority Audit Committees'.* The report demonstrates how the Audit and Risk Management Committee has fulfilled its terms of reference during a very difficult year and how it is fully committed to helping to improve the Council's governance and control environments during what should prove to be a very challenging year ahead.

The committee's activities during 2017/18 were designed to make a positive contribution to the continual improvement of governance arrangements across the Council, as well as performing the statutory roles as identified in the Constitution.

4. Some Key Information

4.1. Audit and Risk Management Committee Membership

During 2017/18 the Audit and Risk Management Committee had the following 9 Members:

Councillor Adrian Jones – Chair
Councillor John Hale - Spokesperson
Councillor David M Elderton
Councillor Ron Abbey
Councillor Christine Muspratt
Councillor Angela Davies
Councillor Phil Gilchrist - Spokesperson
Councillor Jeff Green
Councillor Paul Doughty

4.2. Key Features of the Audit Committee and its Operation

The Committee meets CIPFA's definition of best practice as illustrated below:

Best Practice	Expectation	Met	Comment
Independence	Independent from the executive and scrutiny	√	The Committee reports to the Council
Number of Members	Minimum of 3 to 5 members	√	The Committee has 9 Members
Number of meetings	Aligned to business needs	√	The frequency of meetings, 5 times a year complies with best practice.
Co-option	To be considered relative to skills	√	Training is currently provided to increase Members' skills.
Terms of Reference	Accord with suggested best practice	√	The Committee has adopted the CIPFA recommended model.
Skills and training	Members have sufficient skills for the job	√	General and specific training is provided to increase Members' skills.

4.3. Meetings and Attendance

The Audit Committee normally meets 5 times per year in January, March, June, September and November.

Attendance by Members and approved deputies was over 90%.

5. Core Activity During 2017/18

5.1. Terms of Reference

The Audit and Risk Management Committee's Terms of Reference are comprehensive, comply with best practice, cover all key areas and are attached at Appendix 1 to this annual report. The Committee's work and outcomes in each of its areas of responsibility are summarised in the following subsections.

Internal Audit

The Audit and Risk Management Committee:

- Approved the Chief Internal Auditor's Audit Plan,
- Considered regular reports produced by the Chief Internal Auditor, highlighting internal audit work completed, internal audit performance against key indicators and any significant issues arising during the period,
- Approved amendments to reporting arrangements including development of the summary reports from Internal Audit,
- Considered the Chief Internal Auditor's Annual Report and assurance opinion on the Council's control environment,
- Considered reviews of the effectiveness of the systems of internal audit,
- Ensured internal and external audit plans were complementary and provided optimum use of the total audit resource,
- Received updates on the Internal Audit Counter Fraud Teams' remit and activities undertaken,
- Received and considered updates on the Public Sector Internal Audit Standards,
- Approved and endorsed the Internal Audit Charter and Strategy,
- Received updates on the new Audit and Accountability Act 2013 and considered the implications for the Council,
- Considered reports on audit investigations conducted,
- Considered and approved revisions to Chief Internal Auditors Audit Plan.
- Considered the outcome of the Internal Audit Quality Assurance Improvement Programme assessment.
- Reviewed the Council's progress on all internal audit recommendations on a regular basis and asked managers to explain progress where appropriate, thereby holding them to account,

- Received progress updates from relevant Senior Managers regarding audit recommendations implementation (ICT/HR),

We continue to provide support to the Internal Audit service to ensure management is responsive to recommendations made and agreed.

External Audit

The Audit and Risk Management Committee:

- Considered the external auditor's Audit Plan,
- Considered progress against the plan presented by the external auditor
- Received and considered all external audit findings and inspection reports issued in the year and considered management's response to them, ensuring robust and thorough responses,
- Reviewed the external audit Committee Update reports and took appropriate actions in response to issues presented,
- Reviewed the Council's progress on all external audit and inspection recommendations on a regular basis and asked managers to explain progress where appropriate, thereby holding them to account,
- Received and considered all of the external auditors reports on the Merseyside Pension Fund,
- Considered the external auditor's Annual Audit Letter,
- Considered update report on the Local Audit Accountability Act and the appointment of external auditors.

We continue to provide support to external audit to ensure management is responsive to recommendations made and agreed.

Risk Management

The Audit and Risk Management Committee:

- Considered regular reports on the Departmental and Corporate Risk Registers and challenged policy and process,
- Considered reports on the proposed development of corporate Risk Management arrangements,
- Promoted Risk Management across the Council,

- Considered reports on Corporate Risk and Insurance Management,
- Considered reports on the Corporate Risk Management Policy and the management of risk.

We continue to provide support to promote effective Risk Management policy and procedures across the Council and ensure best practice is achieved.

Internal Control and Governance

The Audit and Risk Management Committee:

- Agreed the Council's Annual Governance Statement,
- Considered reports on progress made to address significant governance issues identified in the AGS,
- Implemented a mechanism for escalating any items of note to Cabinet,
- Supported the ongoing development of a Mersey region Counter Fraud Group,
- Engaged with and supported the annual Counter Fraud Awareness Week initiative,
- Supported work undertaken as part of the Cabinet Offices' National Fraud Initiative,
- Considered and supported amendments to the Council's counter fraud arrangements,
- Approved the Code of Corporate Governance,
- Approved the updated Audit and Risk Management Committee self-assessment checklist,
- Considered reports on Contract Procedure Rules compliance,
- Approved updates to the Council's Contract Procedure Rules,

The Annual Governance Statement is a key document which summarises the Council's governance arrangements and the effectiveness of the arrangements during the year.

Accounts

The Audit and Risk Management Committee:

- Agreed the Council's accounting policies,

- Agreed the Annual Statement of Accounts,
- Received and considered the external auditor's report on the accounts, and ensured that the Council responded to the auditor's comments,
- Agreed the annual Merseyside Pension Funds accounts,
- Received and considered the external auditor's report on the MPF accounts and responded to comments,
- Received and reviewed reports on the Insurance Fund Budget and Annual Report.

The Audit and Risk Management Committee received regular reports on the Council's Treasury Management arrangements in the context of the economic downturn.

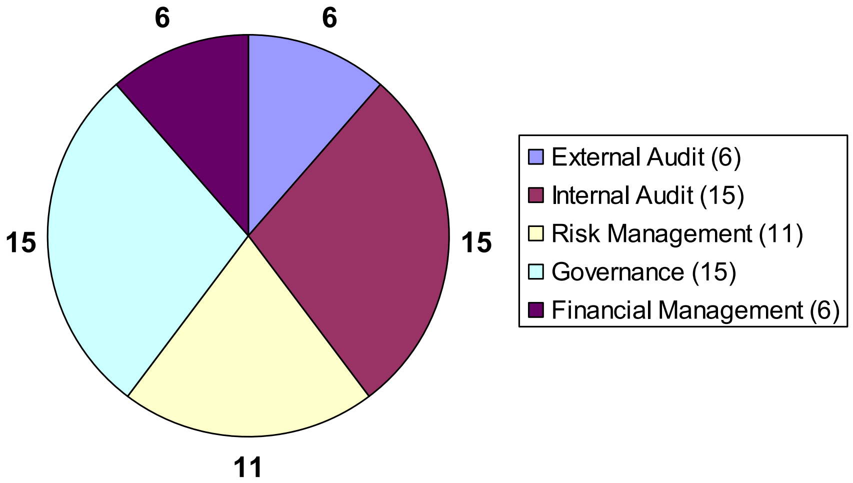
Specific Issues

The Audit and Risk Management Committee also considered reports and presentations on the following specific issues which arose in the period:

- Regulation of Investigatory Powers Act 2000,
- Insurance arrangements and performance,
- Information Governance Update including a presentation on GDPR compliance progress by the responsible officer,
- Officer Progress Updates (HR, Digital, Highways, OFSTED)

To give a flavour of our business during the year, the following shows the types and numbers of reports considered between April 2017 and March 2018:

5.2. Numbers & Types of Reports Considered by the Audit Committee



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6. Other Activities

During the year, the Committee demonstrated its commitment to good governance by:

i) Overseeing the implementation of actions to address significant governance issues identified in the Annual Governance Statement 16/17;

ii) Devoting significant resource to addressing governance issues arising including the development of improved risk management arrangements;

iii) Referring matters to Cabinet for attention as appropriate;

iv) Asking Chief Officers to attend as appropriate and present reports on issues identified which affected governance.

7. Outcomes

The Audit and Risk Management Committee aims to focus on adding value through its activity. By concentrating on outcomes the Committee can identify the benefits of its work. In particular this year the Committee:

- Oversaw work on the Statement of Accounts;
- Encouraged and presided over a strengthening of the control environment, specifically by overseeing various targeted reviews and the production of the Annual Governance Statement;
- Presided over significant changes in the structure of the organisation including officers with statutory responsibilities to ensure the proper administration of financial affairs and systems of internal control;

- Encouraged and presided over significant developments and improvements to strengthen the delivery of the Internal Audit service, including further development of the Quality Assurance Improvement Plan and other initiatives designed to ensure compliance with the Public Sector Internal Audit Standards;
- Implemented an enhanced system for escalating any items considered to be of note by ARMC to Cabinet for their attention;
- Presided over the introduction of an improved system for routinely reporting actions taken by officers in relation to items identified as being significant governance issues in the Annual Governance Statement;
- Received regular update reports/presentations from officers which demonstrated how improvements had been planned, and delivered, to ensure compliance with the General Data Protection Guidelines;
- Endorsed the strengthening of the governance arrangements through further consideration and approval of the Code of Corporate Governance;
- Encouraged a strengthening of the Council's overall control environment; specifically by overseeing various targeted reviews and the production of and challenge to the Annual Governance Statement;
- Challenged risk management arrangements and facilitated the development of radical improvements in this area.

In addition, individual Members and the Audit Committee collectively continued to develop and learn about our roles including development and attendance at professional training sessions targeted specifically at Audit Committee Members, and enabling us to deliver our roles more effectively.

8. Plans for 2018/19

During 2017/18 the Audit and Risk Management Committee has consolidated the progress that has been made in previous years, and going forward will look to develop further and cement our role as the recognised champion of good governance for the Council, helping to address any identified issues in what promises to be again a very challenging and difficult environment. Our priorities for 2018/19 are to continue to meet our duties as specified in the Constitution by developing and building on our current status as well as responding to and implementing any new requirements as they arise.

For 2018/19 we will:

- Continue to develop the Wirral Council Audit and Risk Management Committee to review all governance issues identified,
- Continue to develop our working relations with officers to improve our understanding of the respective roles and improvement opportunities available,
- Continue to drive up standards and meet the demanding requirements of the external inspection and assessment regime,
- Continue to review all governance arrangements to ensure the Council adopts the very latest best practice,
- Continue to support the work of Internal and External Audit and ensure appropriate responses are given to their recommendations,
- Continue to ensure that all aspects of the Public Sector Internal Auditing Standards are complied with,
- Continue to help the Council to manage the risk of fraud and corruption by supporting the work of Internal Audit and colleagues in this area,
- Continue to oversee and help facilitate improvements in the corporate Risk Management framework,
- Continue to develop the Wirral Council Audit and Risk Management Committee to review risk and partnerships' issues and safeguard public sector interests,
- Continue to oversee the development of audit plans to evaluate and test controls in respect of services delivered either by trading companies run by the Council or on behalf of them,
- Equip existing and any new Members to fulfil our responsibilities by providing detailed and effective training on all key areas of responsibility including financial arrangements and risk management, governance and internal audit operations.

Councillor Adrian Jones (Chair)
Wirral Council Audit and Risk Management Committee

9. Appendix 1

Audit and Risk Management Committee – Terms of Reference

1. To provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

2. The Committee has the following duties, powers and authorities:

2.1. approval of the Council's statement of accounts;

2.2. the responsibilities of the Council under section 151 of the Local Government Act 1972 to make proper provision for its financial affairs;

2.3. to consider and make recommendations to Council or Cabinet as appropriate on;

2.3.1. the annual Audit Report and the Management Letter of the external auditor;

2.3.2. any other statutory report of the external auditor;

2.3.3. any internal audit report that may be referred to the committee by the Chief Executive, the Director of Finance, the Chief Internal Auditor or the Head of Legal and Member Services (as Monitoring Officer);

2.3.4. summaries of specific internal audit reports as requested;

2.3.5. the effectiveness and adequacy of the response by the Council, the Cabinet, any committee or sub-committee of the Council or of any officer to any internal or external audit report or management letter;

2.3.6. the systems of control and the arrangements for the prevention of fraud and corruption within the Council;

2.3.7. any other matter relevant to the audit of the Council's accounts and financial records or its systems for the control and safeguarding of all the Council's assets;

2.3.8. a report from Internal Audit on agreed recommendations not implemented within a reasonable timescale; and

2.3.9. the Head of Internal Audit's annual report and opinion, and a summary of internal audit activity (actual and proposed) and The level of assurance it can give over the Council's corporate governance arrangements;

2.4. to approve (but not direct) the strategy, plan and performance of the Council's internal audit service;

2.5. to oversee the production of the Authority's Annual Governance Statement and subsumed Statement on Internal Control and recommend its adoption;

2.6. to maintain an overview of the Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and to make recommendations to Council or Cabinet, as appropriate;

2.7. to monitor the Council's policies on "Raising Concerns at Work", to the anti-fraud and corruption strategy and the complaints procedure;

2.8. to liaise with the Audit Commission over the appointment of the Council's external auditors.

3. The Chair of the Audit and Risk Management Committee shall act as the Council's Risk Management Champion.

4. Executive Members will not normally be members of the Audit and Risk Management Committee.

WIRRAL

Audit and Risk Management Committee
Monday 23 July 2018

REPORT TITLE:	**ANTI-MONEY LAUNDERING POLICY**
REPORT OF:	**CHIEF INTERNAL AUDITOR**

REPORT SUMMARY

The purpose of this report is to seek formal Committee approval for the draft Anti-Money Laundering Policy and its accompanying guidance notes.

RECOMMENDATION

The Audit and Risk Management Committee review and approve the following Policy and accompanying guidance notes:

(i) Anti-Money Laundering Policy (Appendix A)
(ii) Briefing Note for front line Employees (Appendix 1)
(iii) Verification of Customer Identity form (Appendix 2)
(iv) Customer Due Diligence Procedure – Evidence document (Appendix 3)
(v) Offences Table (Appendix 4)

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION

1.1 To ensure that the Anti-Money Laundering Policy is up to date and complies with the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017.

1.2 That the Anti-Money Laundering Policy is made available to all Members, employees', partners and external bodies working on behalf of the Council, by being included on the Internet and Council's Intranet site.

2.0 OTHER OPTIONS CONSIDERED

2.1 No other options considered.

3.0 BACKGROUND

3.1 The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR 2017) came into force on 26 June 2017. They implement the EU's 4th Directive on Money Laundering and in doing so they replace the Money Laundering Regulations 2007 (MLR 2007) and the Transfer of Funds (Information on the Payer) Regulations 2007, which were previously in force.

3.2 A key difference of the 2017 Regulations is to require relevant persons to adopt a more risk-based approach towards anti-money laundering, particularly in the conduct of due diligence.

3.3 Although local authorities are not obliged to comply with the requirements of the Money Laundering Regulations 2017, guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) recommends that they should embrace the underlying spirit of the legislation, as it impacts on certain areas of their work.

3.4 Not all of the Council's business is 'relevant' for the purposes of the legislation. It is mainly the accountancy and audit services together with certain financial, company and property transactions carried out by Legal Services. However, the safest way to ensure compliance with the law is to apply it to all areas of work undertaken by the Council, therefore all Members, employees and those acting on behalf of the Council are required to comply with the Council's Anti-Money Laundering Policy.

4.0 ANTI-MONEY LAUNDERING POLICY

4.1 The Policy sets out the procedures that must be followed to enable the Council to comply with its legal obligations, which are to:

- Appoint a Money Laundering Reporting Officer (MLRO) to receive disclosures from employees of money laundering activity;

- Implement risk sensitive policies and procedures relating to customer due diligence, reporting, record keeping, internal control, risk assessment and management, the monitoring and management of compliance and the internal communication of such policies and procedures.

4.2 An assessment of the Council's Anti-Money Laundering arrangements will be reviewed during 2018/19 by the Internal Audit Team and the findings will subsequently be reported to Members.

4.3 The draft Anti-Money Laundering Policy and guidance notes are attached to this report for Member consideration and approval.

4.4 The consequence of the Council becoming involved in money laundering, without adequate policies and procedures in place to help prevent it, could be very serious. It may result in criminal prosecutions if the Council and individuals are not fulfilling their duty under the law.

4.5 Therefore, it is essential that the Policy and guidance notes are brought to the attention of all Members, employees', partners and external bodies working on behalf of the Council. To facilitate this, they will be made available on the Internet and Council's Intranet site.

5.0 FINANCIAL

5.1 There is no direct financial implication arising from this report.

6.0 LEGAL IMPLICATIONS

6.1 Whilst the risk to the Council of contravening the legislation is low, it is extremely important that Members, employees, partners and external bodies working on behalf of the Council are familiar with their legal responsibilities as serious criminal sanctions may be imposed for breaches of the legislation.

7.0 RESOURCE IMPLICATIONS

7.1 It is envisaged that all work will be carried out within existing resources.

8.0 RELEVANT RISKS

8.1 Failure of the Council to have adequate policies and procedures in place, to protect itself against the significant threat, posed by money laundering.

9.0 ENGAGEMENT/CONSULTATION

9.1 The Anti-Money Laundering Policy and guidance notes have been developed following consultation with relevant officers within the Council.

10.0 EQUALITY IMPLICATIONS

10.1 There are no specific equality implications arising from this report.

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APPENDICES
Appendix A: Anti-Money Laundering Policy
Appendix 1: Briefing Note for front line Employees
Appendix 2: Verification of Customer Identity form
Appendix 3: Customer Due Diligence Procedure – Sources of Evidence document
Appendix 4: Offences Table

REFERENCE MATERIAL

- Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Audit and Risk Management Committee	

W

Wirral Council

Anti-Money Laundering Policy

Wirral Internal Audit Service
July 2018

1 Introduction

1.1 The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR 2017) came into force on 26 June 2017. They implement the EU's 4th Directive on Money Laundering and in doing so they replace the Money Laundering Regulations 2007 (MLR 2007) and the Transfer of Funds (Information on the Payer) Regulations 2007, which were previously in force.

1.2 A key difference in the Regulations is to require "relevant persons" to adopt a more risk-based approach towards anti-money laundering, in particular in how they conduct due diligence. Determining the appropriate level of due diligence requires analysis of risk factors based on the EU Directive and which are set out in MLR 2017, as detailed in section 8 of this Policy .

2 Scope of the Policy

2.1 This Policy applies to all Members, employees, partners and external bodies working on behalf of the Council and aims to maintain the high standards of conduct which currently exist within the Council by reducing the risk of criminal activity through money laundering. The Policy sets out the procedures which must be followed (for example the reporting of suspicions of money laundering activity) to enable the Council to comply with its legal obligations.

2.2 The Policy sits alongside the Council's Anti-Fraud and Corruption Policy, Anti-Bribery Policy, and Whistle-blowing Policy.

2.3 There is an accompanying briefing note to this policy which will act as a quick reference guide to inform front line employees of the fundamental areas of the policy that apply to them (See Appendix 1).

2.4 Failure by an employee, Member partner or an external body working on behalf of the Council to comply with the procedures set out in this Policy could result in them committing a criminal offence. Therefore, it is extremely important that all individuals working on behalf the council are familiar with their legal responsibilities.

3 What is Money Laundering ?

3.1 Money Laundering is the term used for a number of offences involving the integrating of "dirty money'' (i.e. the proceeds of crime) into the mainstream economy. The objective of which is to legitimise the possession of such monies through circulation and this effectively leads to "clean'' funds being received in exchange.

3.2 Such offences are defined under The Proceeds of Crime Act 2002 (POCA) as the following prohibited acts:

- Concealing, disguising, converting, transferring or removing criminal property from the UK;
- Entering into or becoming involved in an arrangement which an individual knows or suspects facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person;
- Acquiring, using or possessing criminal property;

- Doing something that might prejudice an investigation e.g. falsifying the document;
- Failure to disclose one of the offences listed above where there are reasonable grounds for knowledge or suspicion;
- Tipping off a person(s) who is suspected of being involved in money-laundering in such a way as to reduce the likelihood of a prejudice and investigation.

3.3 Under section 18 of the Terrorism Act 2000 it is an offence for a person to enter into or become concerned in an arrangement which facilitates the retention of control by or on behalf of another person of terrorist property by concealment, removal from the jurisdiction, transfer to nominees or in any other way. Terrorist property is defined as money or other property which is likely to be used for the purposes of terrorism, proceeds of the commission of acts of terrorism, and proceeds of acts carried out for the purposes of terrorism.

3.4 Money laundering regulations apply to cash transactions in excess of €15,000 (approximately £13,000). However, POCA applies to all transactions and can include dealings with agents, third parties, property or equipment, cheques, cash or bank transfers.

3.5 Although instances of suspected money laundering are likely to be rare, given the nature of services provided by the Council, failure to comply with legal requirements could have significant implications for both the Council and the individuals concerned.

4 What are the Obligations on the Council ?

4.1 Whilst Local Authorities are not directly covered by the requirements of the MLR 2017, guidance from finance and legal professions, including the Chartered Institute of Public Finance and Accountancy (CIPFA), indicates that public service organisations should comply with the underlying spirit of the legislation and regulations and put in place appropriate and proportionate anti-money laundering safeguards and reporting arrangements.

4.2 The MLR 2017 applies to 'relevant persons' acting in the course of business carried out by them in the UK. Not all Local Authority business is 'relevant' for the purposes of the legislation. It is mainly the accountancy and audit services together with certain financial, company and property transactions carried out by legal services. However, the safest way to ensure compliance with the law is to apply it to all areas of work undertaken by the council, and ensure all individuals comply with the procedures set out in the policy. That way the Council will properly discharge its obligations under the money-laundering regime which is to:

- Appoint a Money Laundering Reporting Officer (MLRO) to receive disclosures from individuals of money-laundering activity;
- Implement a procedure to enable the reporting of suspicions of money laundering;
- Maintain client identification and record-keeping procedures in certain circumstances;
- Conduct money laundering risk assessments and adopt appropriate internal controls.

4.3 It is management's responsibility to implement systems of internal control capable of identifying unusual or suspicious transactions or customer activity and quickly report the details to the MLRO, as detailed in paragraph 5.1 below. Systems of internal control should include the following:

- Identification of senior management responsibilities;
- Provision of information to senior management on money-laundering and terrorist financing risks;
- Training of relevant employees on the legal and regulatory responsibilities for money-laundering and terrorist financing controls and measures;
- Documentation of the councils risk management policies and procedures.
- Measures to ensure that money-laundering and terrorist financing risks are taken into account in the day-to-day operations of the Council.

5 The Money Laundering Reporting Officer

5.1 The officer nominated to receive disclosures about money laundering/terrorist financing activity within the Council is the Director of Finance & Investment, who can be contacted as follows:

Director of Finance & Investment
Wallasey Town Hall
Brighton Street
Wallasey
Wirral
CH44 8ED

Telephone: 0151 691 8688
Email: aml@wirral.gov.uk

5.2 The Assistant Director of Finance & Investment is authorised to deputise in the absence of the MLRO.

6 Procedures

Cash payments

6.1 Usually for cash transactions, by way of custom and practice, banks, building societies and other financial institutions automatically report movement of over £1,000 to the National Crime Agency (NCA); so in order to avoid the Council being caught out by this reporting system and thus perceived to be at suspicion of assisting money laundering or terrorist financing, the Council has implemented a policy on the acceptance of cash. Identification will now be requested from all customers paying amounts over £1,000 in cash (See Appendix 2 - Verification of Customer Identity form. **Any** transactions that appear suspicious must be reported to the MLRO. (See Appendix 1 - Briefing Note for front line Employees, for a quick reference guide)

6.2 It's all about traceability. Consequently, cheques, large or small, coming in from UK clearing banks are easily traceable through the banking system, hence a shelf company paying a cheque to the Council for, say, £100,000 is traceable. An individual walking in with £1,005 cash to pay a debt is not necessarily traceable. Therefore best practice is to insist on payment by cheque or electronic transfer from a UK Clearing Bank: **NOTHING** overseas or offshore should be accepted.

7 Disclosure Procedure

Reporting to the Money Laundering Reporting Officer

7.1 Where an individual knows or suspects that money laundering or terrorist financing activity is taking/has taken place, or become concerned that their involvement in a matter may amount to a prohibited act under the legislation, they must disclose this as soon as practicable to the MLRO using the Money Laundering reporting form. The disclosure should be within "hours" of the information coming to your attention, rather than weeks or months later. **If a relevant matter is not disclosed immediately, then that individual may be liable to criminal prosecution.** Incidents MUST be reported in confidence and in private (See 7.4) – Individuals must NOT 'tip off' anybody else or allow anybody else to see or hear what is happening - it is CONFIDENTIAL between the reporting individual and the MLRO.

Reporting individuals may wish to consult with line managers before approaching the MLRO, however must be aware that **both the individual and the line manager** would have to disclose a report to the MLRO individually. This is because it is not a defence to presume that a report to the MLRO has been made on your behalf. If an individual does not consult with their line manager prior to making a report to the MLRO they **must not** discuss any aspect of the matter with their line manager or any other person without prior approval from the MLRO.

7.2 Reporting individuals must include as much detail as possible, for example:

- Full details of the people involved (including yourself, if relevant);
- Full details of the nature of their/your involvement;

If an individual has concerns that their involvement in the transaction would amount to a prohibited act, then the report must include all relevant details, as consent will be needed from the "NCA", via the MLRO, to take any further part in the transaction - this is the case even if the customer gives instructions for the matter to proceed before such consent is given.

  - ➢ Reporting individuals should therefore make it clear in the report if such consent is required and clarify whether there are any deadlines for giving such consent e.g. a completion date or court deadline;

- The types of money laundering activity involved:
  - ➢ If possible, cite the section number(s) under which the report is being made e.g. a principal money laundering offence under section 327 – 329 of the Act, or general reporting requirement under section 330 of the Act, or both (See Appendix 4, Offences Table);
- The dates of such activities, including:
  - ➢ Whether the transactions have happened, are ongoing or are imminent;
- Where they took place;
- How they were undertaken;
- The (likely) amount of money/assets involved;
- What form of documentation have been obtained to confirm identity;
- Why, exactly, they are suspicious – the NCA will require full reasons;

along with any other relevant available information to enable the MLRO to make a sound judgement as to whether there are reasonable grounds for knowledge or suspicion of money laundering and to enable them to prepare the report to the NCA, where appropriate.

7.3 Once the matter has been reported to the MLRO all directions provided must be followed. **No further enquiries should be made at this point**; any necessary investigation will be undertaken by the NCA. Suspicions should be reported to the MLRO who will refer the matter on to the NCA if appropriate. All Members, employees, partners, external bodies working on behalf of the Council will be required to co-operate with the MLRO and the Authorities during any subsequent money laundering/terrorist financing investigation.

7.4 Similarly, **at no time and under <u>no</u> circumstances should reporting individuals voice any suspicions** to the person(s) who is suspected of money laundering or terrorist financing, even if the NCA has given consent to a particular transaction proceeding, otherwise a criminal offence of "tipping off" may be committed.

7.5 Even saying "I can't tell you" may infer tip off. Advice may be sought from the MLRO if any uncertainty remains regarding how to proceed in such a situation. If and when the MLRO and/or the NCA give clearance individuals must proceed with the matter as if nothing had happened.

7.6 The MLR 2017 creates a new criminal offence in that any person who recklessly makes a statement in the context of money-laundering which is false or misleading commits an offence. Punishment is a fine and/or up to 2 years' imprisonment.

7.7 Reporting individuals should not therefore, make any reference on a client file to a report having been made to the MLRO – should the client exercise their right to see the file, then such a note would obviously tip them off to the report having been made. The MLRO will keep the appropriate records in a confidential manner.

Consideration of the Disclosure by the Money Laundering Reporting Officer

7.8 Upon receipt of a disclosure report, the MLRO must note the date of receipt on their section of the report and acknowledge receipt of it. They should also advise you of the timescale within which they expect to respond to you.

7.9 The MLRO will consider the report and any other available internal information they think is relevant e.g.:

- Reviewing other transaction patterns and volumes;
- The length of any business relationship involved;
- The number of any one-off transactions and linked one-off transactions;
- Any identification evidence held.

and undertake such other reasonable enquiries they think appropriate in order to ensure that all available information is taken into account in deciding whether a report to the NCA is required (enquiries being made in such a way as to avoid any appearance of tipping off those involved). The MLRO may also need to discuss the report with you.

7.10 Once the MLRO has evaluated the disclosure report and any other relevant information, they must make a timely determination as to whether:

- There is actual or suspected money laundering/terrorist financing taking place; or
- There are reasonable grounds to know or suspect that is the case; and
- Whether they need to seek consent from the NCA for a particular transaction to proceed.

7.11 Where the MLRO does so conclude, then they must disclose the matter as soon as practicable to the NCA on their **standard report form** and in the prescribed manner, unless they have a reasonable excuse for non-disclosure to the NCA (for example, if you are a lawyer and you wish to claim legal professional privilege for not disclosing the information). Up to date forms can be downloaded from the NCA website at www.nationalcrimeagency.gov.uk.

- Where the MLRO considers no money laundering/terrorist financing is taking place or suspects money laundering or terrorist financing but has a reasonable excuse for non-disclosure, then they must note the report accordingly; they can then immediately give their consent for any ongoing or imminent transactions to proceed. Remember - it's better to disclose than not – "better safe than sorry".
- In cases where legal professional privilege may apply, the MLRO must liaise with the Director of Governance and Assurance to decide whether there is a reasonable excuse for not reporting the matter to the NCA.
- Where consent is required from the NCA for a transaction to proceed, the transaction(s) in question must not be undertaken or completed or proceed until the NCA has specifically given consent, or there is deemed consent through the expiration of the relevant time limits without objection from the NCA.

7.12 Where the MLRO concludes that there are no reasonable grounds to suspect money laundering/terrorist financing then they shall mark the report accordingly and give their consent for any ongoing or imminent transaction(s) to proceed.

7.13 All disclosure reports referred to the MLRO and reports made by them to the NCA must be retained by the MLRO in a confidential file kept for that purpose, for at least 5 years from the end of the business relationship.

7.14 The MLRO commits a criminal offence if they know or suspect, or have reasonable grounds to do so, through a disclosure being made to them, that another person is engaged in money laundering/terrorist financing and they do not disclose this as soon as practicable to the NCA.

8 Due Diligence Requirements

8.1 Where the Council is carrying out certain 'regulated activity' [1] then extra care needs to be taken to check the identity of the customer or client and understand their business. This is known as carrying out Customer Due Diligence (CDD). (See Appendix 3 for CDD procedure and Sources of Evidence document). This is necessary so that the Council is in a position to know if there is suspicious activity that should be reported; clearly it is only by the Council knowing its clients and their businesses that it can recognise abnormal and possibly suspicious activity.

8.2 CDD must be carried out when the Council is undertaking regulated activities, and:

- Intends to establish a business relationship;
- Is carrying out an occasional transaction that amounts to a transfer[2] of funds exceeding €1,000;
- Is carrying out an occasional transaction that amounts to €15,000 or more, whether or not it is executed in a single operation or in several operations which appear to be linked;
- Money laundering or terrorist financing is suspected;
- There is doubt over the veracity or adequacy of documents or information previously obtained the purposes of identification or verification.

8.3 CDD should be applied on a risk sensitive basis for existing customers and must be carried out during the life of a business relationship, but should be proportionate to the risk of money laundering and terrorist funding, based on the officer's knowledge of the customer and a regular scrutiny of the transactions involved.

8.4 Where there is a beneficial owner who is not the customer, then the Council must take reasonable measures to verify their identity and where the beneficial owner is a trust or similar, then the Council must understand the nature of the control structure of that trust.

8.5 If satisfactory evidence of identity is not obtained at the outset then the business relationship or one off transaction cannot proceed any further.

8.6 Under MLR 2017, simplified due diligence is only permitted where it is determined that the business relationship or transaction presents a low risk of money laundering or terrorist funding, taking into account the Council's assessment of the risk.

8.7 Enhanced due diligence must be undertaken in addition to CDD, on a risk sensitive basis, in the following circumstances:

- When the customer is not physically present when identification checks are undertaken;
- When business relationships are entered into with a 'politically exposed person' - typically, a non UK or domestic member of parliament, head of state or government; or government minister and their family members and known close associates;
- When you enter into a transaction with a person from a high risk third country identified by the EU ;
- Any other situation where there's a higher risk of money laundering or terrorist financing.

8.8 Enhanced due diligence should include obtaining any additional documentation, data or information that will confirm the customer's identity and/or the source of the funds to be used in the business relationship/transaction.

8.9 If, at any time, it is suspected that a client or customer for whom the Council is currently, or is planning to carry out a regulated activity is carrying out money laundering or terrorist financing, or has lied about their identity, then this must be reported to the MLRO.

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[1] Regulated activity is defined as the provision 'by way of business' of: advice about tax affairs; accounting services; treasury management, investment or other financial services; audit services; legal services; estate agency; services involving the formation, operation or arrangement of a company or trust or; dealing in goods wherever a transaction involves a cash payment of €15,000 or more.

[2]Any transaction at least partially carried out by electronic means on behalf of a payer through a payment service provider, with a view to making funds available to a payee through a payment service provider, irrespective of whether the payer and the payee are the same person and irrespective of whether the payment service provider of the payer and that of the payee are one and the same.

9 Guidance and Training

9.1 In support of the Policy and Procedures, the Council will:

- Make all Members, employees, partners, external bodies working on behalf of the Council aware of the requirements and obligations placed on the Council and on themselves as individuals by the 2017 MLRs; and
- Give targeted training to those most likely to encounter money laundering/terrorist financing, as identified in the risk assessment.

10 Conclusion

10.1 The legislative requirements concerning anti-money laundering procedures are lengthy and complex. This Policy has been written to enable the Council to meet the legal requirements in a way which is proportionate to the risk to the Council of contravening the legislation.

10.2 If individuals have any concerns whatsoever regarding any transactions then they should contact the MLRO.

11 Monitoring and Review of Compliance

11.1 It is the responsibility of all Chief Officers to undertake regular monitoring and review of their department's compliance with the Anti-Money Laundering Policy and Procedure and in particular to ensure that the procedure to be adopted is communicated to all Members, employees, partners, external bodies working on behalf of the Council.

12 Record Keeping

12.1 Copies of documents and information used to fulfil CDD obligations must only be processed for the purposes for which they are intended and should be kept for a period of 5 years following the completion of a transaction or the end of business relationship. At the end of the 5 year period personal data should be deleted unless:

- The Council is required to retain records containing personal data under an enactment or for the purposes of court proceedings, or there are reasonable grounds for believing the records need to be retained for legal proceedings, or;
- The Council has the consent of the person whose data it is.

13 Policy Review

13.1 The Policy will be reviewed on an annual basis and updated/amended when new legislation/guidance is issued, to ensure all information is accurate and up-to-date.

Document Ownership	
Policy owned by:	Mark Niblock, Chief Internal Auditor, Internal Audit – Business Services
Policy documented by:	Luan Quirke, Lead Auditor, Internal Audit
Date policy documented:	July 2018
Date policy due for 1st review:	July 2019

Version Control Table All changes to this document are recorded in this table			
Date	**Notes/Amendments**	**Officer**	**Next Scheduled Review Date**

ANTI-MONEY LAUNDERING

BRIEFING NOTE FOR FRONT LINE EMPLOYEES

WHO SHOULD USE THIS BRIEFING NOTE?

Wirral Council employees are encouraged to read the Anti-Money Laundering Policy as it applies to all employees. However, this Briefing Note will act as a quick reference guide to inform front line employees of the fundamental areas of the policy that apply to them.

WHAT IS MONEY LAUNDERING?

Money Laundering is the term used for a number of offences involving the integrating of “dirty money’’ (i.e. the proceeds of crime) into the mainstream economy. The objective is to legitimise the possession of such monies through circulation and this effectively leads to “clean’’ funds being received in exchange.

Because of the way in which the legislation defines money laundering it would be safe to presume that anyone who makes a monetary or material gain as a result of criminal activity will almost certainly be involved in money laundering. Thus if a Council employee becomes involved in any arrangement through the course of their work, with anyone who is involved in such criminal activity then the Council could also be deemed to have become involved in money laundering.

WHAT SHOULD I DO ON A DAY TO DAY BASIS TO PREVENT MONEY LAUNDERING?

At all times during the course of your work you should be vigilant to the actions of members of the public and your colleagues, and be aware of the possibility of money laundering/terrorist financing.

You should be aware of suspicious customers and unusual transactions such as:

- large cash payments over £1,000 or a group of related transactions, by the same person amounting to £1,000 or above;
- regular cash payments when other types of payment are common or a customer wanting to over pay an account or;
- a customer wanting to reverse earlier transactions.

These circumstances would not make the customer guilty of any crime but may warrant your further attention to discern the legitimacy of their funds.

Any transactions that appear suspicious must be reported to the Money Laundering Reporting Officer (MLRO (See attached flow chart for details).

If a customer wishes to make a payment in cash over £1,000 identification should be requested. (See Appenidx 2 - Verification of Customer Identity document).

I SUSPECT MONEY LAUNDERING OR TERRORIST FINANCING – WHAT SHOULD I DO?

- If you become aware of, or suspect that a customer may be involved in criminal activity, you should inform the MLRO of their potential involvement in money laundering as soon as possible. You should try to communicate your suspicions verbally where possible. If this is not practical due to the environment you work in then your suspicions should be communicated by email (Refer to the contact information below).

- You should not discuss the matter with **anyone** else. However, if you wish to consult your line manager before approaching the MLRO, you must be aware that both you and your line manager would have to disclose a report to the MLRO individually. This is because it is not a defence to presume that a report to the MLRO has been made on your behalf.

- It is vital that you follow the advice provided by the MLRO. You may be asked to make a formal report via the Money Laundering reporting form.

- No further action should be taken on the transaction without prior approval from the MLRO.

- At no time and under no circumstances should you voice any suspicions to the person(s) whom you suspect of money laundering or terrorist financing, even if the National Crime Agency (NCA) has given consent for a particular transaction to proceed, otherwise you may commit a criminal offence of "tipping off".

- All evidence (e.g. transaction details, notes detailing dates and times of events etc) held supporting your suspicion should be retained until the MLRO has given instructions as to the action to be taken regarding the client.

- No notes should be placed on the client's file regarding the concern.

It is vital that you follow the above procedure whenever you become justifiably suspicious of a client transaction. This will ensure that the Council reduces the risk of becoming victim to the ever-changing tactics of the criminal world to legitimise its money.

Failure to comply with the Anti-Money Laundering Policy and Procedures or failing to report suspicious activity may constitute a disciplinary offence and/or a criminal offence.

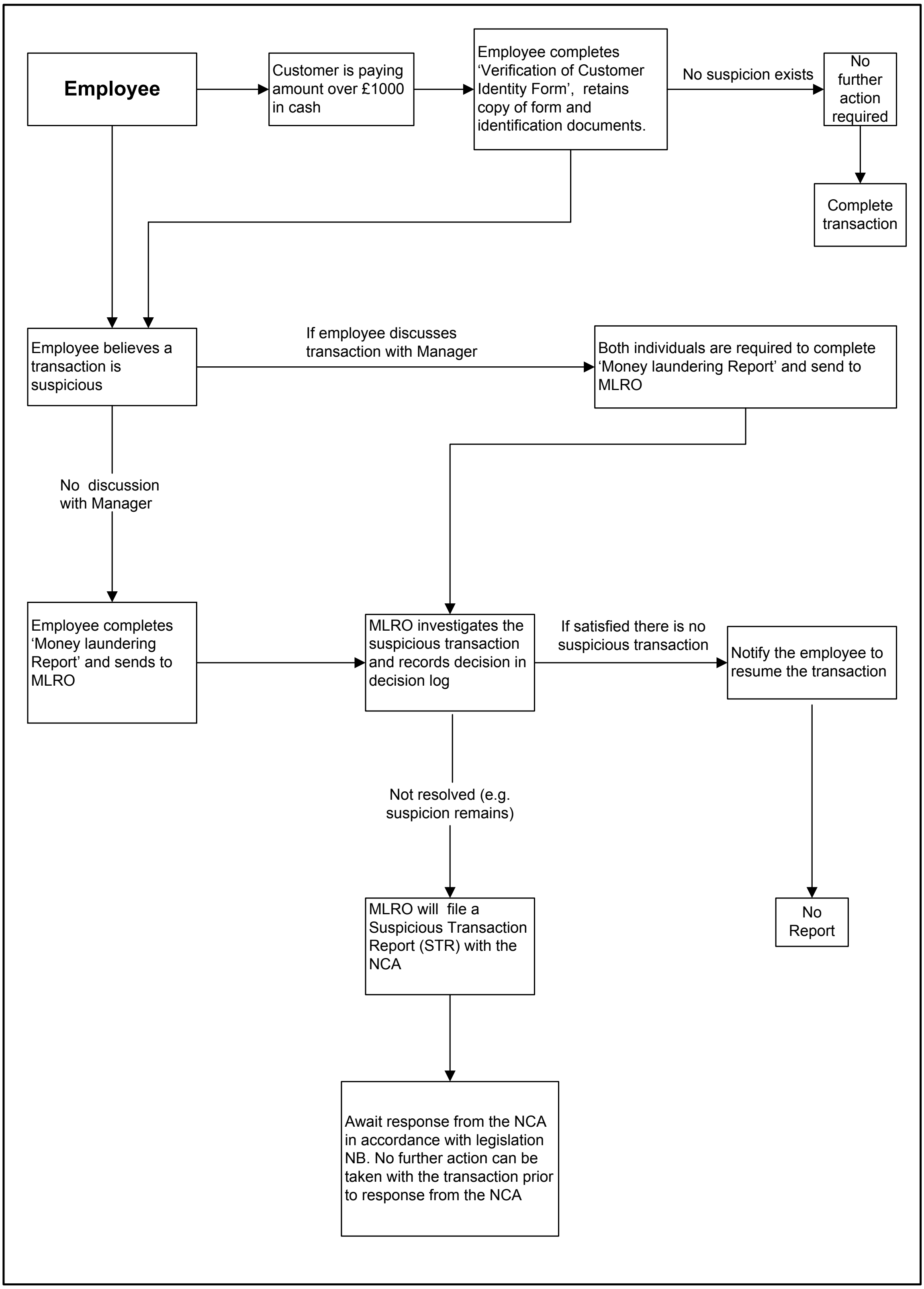
USEFUL DETAILS

MLRO is the Director of Finance & Investment, who can be contacted by telephone on 691 8688. The Assistant Director of Finance & Investment can be contacted in the absence of the MLRO.

APPENDIX 1

Anti-Money Laundering

SUSPICIOUS TRANSACTION REPORTING PROCEDURE



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ANTI-MONEY LAUNDERING

VERIFICATION OF CUSTOMER IDENTITY

NB: If you are receiving funds from a Council customer in any transaction above £1,000 cash, the identity of the person making the payment must be checked and confirmed.

All suspicions about possible Money Laundering, regardless of amount, should be reported to the Money Laundering Reporting Officer, via the Money Laundering reporting form.

Customer Details

Forename		**Surname**	
Address:			
Payment in Respect of:		**Payment Reference**	
Amount	**£**	**Receipt Number** (If Applicable)	

If a payment is being made on behalf of a Wirral Council customer by a third party then please complete the details below in respect of the third party.

Details of the Third Party Making the Payment:

Forename		**Surname**	
Address:			

1. Evidence not obtained – reasons:

1. Customer/third party previously identified in: Month __________Year ________________

2. Other – state reason fully ____

2. Individuals and Third Parties

Met customer or third party face to face?

Yes– obtain **1** form of identification, either:	**No**– obtain **2** forms of identification, either:
Proof of identity – photo identity or:	Proof of identity – photo identity and an additional piece of evidence or:
Proof of identity – non-photo identity and proof of address (Please note P.O. Boxes are not acceptable addresses) or date of birth (can be electronic).	Proof of identity – non-photo identity, proof of address (Please note P.O. Boxes are not acceptable addresses) or date of birth Plus: an additional piece of evidence.

See table overleaf for acceptable sources of evidence.

Evidence of Identity	Evidence of Address or Date of Birth
(Please tick box to confirm identity type verified)	
Acceptable photo identity ☐ Valid passport ☐ Valid photocard driving licence (full or provisional) ☐ National identity card (non-UK nationals issued by EEA member states and Switzerland) ☐ Identity card issued by the Electoral Office for Northern Ireland ☐ Other (Please specify) **Acceptable non-photo evidence** Documents issued by a government department, incorporating the person's name and residential address or their date of birth, e.g: ☐ A current UK full driving licence old version (not provisional licences) ☐ Evidence of entitlement to a state or local authority funded benefit (including housing benefit and council tax benefit), tax credit, pension, educational or other grant ☐ Documents issued by HMRC, such as PAYE coding notices and statements of account (NB: employer issued documents such as P60s are not acceptable) ☐ End of year tax deduction certificates ☐ Other (Please specify)	☐ Instrument of a court appointment (such as a grant of probate, bankruptcy) ☐ Current council tax demand letter or statement ☐ Current (within the last 3 months) bank statements, or credit/debit card statements issued by a regulated financial sector firm in the UK, EU or JMSLG equivalent jurisdiction (but not those printed off the internet) ☐ A file note of a visit by a member of the Council to the address concerned ("home visit") ☐ An electoral register search showing residence in the current or most recent electoral year) ☐ A recent (last available) utility bill (gas, water, electricity, telephone – **not** mobile 'phone bills); it must be a bill or statement of account (**not** correspondence) ☐ Valid photocard driving licence (full or provisional) ☐ A current UK full driving licence old version (**not** provisional licences) ☐ Evidence of entitlement to a state or local authority funded benefit (including housing benefit and council tax benefit), tax credit, pension, educational or other grant ☐ Documents issued by HMRC, such as PAYE coding notices and statements of account (NB: employer issued documents such as P60s are not acceptable) ☐ Solicitor's letter confirming recent house purchase or land registry confirmation (you must also verify the previous address) ☐ Other (Please specify)

I confirm that I have seen the originals of the documents indicated above and have identified the above Customer or Third Party.

Cashier 1 Name ___________________Signature ___________________Date ___________

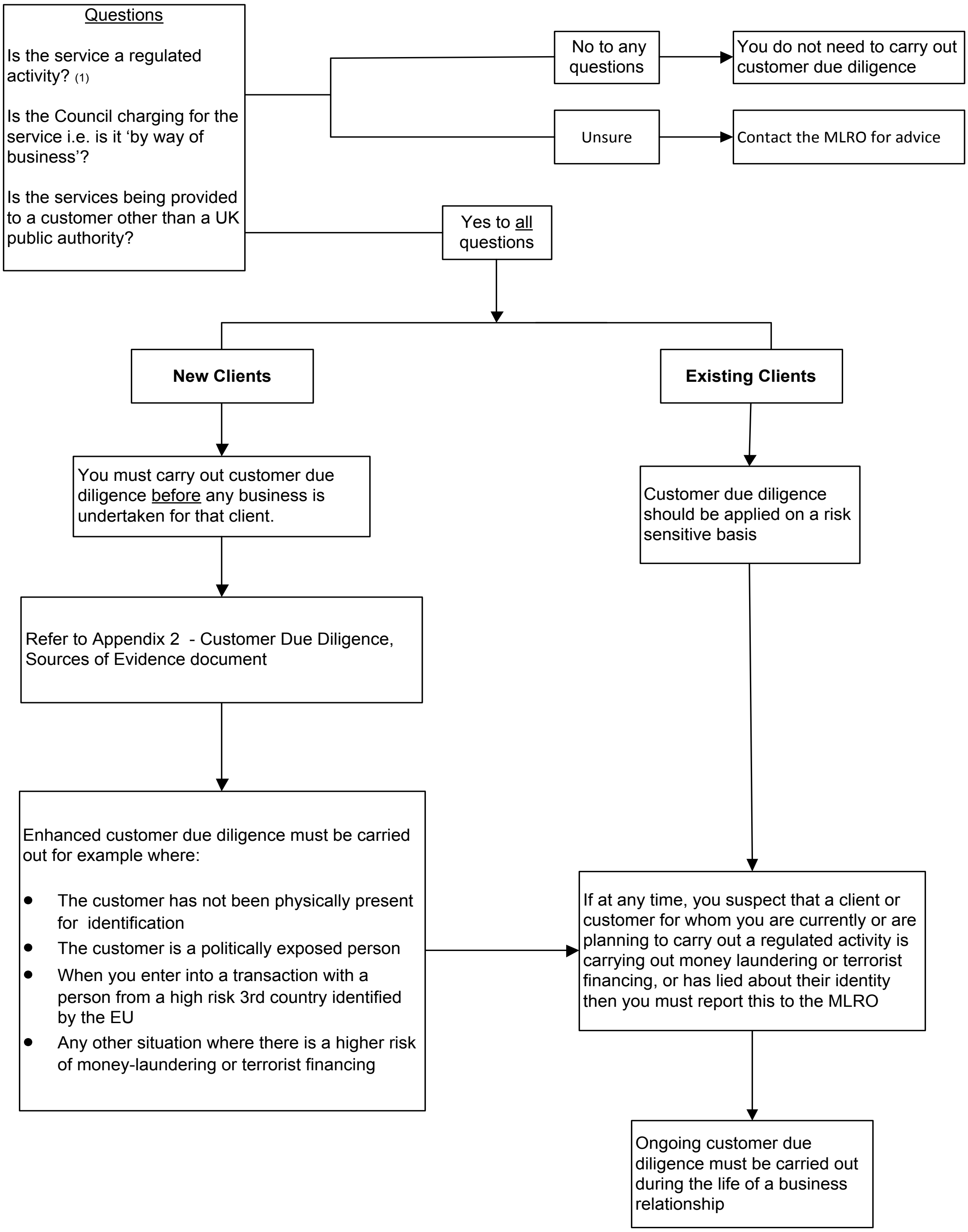
Cashier 2 Name ___________________Signature ___________________Date ___________

NB Wherever possible TAKE PHOTOCOPIES of the identification evidence and PUT ON FILE. Copies should be stamped to indicate a copy and signed to evidence sight of the original.

ANTI-MONEY LAUNDERING

CUSTOMER DUE DILIGENCE

PROCEDURE



1 “Regulated activity is defined as the provision ‘by way of business’ of: advice about tax affairs; accounting services; treasury management, investment or other financial services; audit services; legal services; estate agency; services involving the formation, operation or arrangement of a company or trust or; dealing in goods wherever a transaction involves a cash payment of €15,000 or more.”

Set out below are examples of risk-based verification for some of the more common client types.

A. Individuals   Met face to face?

Yes and normal risk – obtain:	**No and/or higher risk** – obtain:
• either: proof of identity – photo identity or; • proof of identity – non-photo identity and proof of address (Please note P.O. Boxes are not acceptable addresses) or date of birth (can be electronic)	• either: proof of identity – photo identity and an additional piece of evidence • or: proof of identity – non-photo identity, proof of address (Please note P.O. Boxes are not acceptable addresses) or date of birth Plus: an additional piece of evidence

(List 1) Evidence of identity	**(List 2) Evidence of address or date of birth**
Acceptable photo identity • valid passport; or • valid photocard driving licence (full or provisional); or • national identity card (non-UK nationals issued by EEA member states and Switzerland); or • identity card issued by the Electoral Office for N. Ireland **Acceptable non-photo evidence:** Documents issued by a government department, incorporating the person's name and residential address or their date of birth, e.g: • a current UK full driving licence old version (not provisional licences); or • evidence of entitlement to a state or local authority funded benefit (including housing benefit and council tax benefit), tax credit, pension, educational or other grant; or • documents issued by HMRC, such as PAYE coding notices and statements of account (NB: employer issued documents such as P60s are not acceptable):or • end of year tax deduction certificates.	• instrument of a court appointment (such as a grant of probate, bankruptcy); or • current council tax demand letter or statement; or • current (within the last 3 months) bank statements, or credit/debit card statements issued by a regulated financial sector firm in the UK, EU or JMSLG equivalent jurisdiction (but not those printed off the internet); or • a file note of a visit by a member of the Council to the address concerned ("home visit"); or • an electoral register search showing residence in the current or most recent electoral year); or • a recent (last available) utility bill (gas, water, electricity, telephone – **not** mobile 'phone bills); it must be a bill or statement of account (**not** correspondence); or • valid photocard driving licence (full or provisional); or • a current UK full driving licence old version (**not** provisional licences); or • evidence of entitlement to a state or local authority funded benefit (including housing benefit and council tax benefit), tax credit, pension, educational or other grant; or • documents issued by HMRC, such as PAYE coding notices and statements of account (NB: employer issued documents such as P60s are not acceptable); • or a solicitor's letter confirming recent house purchase or land registry confirmation (you must also verify the previous address).

B. Entities

i. Private company/LLP Met a representative face to face?

Yes and normal risk – obtain:	**No and/or higher risk** – obtain:
Full company search from a national companies registry (or equivalent information obtained through a commercial provider of registry information) Or: Certified copies of taken from original documents evidencing details of incorporation or registration, registered office and list of directors and shareholders/members Identify any shareholder/member in the entity holding more than 25% of the equity (rights to either income, capital or voting), or if there is no holding over 25%, where considered appropriate on a risk sensitive basis, the largest holding. Repeat step above until appropriate ultimate beneficial owners have been identified.	Select individual(s) and entities that is/are capable of exercising significant influence over this entity either as an appointed director, or as a shadow director or equivalent, **identify** it/them according to whether a legal or natural person. Select any shareholder/member in the entity holding more than 25% of the equity (rights to either income, capital or voting), or where no holding over 25%, the largest holding **and identify** it/them according to whether a legal or natural person Repeat step above until appropriate ultimate beneficial owners have been verified. For all entities, if a money service business, verify HMR&C registered number (obtain certified copy of certificate or call HMR&C National Advice Service on 0845 0109000, Opt. 3)

ii. Listed or regulated entity

Obtain either a printout from the relevant regulator's or exchange's web-site (and annotate), or obtain direct written confirmation from the regulator or exchange, confirming the regulated or listed status of the entity (ensure basic details of name, address, any membership or registration details, and any disciplinary details where applicable are provided).

iii. Government or similar bodies

Obtain and annotate evidence to confirm the body's:

- main place of operation; and
- the government or supra-national agency controlling it (government and supranational agency web-sites are a useful source of information)
- for Housing Associations, the printout must contain its registered number, registered company number (where appropriate) and registered address

For Listed/regulated entities and Government/similar bodies, additional verification steps are not generally considered necessary in such cases, as these entities in the UK qualify for application of simplified due diligence.

iv. Money Service business

Verify HMR&C registered number (obtain certified copy of certificate or call HMR&C National Advice Service on 0845 0109000, Opt. 3).

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ANTI-MONEY LAUNDERING – OFFENCES TABLE

Section Reference	Offence	Definition
S327	**Concealing Criminal Property**	A person commits an offence if they conceal, disguise, convert or transfer criminal property or if they remove criminal property from England, Wales, Scotland or Northern Ireland. This is punishable by a maximum term of imprisonment of 14 years at the Crown Court and an unlimited fine. At the Magistrates Court it is 6 months and £5,000 fine.
S328	**Arrangements**	This offence requires a person to become actively involved in some arrangement which helps someone else to get, keep, use or control the proceeds of a crime. The punishment is as for S327.
S329	**Acquisition, use and possession**	This offence is committed by anyone that has criminal proceeds in their possession provided they know or suspect that it represents the proceeds of a crime unless they paid 'adequate consideration' for it. Someone who pays less than the open market value is therefore guilty of the offence but someone who pays the full retail price, despite knowing or suspecting they are stolen goods is not guilty. The punishment is as for S327.
S330	**Failure to Disclose Offence: Regulated Sector**	This offence is committed by an employee of a business in the regulated sector who has knowledge or suspicion of another persons involvement in money laundering and does not make a report through the appropriate channels. Negligence is not a defence as the employee will be tried upon what they should have known given their experience, knowledge and training. This is punishable by a maximum term of imprisonment of 5 years and/or a fine.

Section Reference	Offence	Definition
S331	**Failure to Disclose Offence: Nominated Officers in the Regulated Sector**	This offence is committed by a nominated officer (MLRO) of a business in the regulated sector who has knowledge or suspicion of another persons involvement in money laundering and does not make a report through the appropriate channels without an acceptable excuse under the legislation. Negligence is not a defence as the nominated officer will be tried upon what they should have known given their experience, knowledge and training. This is punishable by a maximum term of imprisonment of 5 years and/or a fine.
S332	**Failure to Disclose Offence: Other Nominated Officers**	This offence is committed by a nominated officer (MLRO) of a business outside of the regulated sector who has knowledge or suspicion of another persons involvement in money laundering and does not make a report through the appropriate channels without an acceptable excuse under the legislation. The officer will be tried on what they knew or suspected not on what they might have been expected to know or suspect. This is punishable by a maximum term of imprisonment of 5 years and/or a fine.
S333	**Tipping Off Offence**	This offence is committed if an officer makes a disclosure which is likely to prejudice an investigation being carried out by a law enforcing authority, knowing that such an investigation is in motion. This is punishable by a maximum term of imprisonment of 5 years and/or a fine.

Agenda Item 8

Audit and Risk Management Committee
Monday, 23 July 2018

REPORT TITLE:	**IMPROVEMENTS TO THE CORPORATE RISK MANAGEMENT FRAMEWORK**
REPORT OF:	**Chief Executive**

REPORT SUMMARY

My report to the committee on 12 March 2018 indicated that improvements were needed to the Council's approach to managing risk. It focussed on proposals for ensuring that the corporate risk register reflects the most significant risks to delivery of the Council's objectives and enhanced arrangements for its oversight. This report summarises subsequent developments in relation to those proposals but also sets out a number of actions to support broader improvements to the Council's approach to risk.

RECOMMENDATION/S

1. That Members consider the proposed actions.

2. That progress reports on improvement actions are brought to future meetings of the committee.

SUPPORTING INFORMATION

1.0 REASONS FOR RECOMMENDATIONS

1.1 The committee needs to understand the authority's arrangements for managing risk in order to fulfil its role of providing independent assurance of the Council's governance regime.

2.0 OTHER OPTIONS CONSIDERED

2.1 None. The need to deliver improvements to the Council's risk management arrangements has been recognised by both SLT and this committee.

3.0 BACKGROUND INFORMATION

3.1 In a report to this committee on 12 March I indicated that changes to the Council's risk management framework needed to be made.

3.2 That report focussed on proposals for the future governance of the Council's most significant risks. However, with the implementation of the new corporate structure, the development of the Integrated Commissioning Hub and major initiatives in relation to economic regeneration and growth the opportunity is being taken to review the authority's overall arrangements for managing risk. As a result the Council is completely refreshing its approach.

3.3 An initial set of proposals was considered by the Strategic Leadership Team (SLT) on 20 March 2018. Chief amongst these was creating greater ownership of risk amongst executive and political leaders and enforcing greater accountability for their management, improving the oversight of critical operational risks, creating more capacity to support the risk management process and improved reporting arrangements. These were agreed by the team and progress in respect of these is summarised below.

3.3.1 An enhanced SLT corporate risk review which will take place monthly has been agreed and will be initiated in September. It will be informed by the new performance dashboard referred to in paragraph 3.6. Greater scrutiny of and challenge to the effectiveness of controls will be at the heart of the review.

3.3.2 A network of officers has been established across the organisation. Their role is to support the embedding of improved risk management arrangements within each directorate and to work with the Senior Risk and Insurance Officer on the production of the new monthly corporate risk report.

3.3.3 A set of corporate critical operational risks has been identified and will be considered by SLT as part of the review of corporate risks. Such risks arise from Council's business as usual activities but their potential impacts in aggregate present major threats. Controls for these risks are being mapped to support regular oversight of them through performance monitoring and management arrangements.

3.4 SLT recognises its responsibilities in relation to the effective management of risk as part of the overall governance of the organisation. In seeking to drive change in this area the team sought an opportunity to discuss good practice in this field and consider further changes that might be needed to ensure that this is delivered.

SLT Session

3.5 A session, facilitated by Zurich the Council's insurance and risk management provider, was held with SLT on 19 June 2018. This examined the Council's goals in relation to risk management, the effectiveness of current arrangements, actions to improve these, the existing corporate risks and whether they continue to represent the most critical threats to the Council's objectives.

3.6 The session initiated discussion as to the most critical risks facing the Council at this time. A further more detailed exercise will take place in August and a refreshed corporate risk register, owned by SLT, finalised by the end of that month. This will be monitored through by the new monthly dashboard reporting arrangements and updated to ensure that the register continues to reflect the Council's position.

3.7 The discussion also resulted in the following actions.

Action	**Target Date**
Paper to engage Cabinet in the process of improving the risk management framework	07/08/2018
Agree the revised corporate risks	14/08/2018
Map the key controls for the revised corporate risks	31/08/2018
Deliver training to Overview & Scrutiny Committees	August 2018 onwards
Introduce risk reports for Overview & Scrutiny Committees	August 2018 onwards
Second session with SLT to develop further improvement actions	30/09/2018
Consider the appetite for each corporate level risk	30/09/2018
Introduce the monthly corporate risk review	30/09/2018
Provide training in risk management principles and techniques to the officers providing risk management support to each directorate	30/09/2018
Develop a risk management component for the leadership training programme for senior officers	31/10/2018

3.8 To drive the improvements identified by SLT a task and finish group chaired by the Director for Business Management has been established. This includes representation from the Risk & Insurance team, Internal Audit, the Intelligence Service and Business Design & Change.

3.9 This group will also generate suggestions for further improvement. These will be shared with SLT and with this committee.

3.10 Progress in relation to the above actions and additional improvement actions proposed will be reported to future meetings of this committee.

3.11 Changes arising from the improvement actions will be reflected in future updates of the Corporate Risk Management policy.

4.0 FINANCIAL IMPLICATIONS

4.1 There are no immediate financial implications arising directly from this report.

5.0 LEGAL IMPLICATIONS

5.1 The improvements will help to support compliance with the Council's obligations under Part 2 of the Accounts and Audit Regulations 2015.

6.0 RESOURCE IMPLICATIONS: ICT, STAFFING AND ASSETS

6.1 Risk management support officers have been identified from the Council's existing establishment.

7.0 RELEVANT RISKS

7.1 The actions summarised in paragraphs 3.6 and 3.7 will lead to the creation of a revised corporate level risk register.

8.0 ENGAGEMENT/CONSULTATION

8.1 No specific consultation has been undertaken with regard to this report.

9.0 EQUALITY IMPLICATIONS

9.1 There are none arising directly from this report.

REPORT AUTHOR: ***Mike Lane***
Senior Risk and Insurance Officer
telephone: (0151) 666 3413
email: mikelane@wirral.gov.uk

APPENDICES

None

REFERENCE MATERIAL

Correspondence with insurers

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Audit & Risk Management Committee Corporate Risk Register Corporate Risk Management Policy	 12 March 2018 25 September 2017

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Audit and Risk Management Committee
Monday, 23 July 2018

REPORT TITLE:	**MANAGEMENT OF INSURANCE AND CORPORATE RISK**
REPORT OF:	**Director of Finance and Investment**

REPORT SUMMARY

This report sets out progress made since my previous report in relation to key actions planned for 2018/19.

RECOMMENDATION/S

1. That the content of this report be noted.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 Regular update reports are presented to this Committee on the work around risk management and insurance which seek to support the Risk Management framework and maintain the successful management of the insurance programme.

2.0 OTHER OPTIONS CONSIDERED

2.1 Not applicable to this report

3.0 BACKGROUND INFORMATION

3.1 Risk and insurance management comprises two significant areas of activity:

- The provision of advice and support to Members and officers in developing the corporate risk management framework and processes.
- Risk financing which incorporates insurance procurement, management of the Council's Insurance Fund and claims management.

3.2 In addition to day-to-day operations the service is responsible for major procurement exercises and improvement activities. This area of the report focuses on the latter. The key actions to be implemented during 2018/19 were included in the report to this Committee on 12 March 2018. Progress since my last report in respect of those actions is summarised in the paragraphs below.

3.2.1 **Corporate Risk Register**

Developments in relation to the corporate risk register are confirmed within my report on Improvements to the Risk Management Framework.

3.2.2 **Improvements to the Risk Management Framework**

This is the subject of a separate report to this committee.

3.2.3 **Traded Services for Schools and Academies**

All existing school clients have continued with the Council's Service Level Agreement for the provision of Risk and Insurance services for 2018/19. Two further academies have taken out a service level agreement for the risk and insurance service. The service is proposing to Academy schools clients a package of cover from the insurance market rather than the Department for Education's Risk Protection Arrangement as this provides better overall value.

3.2.4 **Procurement of Property / Business Interruption, Museums, Crime, Terrorism and Personal Accident/Business Travel Insurance**

<u>Property and Business Interruption</u>
Five submissions were received in respect of this contract. They were evaluated on a 'Most Economically Advantageous Tender' model in which quality and price both had a weighting of 50%. Quality was considered in relation to policy cover, claims service and added value. The response from Zurich Municipal was evaluated as the highest scoring bid and I have awarded the contract to them. The annual cost of the new contract represents a saving of 13% (£29,000) over the cost for the previous year.

<u>Museums (Fine Art)</u>
Three submissions were received in respect of this contract. They were evaluated on a 'Most Economically Advantageous Tender' model in which quality and price both had a weighting of 50%. Quality was considered in relation to policy cover, claims service and innovation / added value. The response from Axa Art was evaluated as the highest scoring bid and I have awarded the contract to them. The annual cost of the new contract represents a saving of 35% (£5,400) over the cost for the current policy year.

<u>Crime</u>
Only one submission was received in respect of this contract from Zurich Municipal. That response was evaluated on a 'Most Economically Advantageous Tender' model in which quality carried a weighting of 45% and price carried a weighting of 55%. As the response met the Council's specification, I have awarded the contract to Zurich Municipal. The annual cost of the new contract represents a saving of approximately 17% (£8,800) over the cost for the previous policy period.

<u>Terrorism</u>
Two submissions were received in respect of this contract. They were evaluated on a 'Most Economically Advantageous Tender' model in which quality carried a weighting of 45% and price carried a weighting of 55%. Quality was considered in relation to policy cover, claims service and innovation / added value. The response from Lloyds (via JLT) was evaluated as the highest scoring bid and I have awarded the contract to them. The annual cost of the new contract represents an increase of 5% (£2,000) over the cost for the previous year because of a significant rise in the first loss sum insured.

<u>Personal Accident/Business Travel</u>
Two submissions were received in respect of this contract. They were evaluated on a 'Most Economically Advantageous Tender' model in which quality carried a weighting of 30% and price carried a weighting of 70%. Quality was considered in relation to policy cover. The response from Risk Management Partners was evaluated as the highest scoring bid and I have awarded the contract to them. The annual cost of the new contract represents a saving of 11% (£530) over the cost for the current policy year.

3.2.5 **Annual Renewal of Liability, Motor, Engineering and Computer Insurance Policies**

Renewal terms were agreed with insurers prior to the expiry of the previous policy period ensuring continuity of cover and all policy documentation and certificates have been received. Although premiums for 2018/19 are greater than for 2017/18 the figures are within the budget reported to Members on 29 January.

3.2.6 **Liability Claims Handling**

A modest increase in new claims reported has been experienced in recent months. The increase has mostly been driven by the impact of last winter's more severe weather on the highway network.

3.2.7 **Insurance Fund Annual Report**

The Insurance Fund Annual Report is the subject of a separate agenda item.

4.0 FINANCIAL IMPLICATIONS

4.1 The procurement exercise mentioned in paragraph 3.2.4 has resulted in a financial saving of approximately £42,000 per year and improved cover.

5.0 LEGAL IMPLICATIONS

5.1 There are none arising directly from this report.

6.0 RESOURCE IMPLICATIONS: ICT, STAFFING AND ASSETS

6.1 There are none arising directly from this report.

7.0 RELEVANT RISKS

7.1 Improvements to the Council's risk management framework indicated in paragraph 3.2.2 should improve the organisation's ability to handle risk.

7.2 If a large number of schools were to convert to academies the pool of contributors to the Insurance Fund would decrease. Over time this could reduce the authority's buying power and the degree to which it could self-insure. This in turn could increase the cost of financing insurable risk. However my officers remain vigilant to potential conversions and will make changes to the authority's arrangements to ensure that potential negative impacts are gradual and limited wherever possible.

8.0 ENGAGEMENT/CONSULTATION

8.1 No specific consultation has been undertaken with regard to this report.

9.0 EQUALITY IMPLICATIONS

9.1 There are none arising directly from this report.

REPORT AUTHOR: ***Mike Lane***
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email: mikelane@wirral.gov.uk

APPENDICES

None

REFERENCE MATERIAL

Correspondence with insurers, brokers and legal services providers

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Audit & Risk Management Committee	Routine report presented to all meetings of this Committee.

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Audit and Risk Management Committee
Monday, 23 July 2018

REPORT TITLE:	**INSURANCE FUND ANNUAL REPORT**
REPORT OF:	**Director of Finance and Investment**

REPORT SUMMARY

This report provides a review of Risk and Insurance activity during 2017/18 and the plans for 2018/19 and beyond. It details the underwriting arrangements and recent loss histories for the principal areas of insured risk and describes the impact of measures taken to improve their management. The provisions and reserves within the Insurance Fund at the end of 2017/18 are confirmed.

RECOMMENDATION/S

1. That Members endorse the release of monies from the Insurance Fund to the General Fund indicated in paragraph 3.40.

2. That officers are requested to prepare the Insurance Fund Budget 2019/20 for presentation to this committee in January 2019.

SUPPORTING INFORMATION

1.0 REASONS FOR RECOMMENDATIONS

1.1 To maintain appropriate financial reserves.

1.2 The Insurance Fund Budget forms part of the Council budget-setting process.

2.0 OTHER OPTIONS CONSIDERED

2.1 The excess of reserves on the Liability class of business and for improving resilience could have been retained within the Insurance Fund. However this would have presented a lost opportunity to support General Fund balances.

3.0 BACKGROUND INFORMATION

Approach to Risk Financing

3.1 Since 1988 the Authority has used a combination of self-insurance and external insurance to address the financial consequences of risk.

3.2 Those risks which have the potential to generate substantial losses are self-insured to a high level but with a cap on the Council's liability above which costs are met by insurers. Such risks include legal liability to members of the public and to other organisations for injury or damage to property, motor accidents involving Council vehicles and damage to Council buildings.

3.3 Other more minor, expected, losses such as damage to equipment and plate glass are wholly self-insured.

3.4 The self-funding of losses is part of the Council's overall approach to managing risk. It provides a greater incentive to deal with risk more effectively given that any reduction in claims directly benefits the Authority. It also minimises the Council's liability for Insurance Premium Tax (currently levied at 12%) and contributions to insurers' administrative costs and profit margins. The level of self-insurance is influenced by the need to maintain the stability of the Insurance Fund over the long term and by the Council's appetite for risk. However as a point of principle the Council is seeking to cover more low value insurable risks through the Insurance Fund to leverage greater value from the Fund.

3.5 Claims are met from the Insurance Fund with the Fund being maintained through proportionate annual contributions from all functions and from schools.

3.6 The Fund also holds reserves which are available to support the implementation of initiatives to improve the management of risks both insured and uninsured.

Principal Areas of Insured Risk - Liability

3.7 The Council currently self-insures liability risks to a maximum aggregate of £3.2m for all claims occurring in any one policy year. In addition the Council's maximum liability for any single insured claim is currently limited to £250,000. Any costs above this are met by its insurers. The current policy resulted from a competitive tender exercise undertaken in 2016/17. The Long Term Agreement on this contract is in place until 31 March 2020 at which point the Council has an option to renew it for a further 2 years.

3.8 Members may recall that under the contract the Council self-handles low value property damage where no solicitor is involved. This continues to keep down claims handling costs. During 2017/18 100 claims were handled by the Risk and Insurance team. As at 31 March 2018 19 of these claims remained open. Of the 81 which had been closed liability was denied in 65 cases. The total amount paid for the 16 files which were closed with a payment was £5,940.

3.9 A large proportion of claims are still administered by both the former insurer Zurich Municipal and the current insurer Protector. However neither company has authority to settle claims within the deductible limits. All decisions on tactics, settlement and quantum on claims up to £250,000 are controlled by the risk and insurance function within the Council. This ensures that decisions are made in the best interests of the authority rather than the insurers and that a stable claims strategy can be maintained. As the insurers have no financial interest in claims below the deductible they may have little motivation to secure the most efficient outcomes. On the rare matters that have the potential to exceed £250,000 the Council works in partnership with the insurers to agree mutually acceptable outcomes. Both insurers and the solicitors engaged to defend legal proceedings work to defined service level agreements and the Council continuously monitors and manages their performance.

3.10 One outcome of the tragic fire at Grenfell Tower in June 2017 has been a reconsideration of the level of exposure of local authorities to the risk of legal liability. The Council increased the limit of indemnity on its Liability insurance from £30m to £50m at the start of the current contract in April 2017. However the Council's insurance brokers have suggested that although the council does not have a housing stock of its own a limit of at least £100m should be considered in order to protect the Council against a catastrophic loss. I will be exploring the cost and affordability of such an increase as part of the setting of the insurance budget for 2019/20.

Changes in the Civil Justice Regime

3.11 Behaviours within the claims environment have continued to evolve following the changes in claims regulation reported in previous versions of this report. Claimant solicitors continue to push at the boundaries to test the system as they attempt to maximise their costs income. However, the reduction in average legal costs on fast track matters appears to be sustained. There are proposals to extend fixed costs in claims worth up to £100,000. This is presently being considered by the senior judiciary and the Ministry of Justice. An increase in the small claims limit is contained in the Prisons and Courts Bill.

This is currently under review and there is the possibility this may be introduced in April 2019. These changes have the potential to further reduce the average cost per claim for the Council. . A working party are currently undertaking a general review of low value claims. This involves considering steps which may be taken to tackle fraud and resolve meritorious claims more quickly with reduced costs.

Public Liability Claims Statistics

3.12 The rate of receipt of new Public Liability (PL) claims increased compared to 2016/17. During 2017/18 a total of 250 new claims were received.

Table 1: Claims received – Public Liability

	Number of new Public Liability Claims Received within year				
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Highway Claims	373	319	324	204	210
Other	72	71	39	24	40
Total Claims	445	390	363	228	250
Year on Year	N/A	- 12%	- 7%	-37%	+9%

3.13 Whilst good risk management activity can affect the outcome of PL claims, by providing a defence, the frequency of receipt is influenced by factors over which the Council has little control. Dominant influences will include the incidence of severe weather, claims farming activity and the prevailing propensity to claim within the community. The winter of 2017/18 was more severe than in recent years and this is likely to have contributed to the increase in highway claims received.

3.14 This “claims received” table data describes the level of claims management activity required within the given periods. It is not necessarily reflective of the impact on individual account years as a claim could be received many years after the incident. Whilst this delayed receipt issue is more of an issue on Employers liability matters, as will be shown, it should be noted.

3.15 Individual claims can take many years to settle. A portfolio of approximately 260 open public liability files with a potential combined value circa £2.5m is currently being managed.

Employers Liability Claims Statistics

3.16 The number of Employers Liability (EL) claims received in 2017/18 fell slightly to a total of 16. This is significantly less than the peak several years ago and less than the long term average. In recent years many of the EL claims received have related to disease from exposure many years before. This trend continued in 2017/18. The alleged causes of the new claims are noted within table 2 below.

Table 2: Claims Received – Employers Liability

New Employers Liability Claims Reported by Date with Alleged Cause					
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Vibration	7	6	6	2	2
Noise (NIHL)	15	5	11	5	3
Asbestos	1	0	2	0	0
Slip / trip / trap / fall	18	12	5	7	4
Others including assault / stress and harassment	9	13	11	4	7
Total for year	50	36	35	18	16

3.17 Employers liability claims generally take much longer than public liability claims to be reported, investigated and, if necessary, settled. The Council is still receiving claims with alleged exposure periods as far back as the 1950's and 1960's for matters such as Noise Induced Hearing Loss and cancers relating to asbestos exposure.

3.18 Given the long exposure periods of disease claims a separate claim needs to be registered against each policy period covered by the exposure. This results in claims payments being distributed across multiple insurers with associated complexity due to the varying aggregate and deductible positions across these policies. Some insurers insist that a separate claim is recorded for each year within a long term policy period. With some alleged exposures spanning a 40 year employment period this can create extensive administration. Whilst Wirral has comparatively good records of historic insurances and can trace all insurers for most claims, there are uninsured periods due to insurer insolvency (Independent Insurance 1981–1984 and earlier Municipal Mutual Insurance (MMI) exposures for both Bebington Corporation and Birkenhead Corporation) and exposure to some employment prior to 1950 for which no insurer details can be traced.

3.19 The overall reserve for known EL claims was approximately £650,000 at 31/03/18 across 37 current live files (excludes multiple registrations for account years).

3.20 The level of complexity within individual EL cases has continued. It is also generally becoming more difficult to track down essential witnesses and documents. A lack of documentation for historic cases is expected. However reorganisation and contraction within services can often make the location of evidence and witnesses for even recent incidents difficult. The Council's ability to defend Employers' liability claims can be impacted by this situation.

3.21 The management of Liability claims continues to occupy a substantial amount of the risk and insurance resource. Again in 2017/18 new cases received included a number of complex and technically demanding claims. Whilst the Council continues to retain a good record in defending such cases this success requires an ongoing investment of time and expertise.

3.22 The account continues to generally perform well. The defence rates are high in most areas of exposure. The Highways claims statistics in particular continue at peer leading levels. The 'firm but fair' stance on liability and the counter-claims fraud strategy contribute to this outcome. The performance of claims handling and legal services providers and the continuing active involvement of experienced officers in controlling tactics and procedure all assist in containing the overall cost to the Council of this area of risk.

3.23 One area of uncertainty concerning the Council's Liability exposure is presented by the insourcing of Highways Maintenance. From 1 October 2018 the Council will be exposed to Employers Liability in relation to the employees subject to TUPE transfer and Public Liability in respect of the work undertaken under the contract. Such risks are currently the responsibility of the external contractor. I will monitor the impact of this change and take this into account in future annual reviews.

Property and Business Interruption

3.24 The Council self-insures to a maximum of £500,000 damage to property through fire and to a maximum of £1m for damage to commercial properties and to schools through storm flood and escape of water. Any costs above this are met by the insurer. As indicated in my report on the management of insurance and corporate risk a new insurance contract for these risks came into force with the existing insurer Zurich Municipal on 30 June 2018.

3.25 Although all property losses are reported to insurers minor claims are investigated and administered directly by the Council. A loss adjuster would be appointed to investigate and report to insurers on larger losses (those estimated to cost in the region of £30,000 or more). However the authority would still have a significant role in managing the reinstatement process and ensuring the optimum settlement is achieved from the insurer.

3.26 The table below shows the number and cost of claims in the last 5 policy years. It should be noted that the claims history for this policy has been very low, particularly given the size of the Council's property portfolio.

Year	Number	Paid to Date	Outstanding	Total
2013/14	17	£ 30,529	£ 0	£ 30,529
2014/15	13	£ 86,480	£ 0	£ 86,480
2015/16	13	£101,205	£ 0	£101,205
2016/17	16	£ 55,712	£ 0	£ 55,712
2017/18 *	12	£ 24,889	£49,652	£ 74,541

* Part year figures (as at 31 May 2018)

Motor

3.27 The Council self-insures to a maximum £213,700 all claims relating to any one policy year. In addition its maximum liability for any single claim is limited to £75,000. Any costs above this are met by the insurer. The Long Term Agreement on this contract expires on 31 March 2019. A competitive procurement exercise for this contract will be conducted before that date.

3.28 The Risk and Insurance service is responsible for handling all claims for 'own damage'. Insurers administer third party claims but must refer to the Council any proposals to pay or reject claims. As with Liability claims the authority has input into all decisions on tactics and quantum and continuously monitors and manages the performance of the claims handlers.

3.29 A reduction in vehicle numbers has been partly responsible for a decrease in the volume and cost of claims in recent years. However better management of fleet risk is another factor. The authorisation to drive procedure, minibus assessment process and a more robust approach to the investigation of accidents and the service's management of claims are all elements of this approach.

3.30 The table below shows the number and cost of claims in the last 5 policy years. With the exception of 2015/16 which includes one large claim reserved at approximately £38,000 the claims history for this policy in this period has also been low.

Year	Number	Paid to Date	Outstanding	Total
2013/14	32	£50,369	£ 0	£50,369
2014/15	43	£32,297	£ 0	£32,297
2015/16	38	£42,743	£37,954	£80,697
2016/17	29	£35,341	£12,694	£48,035
2017/18	31	£50,858	£10,007	£60,864

Other Classes of Business

3.31 Risks which present a more limited exposure to loss (such as damage to equipment, loss of money, damage to water craft and damage to plate glass) are wholly self-insured. Responsibility for handling claims for these areas rests solely with the risk and insurance service. Others (such as Computer, Crime and Personal Accident) are partially underwritten by insurers. They are procured through competitive tender and subject to Long Term Agreements. The authority liaises with insurers over the small number of claims generated by these contracts.

Review of Liability Reserves and Provisions

3.32 Whilst it is important to ensure that the Insurance Fund holds sufficient resources to meet its liabilities there is also an opportunity cost to maintaining a greater balance than is needed.

3.33 To help ensure that the Fund is sufficient to meet the cost of liability claims but is not over resourced reviews are undertaken every three to four years by an external actuary who assesses the amount needed to fund anticipated liabilities for previous years. In the intervening years internal evaluations are undertaken for the same purpose.

3.34 Actuaries will generally not provide a specific defined figure for recommended funding levels. But instead provide a range of figures for the scheme manager to consider based on the organisation's risk appetite.

3.35 During 2017/18 I commissioned the Council's insurance brokers to produce a funding study based on Liability claims data as at 31 March 2017. The study was to provide recommendations as to the sums required to be held to meet insured losses as well as forecasts as to the cost of claims in future financial years and the level of annual contributions to the Council's Insurance Fund to meet these.

3.36 This exercise indicated that a sum of £6,437,508 would be required as at 31 March 2018 to meet outstanding liabilities as per the centre column of the table below. In addition I consider it prudent to maintain the existing reserve of £1m set aside to meet uninsured losses (those relating to historic periods where the insurer cannot be identified or has become insolvent)

Combined Liability	**Funds Available at 31/03/2018 £**	**Actuary's Recommendation at 31/03/18 £**	**Difference £**
Provisions < 1 year (275 x IF028 provision for known liability claims that is expected to be utilised entirely within 2016/17)	1,000,000	1,000,000	0

Provisions > 1 year (276x IF028 provision for known liability claims where payment is expected to be made beyond the next year)	2,195,381	2,273,941	78,560
Insured Liability Reserve (475x IF028 reserve for insured claims incurred but not yet received, or claims received but insufficiently reserved)	3,512,918	2,684,366	-828,552
Uninsured Liability Reserve (475x IF056 reserve to cover claims payments for periods of insurer insolvency or policy coverage deficiency)	1,000,000	1,000,000	0
MMI reserve / provision (475x IF022 + 275x IF022 reserve to cover claims payments for periods of insurer insolvency or policy coverage deficiency)	404,380	479,201	74,821
Total liability reserves / provisions	**8,112,679**	**7,437,508**	**675,171**

3.37 It will be noted that as at 31 March 2018 the Fund held greater funds to meet its commitments in relation to Liability claims than the funding study has suggested was needed. Given the opportunity cost of retaining excess funding I have arranged for the £675,000 surplus to be released from the Liability reserves and provisions to General Fund balances.

Review of Other Reserves and Provisions

3.38 As indicated above the Insurance Fund underwrites a number of other classes of business. It also holds sums in respect of uninsured liability risks and to pay for risk improvement measures. These figures are also reviewed each financial year. The table below compares the actual amounts held as at the end of March 2018 in respect of these elements of the Fund.

Class	Funds Available as at 31/03/18 £	Sum Required at 31/03/18 £	Difference £
Property **(IF020)**	2,000,000	2,000,000	0
Motor **(IF018)**	200,000	200,000	0
Wholly self-insured claims (PFI plate glass equipment money marine) **(IF051, IF053, IF103, IF104, IF111)**	134,749	146,340	11,591
Fidelity Fund **(IF105)**	31,500	34,500	3,000
Business Continuity and Resilience (funds improvements in resilience to service disruption) **(IF021)**	1,333,000	0	-1,333,000
Professional Indemnity (funds excesses on Professional Indemnity claims and claims for uninsured services) **(IF046)**	50,000	50,000	0
Risk Management (supports individual risk improvement initiatives) **(IF024)**	150,000	150,000	0
Claims Management (funds the legal costs of handling uninsured liability claims) **(IF047)**	141,373	140,773	-600
Contaminated Land (funds uninsured liability claims for environmental impairment) (**IF023)**	750,000	750,000	0
Budget Surplus / Deficit (balance of Fund income v expenditure) **(IF052)**	69,976	0	-69,976
Total	**4,860,598**	**3,471,613**	**£1,388,985**

3.39 The reserve for Business Continuity and Resilience had been held for a number of years to improve the resilience of the Council's IT Network through the creation of an alternative data centre. The expenditure incurred in 2017/18 on the data centre has been capitalised allowing financing costs to be spread across years and enabling the reserve to be released for other uses. As a result the reserve was no longer required and I have arranged to return it to General Fund balances in 2017/18.

3.40 The closedown of the Insurance Fund accounts for 2017/18 and review / amendment of the reserves and provisions held within it therefore resulted in the following key actions.

(i) The release of £675,000 from the provision and reserve for Liability claims to the General Fund.

(ii) The release of £1,325,000 from the reserve for Business Continuity and Resilience to the General Fund

3.41 The reserves and provisions within the Insurance Fund amount to a substantial sum. Whilst all are clearly earmarked for specific purposes Members may take the view that the Authority's financial position is such that further amounts should be released to support general balances. Any decision would depend on Members risk appetite as such a release could mean that the Fund had insufficient resources to meet its future liabilities.

Insurance and Risk Management 2017/18

3.42 Throughout 2017/18 regular progress reports on Risk and Insurance Management were presented to this Committee.

Services for Schools

3.43 The insurance facility for Academy schools established in 2011/12 remained very popular with schools which have taken the decision to convert. The authority assists schools with tendering to obtain competitive quotations for academy-specific insurance packages, critically appraises policy wordings verifies all policy documentation provides support with claims and general risk management advice. The service generated income of approximately £37,000 in 2017/18. This helped to offset the Council's own insurance administration costs.

3.44 Wirral has remained at the forefront of developments in the field of insurance for academies. Any increase in academy conversions presents both threats and opportunities. For the Risk and Insurance service itself the change holds out the potential for increased fee income from individual academy clients and the service is looking to capitalise on this. However academies cannot be covered under the Council's corporate insurance arrangements. So, as more schools convert, the pool of contributors to the Insurance Fund decreases. Over time this could reduce the authority's buying power and the degree to which it could self-insure. This in turn could increase the cost of financing insurable risk.

Budget

3.45 The Insurance Fund Budget 2018/19 was approved by Audit & Risk Management Committee on 29 January 2018. The report confirmed that the cost to the General Fund would be unchanged from 2017/18.

Procurement

3.46 A competitive procurement exercise in relation to the Council's Property, Business Interruption, Museums, Crime, Terrorism and Personal Accident / Business Travel insurance policies was concluded in June 2018. This resulted in the placement of new multi-year contracts at a lower cost than applied in previous financial years.

Insurance Management 2018/19 and beyond

3.47 Regular reports on the progress of Insurance and Risk Management will continue to be presented to the Audit and Risk Management Committee.

3.48 The following table shows the key insurance tasks for the year ahead and the target dates for completion.

Task	**Target Date**
Compile the Insurance Fund Budget 2019/20	January 2019
Procurement of Motor and Engineering insurance	March 2019
Negotiate the annual renewal of Liability, Motor, Engineering and Foster Care policies	March 2019
Negotiate the annual renewal of Property, Business Interruption, Museums All Risks, Crime and Personal Accident / Business Travel policies	June 2019

4.0 FINANCIAL IMPLICATIONS

4.1 The performance of the Insurance Fund and the capitalisation of the alternative data centre project have enabled £2.0m to be released to General Fund balances in 2017/18.

4.2 The need to remarket the Motor and Engineering insurance contracts creates uncertainty around the cost of these contracts in 2019/20 and beyond.

5.0 LEGAL IMPLICATIONS

5.1 There are none arising directly from this report.

6.0 RESOURCE IMPLICATIONS: ICT, STAFFING AND ASSETS

6.1 Remarketing the Motor and Engineering insurance contracts will take up a proportion of the capacity within the Risk and Insurance service.

7.0 RELEVANT RISKS

7.1 Tendering the Motor and Engineering insurance contracts could result in the Council facing higher premiums than at present. Although a relatively competitive market for such should help to mitigate this. Officers will also work to create the maximum interest in and competition for these contracts.

7.2. As indicated in paragraph 3.43 a rapid expansion of Academies in the borough could ultimately make the authority's insurance programme relatively more expensive than at present. Officers remain vigilant to potential conversions and will make changes to the authority's arrangements to ensure that potential negative impacts are gradual and limited wherever possible.

8.0 ENGAGEMENT/CONSULTATION

8.1 No specific consultation has been undertaken with regard to this report.

9.0 EQUALITY IMPLICATIONS

9.1 There are none arising directly from this report.

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APPENDICES

None

REFERENCE MATERIAL

Correspondence with insurers, brokers and legal services providers

SUBJECT HISTORY (last 3 years)

Council Meeting	**Date**
Audit & Risk Management Committee	Regular report presented annually to this committee.

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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY

Audit Findings

Year ending 31 March 2018

Merseyside Pension Fund

July 2018

Contents

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Headlines

Introduction

This table summarises the key issues arising from the statutory audit of Merseyside Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year, and have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting;	Our audit work is substantially complete and was undertaken on site in June and July 2018. Our findings are summarised on the following pages. We have not identified any adjustments affecting the Fund's reported financial position for the year ended 31 March 2018 of net assets of £8,563,441k. The key messages arising from our audit of the Fund's financial statements are: • We received draft financial statements and working papers in accordance with the agreed timetable. • The draft accounts were again prepared to a good standard and took into account areas for improvement identified in last year's audit. • Our audit did not identify any significant issues in terms of the financial statements or the Annual Report. Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Wirral Council Audit and Risk Management Committee meeting on 23 July 2018, as detailed in Appendix C . These outstanding items include: - Clearance of a small number of outstanding queries, including third part confirmations: - Obtaining and reviewing the management representation letter; - Review of the final set of financial statements; and - Updating our post balance sheet events review, to the date of signing the opinion.

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Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

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Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management of the Pension Fund and the Pensions Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- Controls testing of elements of the benefit payments system; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Wirral Council Audit and Risk Management Committee meeting on 23 July 2018, as detailed in Appendix C.

These outstanding items include:

- Clearance of a small number of outstanding queries, including third party confirmations;
- Obtaining and reviewing the management representation letter;
- Review of the final set of financial statements; and
- Updating our post balance sheet events review, to the date of signing the opinion.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality benchmarks and calculations remain the same as reported in our audit plan. We detail in the table below our assessment of materiality for Merseyside Pension Fund.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	87.334m	Considered to be the level above which users of the accounts would wish to be aware of misstatements, in the context of overall expenditure – calculated at the planning stage as 1% of the fund valuation as at January 2018.
Performance materiality	65.498m	Assessed to be 60% of financial statement materiality.
Trivial matters	4.4m	ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited, and • the culture and ethical frameworks of local authorities, including Wirral Council as the administering authority, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Merseyside Pension Fund.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.	**Auditor commentary** We have undertaken the following work in relation to this risk: – review of accounting estimates, judgements and decisions made by management – testing of journal entries – review of unusual significant transactions. Our audit work has not identified any evidence of management over-ride of controls. In particular, the findings of our review of journal controls and testing of journal entries has not identified any significant issues.
3	**The valuation of Level 3 investments is incorrect** Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. We identified the valuation of level 3 investments as a risk requiring special audit consideration.	**Auditor commentary** We have undertaken the following work in relation to this risk: • gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments • consideration of the competence, expertise and objectivity of any management experts used • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2018 with reference to known movements in the intervening period. Our work to date has not identified any significant issues in respect of this risk.

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Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
4 **Contributions** Contributions from employers and employees' represents a significant percentage of the Fund's revenue. We therefore identified occurrence and accuracy of contributions as a risk requiring particular audit attention.	**Auditor commentary** We have undertaken the following work in relation to this risk: • evaluated the Fund's accounting policy for recognition of contributions for appropriateness • gained an understanding of the Fund's system for accounting for contribution income and evaluated the design of the associated controls • tested a sample of contributions to source data to gain assurance over their accuracy and occurrence • rationalised contributions received with reference to changes in member body payrolls and the number of contributing pensioners to ensure that any unusual trends are satisfactorily explained. Our work has not identified any significant issues in respect of this risk.
5 **Pension Benefits Payable** Pension benefits payable represents a significant percentage of the Fund's expenditure. We identified occurrence, accuracy and completeness of pension benefits payable as a risk requiring particular audit attention.	**Auditor commentary** We have undertaken the following work in relation to this risk: • evaluated the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness • gained an understanding of the Fund's system for accounting for pension benefits expenditure and evaluated the design of the associated controls • tested a sample of individual lump sum payments by reference to supporting evidence contained in member files • placed reliance on controls testing over occurrence and accuracy of certain benefit payments • rationalised pensions paid with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained • ensured that the annual pension increase has been updated in the Altair system correctly. Our work has not identified any significant issues in respect of this risk.

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Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
6 **The valuation of Level 2 investments is incorrect** While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly. We identified valuation of level 2 investments as a risk requiring particular audit attention.	**Auditor commentary** We have undertaken the following work in relation to this risk: • gained an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls • evaluated the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments • reviewed the reconciliation of information provided by the pension fund's/individual fund manager's custodian and the Pension Scheme's own records and sought explanations for variances • considered the competence, expertise and objectivity of any management experts used • evaluated the qualifications of the expert to value the level 2 investments at year end and gained an understanding of how the valuation of these investment has been reached • for a sample of investments, tested the valuation by obtaining independent information from custodian/manager on units and unit prices • for direct property investments agreed values in total to a valuer's report and undertaken steps to gain reliance on the valuer as an expert. Our work to date has not identified any significant issues in respect of this risk.

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Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	Main elements of policy are: – Normal contributions are accounted for on an accruals basis, and employer deficit funding is accounted for on the due date set by the scheme actuary or on receipt if earlier than the due date. – Income from equities is accounted for when the related investment is quoted ex dividend. Income from pooled investment vehicles and on short term deposits is accounted for on an accruals basis. Distributions from private equity are treated as return of capital until the book value is nil and then treated as income on an accruals basis.	The revenue recognition policies are appropriate to the accounting framework and are adequately disclosed in the accounting policies.	Green
Judgements and estimates	Due to the nature of the Fund no critical judgements have been applied. The key estimate disclosed is as follows: • Valuation of unquoted investments with private equity, infrastructure property and other alternative investments.	We have undertaken testing on a sample of unquoted investments to assess the appropriateness of the valuation. The key estimates relating to the valuation of unquoted investments are appropriate to the accounting framework and are disclosed within the accounting policies. The potential financial statement impact of different assumptions is adequately disclosed in Note 16 to the accounts.	Green
Going Concern	Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We are satisfied that management's assessment that the going concern basis is appropriate for the 2017/18 financial statements.	Green
Other critical policies	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	Our review of the accounting policies has not highlighted any issues that we need to bring to your attention. The Pension Fund's accounting policies are appropriate and consistent with previous years.	Green

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Assessment

- Red — Marginal accounting policy which could potentially be open to challenge by regulators
- Amber — Accounting policy appropriate but scope for improved disclosure
- Green — Accounting policy appropriate and disclosures sufficient

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Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Matters in relation to fraud**	We have previously discussed the risk of fraud with the Audit and Risk Management Committee and the Pensions Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	From the work we have completed, we have not identified any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	A standard letter of representation has been requested from the Pension Fund.
5	**Confirmation requests from third parties**	We requested direct confirmations from the custodian and all main mandate fund managers, plus a sample of managers for alternative investments for investment balances. At the time of preparing this report we have received confirmations from most managers and management are assisting us to chase those confirmations that remain outstanding.
6	**Disclosures**	Our review found no material omissions in the financial statements.
7	**Matters on which we report by exception**	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Fund Annual Report following the Wirral Council Audit and Risk Management Committee meeting on 23 July 2018 and confirm that we have not identified any issues that we wish to report.

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Independence and ethics

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund and confirm that no non-audit services were identified.

In line with *ISA (UK) 600 Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)* we have received requests from other auditors to provide assurance to them in respect of information provided by the pension fund to the actuary to support IAS19 calculations. Details of possible fees to be charged to the pension fund are reported in Appendix B.

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Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year. There are no unadjusted misstatements identified to bring to your attention.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment Type	Value	Account Balance	Impact on Financial Statements
Misclassification	£8.505m & £0.597m	Note 12 – Investment Income	We identified a misclassification of investment income of £8,505k in respect of Schroder's investment income which was incorrectly classified as "Dividend from Equities" rather than "Income from Pooled Investment Vehicles". As a consequence of this finding Pension Fund Officers conducted a full review of investment income classification and identified that one further amendment was required within the same note where a balance of £597k initially classified as "interest on Short term Cash deposits" should be re-classified as "Income from Pooled Investment Vehicles". These corrections are limited to classification and the total investment income disclosed has not changed.
Disclosure	Various	Various	The draft Financial statements have been amended to correct a small number of disclosure and presentational changes identified during the audit.

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Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Audit Fees

	Proposed fee	Final fee
Pension Fund Audit	£36,882	£36,882
Total audit fees (excluding VAT)	**£36,882**	**£36,882**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA

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Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	TBC
• IAS 19 Assurance to other auditors	
	£TBC

The proposed fee for provision of IAS19 assurance to other auditors in line with ISA (UK) 600 Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors). will be determined and agreed later in the year. At the time of writing this report 14 requests had been received.

Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report

Independent auditor's report to the members of Wirral Council on the pension fund financial statements

Opinion

We have audited the pension fund (entitled "Merseyside Pension Fund Accounts") financial statements of Wirral Council (the 'Authority') for the year ended 31 March 2018 set out on pages *** to ***) of the Authority's Statement of Accounts which comprise which comprise the Fund Account, the Net Assets Statement and Notes to the Accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance and Investment (S151)'s use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Director of Finance and Investment (S151) has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

Other information

The Director of Finance and Investment (S151) is responsible for the other information. The other information comprises the information included in the Authority's Statement of Accounts set out on pages **[**xx to xx]** other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Authority's Statement of Accounts set out on pages xx to xx, for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities [set out on page(s) x to x], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Investment (S151). The Director of Finance and Investment (S15) is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Director of Finance and Investment (S151) determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Director of Finance and Investment (S151) is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Audit and Risk Management Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these pension fund financial statements.

A further description of our responsibilities for the audit of the pension fund financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

[Signature]

GRANT PATTERSON
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building
Liverpool
L3 1PS

Date - TBC

Independent auditor’s report to the members of Merseyside Pension Fund on the consistency of the pension fund financial statements included in the Pension Fund Annual Report

Opinion

The Merseyside Pension Fund financial statements of Wirral Council (the "Authority") for the year ended 31 March 2018 which comprise the Fund Account, the Net Assets Statement and the Notes to the Accounts, including a summary of significant accounting policies, of Merseyside Pension Fund are derived from the audited pension fund financial statements for the year ended 31 March 2018 included in the Authority's Statement of Accounts (the “Statement of Accounts”).

In our opinion, the accompanying Merseyside Pension Fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18 and applicable law.

Pension Fund Annual Report - Pension fund financial statements

The Pension Fund Annual Report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor’s report thereon is not a substitute for reading the audited Statement of Accounts and the auditor’s reports thereon.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 2(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated **[Actual Date of opinion to be** inserted**]**.

Director of Finance and Investment (S151) Officer responsibilities for the pension fund financial statements in the Pension Fund Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Chief Financial Officer of the Authority [in this authority, that officer is the Director of Finance and Investment (S151)] is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18

Auditor's responsibility

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Signature

GRANT PATTERSON
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Liver Buildings
Liverpool
L3 1PS

[Date:] - TBC

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WIRRAL COUNCIL

PENSIONS COMMITTEE

16 JULY 2018

SUBJECT:	**STATEMENT OF ACCOUNTS 2017/18 – MERSEYSIDE PENSION FUND AND LETTER OF REPRESENTATION**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF FINANCE & INVESTMENT (S151)**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to present Members with the audited statement of accounts of Merseyside Pension Fund for 2017/18 and to respond to the Audit Findings Report from Grant Thornton.

1.2 Subject to outstanding work, Grant Thornton has indicated there will be an unqualified opinion and there are no adjustments affecting the Fund's reported financial position for the year ended 31 March 2018 of net assets of £8.6bn and no recommendations.

1.3 Grant Thornton's report expresses a positive outcome from their audit of the accounts and refers to the accounts being again prepared to a good standard with supporting working papers provided to the agreed timetable..

2.0 BACKGROUND AND KEY ISSUES

2.1 The purpose of the Statement of Audited Accounts is to present the overall financial position of the Pension Fund as at 31 March 2018 in accordance with prescribed guidance.

2.2 The Statement of Accounts, including notes were prepared and available for audit by 31 May 2018, in compliance with statutory deadline that has come into force for 2017/18 reporting.

2.3 Grant Thornton is close to completion of its audit of the accounts and the Audit Findings Report is on this agenda. They may provide a verbal update at the meeting on the report and officers will respond if necessary.

2.4 There are no adjustments affecting the Fund's reported financial position for the year ended 31 March 2018 of net assets of £8.6bn. Two misclassifications of investment income included within note 12 and a small number of disclosure adjustments to improve the presentation of the financial statements and annual report have been agreed.

2.5 The two misclassifications of investment income have been corrected and controls strengthened to prevent reoccurrence.

2.6 I have prepared a Letter of Representation on behalf of the Committee which gives assurances to the Auditor on various aspects relating to the Pension Fund.

2.7 The Audit Opinion will be issued following final completion of the audit, consideration of the Audit Findings Report and approval of the amended Statement of Accounts at both the Pensions Committee and the Audit and Risk Management Committee. Once approved, Grant Thornton has indicated that they will again issue an unqualified opinion, and state that the accounts present fairly the financial position of Merseyside Pension Fund as at 31 March 2018. Subject to this, the accounts as now shown will form the basis of the Annual Report for the year ended 31 March 2018.

3.0 RELEVANT RISKS

3.1 Not relevant for this report.

4.0 OTHER OPTIONS CONSIDERED

4.1 Not relevant for this report.

5.0 CONSULTATION

5.1 Not relevant for this report

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 There are no previously approved actions outstanding.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are no implications arising directly from this report.

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 There are none arising directly from this report.

9.0 LEGAL IMPLICATIONS

9.1 There are no implications arising directly from this report.

10.0 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are no carbon usage implications, nor any other relevant environmental issues arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are no planning or community safety implications arising from this report.

13.0 RECOMMENDATION/S

13.1 That Pensions Committee approves the audited Statement of Accounts for 2017/18, considers the amendments to the accounts, the Audit Findings Report and the Letter of Representation.

13.2 That Pensions Committee refers the recommendations to the Audit and Risk Management Committee.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 As required by International Standard on Auditing (UK) 260 and the Code of Audit Practice, the Auditor reports its findings on the audit of the Pension Fund Financial Statements to those charged with governance.

14.2 As the Pension Fund receives a separate Audit Findings Report, this report will first be considered by Pensions Committee, and then by Audit and Risk Management Committee.

REPORT AUTHOR: Donna Smith
Head of Finance & Risk
telephone (0151) 2421312
email donnasmith@wirral.gov.uk

APPENDICES

1. The statement of accounts forms part of the draft annual report which is a separate item on the agenda at this Committee meeting.
2. Letter of Representation.

BACKGROUND PAPERS/REFERENCE MATERIAL

The Statement of Accounts plus relevant working papers and the Audit Findings Report from Grant Thornton were used in the production of this report.

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
PENSIONS COMMITTEE **AUDIT AND RISK MANAGEMENT COMMITTEE** **PENSIONS COMMITTEE** **AUDIT AND RISK MANAGEMENT COMMITTEE** **PENSIONS COMMITTEE** **AUDIT AND RISK MANAGEMENT COMMITTEE** **PENSIONS COMMITTEE** **AUDIT AND RISK MANAGEMENT COMMITTEE**	 **25 SEPTEMBER 2017** **17 JULY 2017** **26 SEPTEMBER 2016** **19 SEPTEMBER 2016** **28 SEPTEMBER 2015** **28 SEPTEMBER 2015**

Merseyside Pension Fund Accounts

MERSEYSIDE PENSION FUND ACCOUNTS

FINANCIAL STATEMENTS

FUND ACCOUNT For the year ended 31 March 2018	Note	2017/18 £'000	2016/17 £'000
Dealing with members, employers and others directly involved in the fund			
Contributions receivable	7	407,068	208,513
Transfers in	8	12,174	11,568
		419,242	**220,081**
Benefits payable	9	(314,556)	(306,902)
Payments to and on account of leavers	10	(14,804)	(19,292)
		(329,360)	**(326,194)**
Net additions/(withdrawals) from dealing with members		**89,882**	**(106,113)**
Management Expenses	11	**(40,027)**	**(38,315)**
Net additions/(withdrawals) including fund management expenses		**49,855**	**(144,428)**
Return on Investments:			
Investment Income	12	197,008	167,672
Profit and losses on disposal of investments and change in market value of investments	13	141,671	1,306,428
Taxes on income	12	(3,578)	(943)
Net Return on Investments		**335,101**	**1,473,157**
Net increase/(decrease) in the Fund during the year		384,956	1,328,729
Net Assets of the Fund at the start of the year		8,178,485	6,849,756
Net Assets of the Fund at the end of the year		**8,563,441**	**8,178,485**

NET ASSETS STATEMENT For the year ended 31 March 2018	Note	2017/18 £'000	2016/17 £'000
Investment Assets	13		
Equities		2,768,408	2,728,658
Pooled Investment Vehicles		5,074,479	4,804,297
Derivative Contracts		218	224
Direct Property		519,750	431,150
Short Term Cash Deposits		53,226	75,222
Other Investment Balances		99,613	117,550
		8,515,694	**8,157,101**
Investment Liabilities	18	(13,736)	(4,490)
Total Net Assets		**8,501,958**	**8,152,611**
Long Term Assets	19	5,013	7,110
Current Assets	20	79,909	34,358
Current Liabilities	20	(23,439)	(15,594)
Net Assets of the Fund as at 31 March		**8,563,441**	**8,178,485**

NOTES TO THE ACCOUNTS

1. DESCRIPTION OF FUND

Merseyside Pension Fund (MPF/the Fund) is part of the Local Government Pension Scheme (LGPS) and Wirral Council is the administering authority. Wirral Council is the reporting entity for this pension fund.

The overall responsibility for the management of the Fund rests with the Pensions Committee, which for 2017/18 included 10 councillors from Wirral Council, the Administering Authority, and one councillor from each of the 4 other Borough Councils. Representatives of trade unions also attend. The more detailed consideration of investment strategy and asset allocation of the Fund's portfolios is considered by the Investment Monitoring Working Party, which includes two external advisers and a consultant. The more detailed consideration of governance and risk issues is considered by the Governance and Risk Working Party.

In 2015/16 a local Pensions Board was introduced in accordance with the Public Service Pensions legislation and regulations. The Board's aim is to assist the Administrating Authority with ensuring compliance and the effective governance and administration of the Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to Merseyside Pension Fund Annual Report 2017/18 and the underlying statutory powers underpinning the Scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The scheme is governed by the Public Services Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The Fund is a contributory defined benefit pension scheme administrated by Wirral Council to provide pensions and other benefits for pensionable employees of the Merseyside Local Authorities and a range of other scheduled and admitted bodies. Teachers, Police Officers and Fire Fighters are not included as they come within other national pension schemes.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in Merseyside Pension Fund include:

- Scheduled bodies, which are Local Authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation.

There are 194 employer organisations within Merseyside Pension Fund including Wirral Council itself, the Fund also has 137,487 members as detailed below:

	31-Mar-18	31-Mar-17
Number of employers with active members	**194**	182
Number of employees in scheme	**49,151**	47,206
Number of pensioners	**43,495**	42,194
Number of dependants	**6,665**	6,571
Number of deferred pensioners	**38,176**	38,368
Total	**137,487**	134,339

c) Funding

Benefits are funded by employee and employer contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS and are matched by employers' contributions which are set based on triennial actuarial funding valuations.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below.

	Service pre 1 April 2008	**Service post 31 March 2008**
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the scheme, for more details please refer to the Fund's website.

2. BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its position at year end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, are shown within the statement by the Actuary, which is published as an addendum to the accounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on an accruals basis, unless otherwise stated.

Contributions and Benefits
Contributions are accounted for on an accruals basis. Contributions are made by active members of the Fund in accordance with LGPS Regulations and employers contributions are based on triennial actuarial valuations.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

Benefits payable represent the benefits paid during the financial year and include an estimated accrual for lump-sum benefits outstanding as at the year end. Benefits payable includes interest on late payment. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Estimates for post year end outstanding items have been used for payments of retirement grants and death grants:

- Retirement grants due for payment, but not paid by 31 March: using actual figures as far as possible, and assuming maximum commutation to be taken where the knowledge of the individual member's choice is still outstanding.
- Death grants due for payment, but not paid by 31 March: for example awaiting Probate.

Transfers to and from Other Schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Management Expenses

The Fund discloses its management expenses analysed into three categories, administration costs, investment management costs and oversight and governance costs in accordance with CIPFA "Accounting for Local Government and Management Costs.

Administration Costs

All administration expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the Fund. Associated management and other overheads are apportioned to the Fund in accordance with Council Policy.

Investment Management Costs

All investment expenses are accounted for on an accrual basis.

Fees of the external Investment Managers and Custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market values of the investments under their management and therefore increase or reduce as the value of these investments change.

Costs in respect of the internal investment team are classified as investment expenses.

Estimates for post year end outstanding items have been used for external Investment Management fees using the Fund's valuations as at 31 March.

In accordance with CIPFA "Accounting for Local Government Management Costs" guidance, transaction costs and property related expenses are shown under investment expenses.

For certain unquoted investments including Private Equity, Hedge Funds, Opportunities and Infrastructure the Fund do not charge costs for these to the Fund Account because the Fund Manager costs are not charged directly to the Fund. They are instead deducted from the value of the Fund's holding in that investment or from investment income paid to the Fund. If the Fund has been charged directly for fund manager costs they are shown as external investment management fees.

Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with oversight and governance are charged direct to the Fund. Associated management and other overheads are apportioned to the Fund in accordance with Council Policy.

The cost of obtaining investment advice from external consultants is included in governance and oversight expenses.

Investment Income

Income from Equities is accounted for when the related investment is quoted ex dividend. Income from Pooled Investment Vehicles and interest on Short Term Deposits has been accounted for on an accruals basis. Distributions from Private Equity are treated as return of capital until the book value is nil then treated as income on an accruals basis.

Rental income from properties is taken into account by reference to the periods to which the rents relate and is shown gross of related expenses. The Fund accrues rent up to 24 March each year. Rent received on the Quarter Day, 25 March, is accounted for in full in the following year.

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Taxation

The Fund is a registered Public Service Scheme under Section 1 (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Valuation of Investments

Financial assets are included in the Net Asset Statement on a fair value basis as at the reporting date. The values of investments as shown in the Net Asset Statement are determined as follows:

- Listed securities are valued at quoted bid market prices on the final day of the accounting period. The bid price is the price which the Fund would have obtained should the securities have been sold at that date.
- For unlisted investments wherever possible valuations are obtained via the Independent Administrator. Valuations that are obtained direct from the Manager are verified against the latest available audited accounts adjusted for any cash flows up to the reporting date.
- Hedge Funds and Infrastructure are recorded at fair value based on net asset values provided by Fund Administrators or using latest financial statements published by respective Fund Managers adjusted for any cash flows.
- Private Equity valuations are in accordance with the guidelines and conventions of the British Venture Capital Association/International Private Equity guidelines or equivalent.
- Indirect Property is valued at net asset value or capital fair value basis provided by the Fund Manager. For listed Funds the net asset value per unit is obtained through data vendors.
- The freehold and leasehold interests in the properties held within the Fund were independently valued as at 31 March 2018 by Savills (UK) Limited, acting in the capacity of External Valuers as defined in the RICS Red Book (but not for the avoidance of doubt as an External Valuer of the Fund as defined by the Alternative Investment Fund Managers Regulations 2013). The valuations accord with the requirements of IFRS 13, SSAP 19 and the Royal Institution of Chartered Surveyors (RICS) Valuation – Global Standards 2017 incorporating the IVSC International Valuation Standards issued June 2017 and effective from

1 July 2017 (the “RICS Red Book”).

- Pooled Investment Vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of Pooled Investment Vehicles that are Accumulation Funds, change in market value also includes income which is reinvested by the Manager of the vehicle in the underlying investment, net of applicable withholding tax.

Translation of Foreign Currencies
Assets and liabilities in foreign currencies are translated into sterling at rates ruling at the year end. Foreign income received during the year is translated at the rate ruling at the date of receipt. All resulting exchange adjustments are included in the revenue account.

Derivatives
The Fund uses derivative financial assets to manage exposure to specific risks arising from its investment activities.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of future contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The value of exchange traded options is determined using the exchange price for closing out the option at the reporting date.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

Short Term Deposits
Short-term deposits only cover cash balances held by the Fund. Cash held by Investment Managers awaiting investment is shown under "Other Investment Balances".

Financial Liabilities
The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

Additional Voluntary Contributions
The Committee holds assets invested separately from the main Fund. In accordance with regulation 4 (1) (b) of the Pensions Schemes (Management and Investment of Funds) Regulations 2016, these assets are excluded from the Pension Fund accounts.

The Scheme providers are Equitable Life, Standard Life and Prudential. Individual members participating in this arrangement each receive an annual statement confirming the amounts held on their account and the movements in the year.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Fund has not applied any critical judgements.

5. ESTIMATION

Unquoted Investments

The Fund has significant unquoted investments within Private Equity, Infrastructure, Property and other Alternative investments. These are valued within the financial statements using valuations from the Managers of the respective assets. There are clear accounting standards for these valuations and the Fund has in place procedures for ensuring that valuations applied by Managers comply with these standards and any other relevant best practice. The value of unquoted assets as at 31 March 2018 was £4,603 million (£4,350 million at 31 March 2017).

Private Equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

Hedge Funds are valued at the sum of the fair values provided by the Administrators of the underlying Funds plus adjustments that the Hedge Fund Directors or Independent Administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

Direct property and pooled property funds use valuation techniques to determine the carrying amount. Where possible these valuations are based on observable data, but where this is not possible management uses the best available data.

6. EVENTS AFTER REPORTING SHEET DATE

There have been no events since 31 March 2018, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

7. CONTRIBUTIONS RECEIVABLE

	2017/18	2016/17
	£'000	£'000
Employers		
Normal	119,408	111,926
Pension Strain	10,426	11,808
Deficit Funding	223,096	31,541
Total Employers	**352,930**	**155,275**
Employees		
Normal	54,138	53,238
	407,068	**208,513**
Relating to:		
Administering Authority	57,357	35,305
Statutory Bodies	319,948	145,159
Admission Bodies	29,763	28,049
	407,068	**208,513**

Contributions are made by active members of the Fund in accordance with the LGPS and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2018. Employee contributions are matched by employers' contributions which are based on triennial actuarial valuations. The 2017/18 contributions above were calculated at the valuation dated 31 March 2016. The 2016 actuarial valuation calculated the average primary employer contribution rate of 15.4% (2013 13.3%).

"Pension Strain" represents the cost to employers when their employees retire early to compensate the Fund for the reduction in contribution income and the early payment of benefits. Payments to the Fund for such costs are made over agreed periods. An accrual has been made for agreed future payments to the Fund.

"Deficit Funding" includes payments by employers for past service deficit and additional payments by employers to reduce a deficit. During 2017/18 the fund has received additional and upfront payments covering a three year period until the next actuarial valuation in 2019, totalling £141.2 million, (2016/17 £1.6 million).

The Fund does reserve the right to levy interest charges on late receipt of contributions from employers. In 2017/18 no such charges were levied.

8. TRANSFERS IN

	2017/18	2016/17
	£'000	£'000
Group transfers	-	-
Individual transfers	12,174	11,568
	12,174	**11,568**

There were no group transfers to the Fund during 2017/18.

9. BENEFITS PAYABLE

	2017/18 £'000	2016/17 £'000
Pensions	252,874	247,865
Lump sum retiring allowances	56,141	52,632
Lump sum death benefits	5,541	6,405
	314,556	**306,902**
Relating to:		
Administering Authority	43,387	41,873
Statutory Bodies	222,117	217,741
Admission Bodies	49,052	47,288
	314,556	**306,902**

10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2017/18 £'000	2016/17 £'000
Refunds to members leaving service	447	465
Payment for members joining State scheme	37	289
Income for members from State scheme	1	(32)
Group transfers to other schemes	-	1,226
Individual transfers to other schemes	14,319	17,344
	14,804	**19,292**

There were no group transfers out of the Fund during 2017/18.

11. MANAGEMENT EXPENSES

	2017/18 £'000	2016/17 £'000
Administration costs	2,587	2,673
Investment management costs	35,922	33,887
Oversight and governance costs	1,727	1,978
Other Income	(209)	(223)
	40,027	**38,315**

11a. ADMINISTRATION COSTS

	2017/18 £'000	2016/17 £'000
Employee costs	1,665	1,686
IT costs	611	639
General costs	276	329
Other costs	35	19
	2,587	**2,673**

11b. INVESTMENT MANAGEMENT COSTS

	2017/18 £'000	2016/17 £'000
External Investment Management Fees	22,707	20,607
External Investment Management Performance Fees	1,546	3,076
External Services	565	545
Internal Investment Management Fees	614	609
Property Related Expenses	6,377	4,889
Transaction Costs	4,113	4,161
	35,922	**33,887**

11c. OVERSIGHT AND GOVERNANCE COSTS

	2017/18 £'000	2016/17 £'000
Employee Costs	475	468
External Services	767	838
Internal Audit	34	32
External Audit	39	37
Other Costs	412	603
	1,727	**1,978**

Actuarial fees included within External Services above (note 11c) are shown gross of any fees that have been recharged to employers. Included within Other Income for 2017/18 is £195,994 relating to recharged Actuarial fees (2016/17 £173,224).

External Audit fees for 2017/18 also include £2,180 relating to additional services in respect of IAS19 assurances for admitted body auditors, which are recharged to those admitted bodies.

12. INVESTMENT INCOME

	2017/18 £'000	2016/17 £'000
Dividends from Equities	84,247	69,880
Income from Pooled Investment Vehicles	52,333	49,885
Rents from Properties	26,754	23,498
Interest on Short Term Cash Deposits	267	306
Income from Private Equity	32,422	22,856
Income from Derivatives	-	-
Other	985	1,247
	197,008	**167,672**
Irrecoverable Withholding Tax	(3,578)	(943)
	193,430	**166,729**

Rental income is shown gross of any property related expenses, with related expenses shown under investment expenses (note 11b).

Investment income figures are shown gross of tax. Included in these figures is recoverable taxation of £4.8 million (2016/17 £4.1 million).

The Fund is seeking to recover tax withheld by UK and overseas tax regimes under the EU principle of free movement of capital within its borders, there were no repayments received in 2017/18 (2016/17 £nil).

12a. PROPERTY INCOME

	2017/18 £'000	2016/17 £'000
Rental income	26,754	23,498
Direct operating expenses	(6,377)	(4,889)
Net rent from properties	**20,377**	**18,609**

No contingent rents have been recognised as income during the period.

12b. PROPERTY OPERATING LEASES

The Fund's property portfolio comprises a variety of units which are leased to organisations with the objective of generating appropriate investment returns.

These leases are all categorised as operating leases due to the relatively short length of the agreements i.e. relative to the overall life of the asset and proportion of the assets overall value. The leases do not meet the assessment criteria for finance leases, and the risks and rewards of ownership of the leased assets are retained by the Fund and reflected in the Net Assets Statement.

The properties comprise a mix of office, retail and industrial buildings. These leases vary in length from short term to over 25 years.

The future minimum lease payments receivable under non-cancellable leases in future years are:

Age profile of lease income	**2017/18 £'000**	**2016/17 £'000**
No later than one year	**1,302**	**1,277**
Between one and five years	**8,114**	**6,774**
Later than five years	**17,540**	**13,834**
Total	**26,956**	**21,885**

With regards to the properties owned and leased by the Fund, all are leased to the tenants under contracts that have been assessed as operating leases and which may include periodic rent reviews etc. The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease entered into, such as adjustments following rent reviews.

13. INVESTMENTS

2017/18	Market Value 31.3.2017 £'000	Purchases at cost & Derivative Payments £'000	Sale Proceeds & Derivative Receipts £'000	Change in Market Value * £'000	Market Value 31.3.2018 £'000
Equities	2,728,658	1,272,950	(1,225,858)	(7,342)	2,768,408
Pooled Investment Vehicles	4,804,297	550,657	(414,391)	133,916	5,074,479
Derivative Contracts	224	979,418	(982,541)	3,117	218
Direct Property	431,150	71,899		16,701	519,750
	7,964,329	**2,874,924**	**(2,622,790)**	**146,392**	**8,362,855**
Short term cash deposits	75,222				53,226
Other investment balances	117,550			(4,721)	99,613
	8,157,101			**141,671**	**8,515,694**

2016/17	Market Value 31.3.2016 £'000	Purchases at cost & Derivative Payments £'000	Sale Proceeds & Derivative Receipts £'000	Change in Market Value * £'000	Market Value 31.3.2017 £'000
Equities	2,020,418	1,232,039	(1,016,978)	493,179	2,728,658
Pooled Investment Vehicles	4,264,626	323,279	(608,771)	825,163	4,804,297
Derivative Contracts	254	279,162	(272,286)	(6,906)	224
Direct Property	377,000	79,885	(18,638)	(7,097)	431,150
	6,662,298	**1,914,365**	**(1,916,673)**	**1,304,339**	**7,964,329**
Short term cash deposits	40,031				75,222
Other investment balances	114,660			2,089	117,550
	6,816,989			**1,306,428**	**8,157,101**

*Note: The change in market value of investments during the year comprises all realised and unrealised appreciation and depreciation.

Transaction costs had previously been added to purchases and netted against sales proceeds; however, they are no longer shown in the above tables and instead are shown under investment management costs in note 11b in accordance with CIPFA guidance.

Indirect costs are incurred through the bid-offer spread on investments in pooled vehicles. The amount of indirect costs is not provided directly to the Fund.

13a Analysis of investments

	2017/18 £'000	2016/17 £'000
Equities (segregated holdings)		
UK Quoted	1,261,630	1,193,697
Overseas Quoted	1,506,778	1,534,961
	2,768,408	**2,728,658**
Pooled Investment Vehicles		
UK Managed Funds:		
Property	43,961	17,569
Equities	130,528	107,630
Private Equity	311,657	294,048
Hedge Funds	44,079	53,491
Corporate Bonds	343,277	267,082
Infrastructure	252,983	159,687
Opportunities	324,309	301,012
Overseas Managed Funds:		
Equities	486,772	456,946
Private Equity	251,754	251,013
Hedge Funds	226,624	218,664
Infrastructure	175,233	163,601
Opportunities	136,854	131,052
UK Unit Trusts:		
Property	107,949	99,026
Overseas Unit Trusts:		
Property	96,448	87,157
Other Unitised Funds	2,142,051	2,196,319
	5,074,479	**4,804,297**
Derivative Contracts	**218**	**224**
UK Properties		
Freehold	394,100	322,800
Leasehold	125,650	108,350
	519,750	**431,150**
Balance at 1 April	431,150	377,000
Additions	71,899	79,885
Disposals	-	(18,638)
Net gain/(loss) on fair value	-	(11,945)
Transfers in/(out)	-	-
Other changes in fair value	16,701	4,848
Balance at 31 March	**519,750**	**431,150**

As at 31 March 2018 there were no amounts of restrictions on the realisability of investment property or of income and proceeds of disposal.

There were no obligations to purchase new properties.

	2017/18 £'000	2016/17 £'000
Short term cash deposits		
Sterling	53,226	75,222
Foreign currency	-	-
	53,226	**75,222**

	2017/18 £'000	2016/17 £'000
Other investment balances		
Amounts due from brokers	-	-
Outstanding trades	9,486	4,509
Outstanding dividends entitlements and recoverable withholding tax	17,566	17,304
Cash deposits	72,561	95,737
	99,613	**117,550**

13b Analysis of derivatives

Forward currency contracts

The Fund's forward currency contracts are exchange traded and are used by a number of our external Investment Managers to hedge exposures to foreign currency back into sterling.

Settlement date	Currency bought 000	Currency sold 000	Asset £'000	Liability £'000
Up to one month	GBP 19,363	EUR 21,282	218	-
			218	-
Net forward currency contracts at 31 March 2018				**218**
Prior year comparative				
Open forward currency contracts at 31 March 2017			174	(13)
Net forward currency contracts at 31 March 2017				**161**

Derivatives as at 31 March 2018		**£'000**	**£'000**
Futures			
Type of Contract	**Expires**	**Economic Exposure**	**Market Value**
Assets			
Total Assets			**-**
Liabilities			-
Total Liabilities			**-**
Net futures			**-**
Derivatives as at 31 March 2017		**£'000**	**£'000**
Futures			
Type of Contract	**Expires**	**Economic Exposure**	**Market Value**
Assets			
EURO STOXX 50 Index Futures	Jun-17	500	50
Total Assets			**50**
Liabilities			-
Total Liabilities			**-**
Net futures			**50**

A Futures contract is the obligation under a legal agreement to make or take delivery of a specified instrument at a fixed future date, at a price determined at the time of dealing. Merseyside Pension Fund's Index Futures Contracts are externally managed and their objective is to hedge overseas investment positions against adverse index movements. Futures dealing requires the posting of margin. Initial margin which must be posted before you can trade and variation margin, the mark-to-market value of the futures contracts you hold. Variation margin is exchanged daily and exists to reduce counterparty credit exposure.

13c Summary of Managers' Portfolio Values at 31 March 2018

	2017/18		2016/17	
Externally Managed	**£million**	**%**	**£million**	**%**
JP Morgan (European equities)	252	3.0	258	3.2
Nomura (Japan)	461	5.4	433	5.3
Schroders (fixed income)	343	4.0	267	3.3
Legal & General (fixed income)	369	4.3	298	3.7
Unigestion (European equities and pooled Emerging Markets)	319	3.8	318	3.9
M&G (global emerging markets)	183	2.1	177	2.2
TT International (UK equities)	249	2.9	237	2.9
Blackrock (UK equities)	252	3.0	249	3.1
Blackrock (Pacific Rim)	152	1.8	157	1.9
Blackrock (QIF)	87	1.0	70	0.9
Newton (UK equities)	263	3.1	260	3.2
Amundi (global emerging markets)	186	2.2	168	2.1
Maple-Brown Abbot (Pacific Rim equities)	166	1.9	173	2.1
State Street Global Advisor (Passive Manager)	1,773	20.9	1,900	23.0
State Street Transition Manager	-	-	194	2.4
Blackrock Transition Manager	195	2.3	-	-
	5,250	**61.7**	**5,159**	**63.2**
Internally Managed				
UK equities	401	4.7	404	4.9
European equities	246	2.9	238	2.9
Property (direct)	520	6.1	431	5.3
Property (indirect)	270	3.2	226	2.8
Private equity	563	6.6	545	6.7
Hedge funds	271	3.2	272	3.3
Infrastructure	428	5.0	323	4.0
Opportunities	486	5.7	462	5.7
Short term deposits & other investments	80	0.9	97	1.2
	3,265	**38.3**	**2,998**	**36.8**
	8,515	**100.0**	**8,157**	**100.0**

The following holdings each represent more than 5% of the net assets of the Fund:

	2017/18		2016/17	
	£'million	**%**	**£'million**	**%**
SSGA Pooled UK Index Linked Gilts	682	8.0	708	8.7
SSGA USA Equity Tracker	613	7.2	729	8.9

13d Stock lending

As at 31 March 2018, £352.4 million of stock was on loan to market makers, which was covered by cash and non-cash collateral, totalling £381.1 million. Collateral is marked to market, and adjusted daily. Income from Stock Lending amounted to £978,508 and is included within "Other" Investment Income. As the Fund retains its economic interest in stock on loan, their value remains within the Fund valuation. As the Fund has an obligation to return collateral to the borrowers, collateral is excluded from the Fund valuation. The Fund used its Custodian as agent lender, lending only to an agreed list of approved borrowers. An indemnity is in place which gives the Fund further protection against losses.

14 FAIR VALUE – BASIS OF VALUATION

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Derivatives - futures and options	Level 1	Published exchange prices at year end	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Derivatives - forward currency contracts	Level 2	Market forward exchange rates at the year end	Not required	Not required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled investments - overseas unit trusts and property funds	Level 2	Closed bid price where bid and offer prices are published - closing single price where single price is published. Valuation for property funds are provided by fund managers and where available closing bid prices are used.	NAV - based pricing set on a forward pricing basis	Not required
Direct property	Level 3	Valued at fair value at the year-end using independent external Valuers in accordance with FRS 13, SSAP 19 and the Royal Institution of Chartered Surveyors (RICS) Valuation - Global Standards (the "RICS Red Book").	Existing lease terms and rentals, independent market research, nature of tenancies, covenant strength of existing tenants, assumed vacancy levels, estimated rental growth, discount rate.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines or equivalent	EBITDA multiple, revenue multiple, discount for lack of marketability, control premium	Material events occurring between the date of the financial statements provided and MPF's own reporting date, changes to expected cashflows, differences between audited and unaudited accounts.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled investments - hedge funds and infrastructure	Level 3	The funds are valued in accordance with International Financial Reporting Standards (IFRS). The valuation basis, determined by the relevant Fund Manager, may be any of quoted market prices, broker or dealer quotations, transaction price, third party transaction price, industry multiples and public comparables, transitions in similar techniques, third party independent appraisals or pricing models.	NAV - based pricing set on a forward pricing basis	Material events occurring between the date of the financial statements provided and MPF's own reporting date, changes to expected cashflows, differences between audited and unaudited accounts.

Sensitivity of assets valued at level 3

The table below sets out the assets classified as level 3 assets. The Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges (as provided by the Fund's investment consultants), and has set out below the consequent potential impact on the closing value of investments held at 31 March 2018. There are various factors that affect the complexity of valuation and the realisable value of assets and certain asset specific issues may lead to realisable valuations falling outside the stated range.

	Value 31 March 2018	Potential variance	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Property	773,163	10.0	850,479	695,847
Unquoted UK equity	74,171	15.0	85,297	63,045
Unquoted overseas equity	58,599	15.0	67,389	49,809
Hedge funds	223,240	10.0	245,564	200,916
Infrastructure	353,266	15.0	406,256	300,276
Private equity	645,474	15.0	742,295	548,653
Total	2,127,913			

14a FAIR VALUE HIERARCHY

Assets valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Assets at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the market quotation of the relevant stock exchange.

Level 2

Assets at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Assets at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such investments would include unquoted equity investments and Hedge Fund of Funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in Private Equity are based on valuations provided by the general partners to the Private Equity funds in which Merseyside Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in Hedge Funds are based on the net asset value provided by the Fund Manager. Assurances over the valuation are gained from the independent audit of the value.

The following table provides an analysis of the financial assets of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	3,760,289	2,474,653	1,608,163	7,843,105
Non-financial assets at fair value through profit and loss			519,750	519,750
Total financial assets	**3,760,289**	**2,474,653**	**2,127,913**	**8,362,855**

Values at 31 March 2017*	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	3,614,529	2,465,771	1,452,879	7,533,179
Non-financial assets at fair value through profit and loss			431,150	431,150
Total financial assets	**3,614,529**	**2,465,771**	**1,884,029**	**7,964,329**

* Following a further review of levels 1, 2 and 3 categories against PRAG guidance, the values at 31 March 2017 have been restated, £121.7 million has moved from level 1 to level 2, £2.1 million from level 1 to 3 and £20.3 million has moved from level 3 to level 1.

A reconciliation of fair value measurements in Level 3 is set out below:

	2017/18 £'000	2016/17* £'000
Opening balance	1,884,029	1,627,606
Acquisitions	340,755	240,240
Disposal proceeds	(179,809)	(123,699)
Transfer into Level 3	2,574	
Total gain/(losses) included in the fund account:		
On assets sold	2,487	(11,071)
On assets held at year end	77,877	150,953
Closing balance	**2,127,913**	**1,884,029**

* The information for 2016/17 has been restated

15. FINANCIAL INSTRUMENTS

15a Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net asset statement heading.

	31 March 2018		
	Loans and receivables	**Financial liabilities at amortised cost**	**Fair value through profit and loss**
	£'000	**£'000**	**£'000**
Financial Assets			
Equities			2,768,408
Pooled Investment Vehicles			5,074,479
Derivatives			218
Cash deposits	53,226		
Other investment balances	99,613		
Long term and current assets	84,922		
Total financial assets	**237,761**	**-**	**7,843,105**
Grand total	**8,080,866**		
Financial Liabilities			
Other investment balances		(13,736)	
Current Liabilities		(23,439)	
Total financial liabilities	**-**	**(37,175)**	**-**
Grand total	**(37,175)**		
Grand net total	**8,043,691**		

	31 March 2017		
	Loans and receivables	**Financial liabilities at amortised cost**	**Fair value through profit and loss**
	£'000	**£'000**	**£'000**
Financial Assets			
Equities			2,728,658
Pooled Investment Vehicles			4,804,297
Derivatives			224
Cash deposits	75,222		
Other investment balances	117,550		
Long term and current assets	41,468		
Total financial assets	**234,240**	**-**	**7,533,179**
Grand total	**7,767,419**		
Financial Liabilities			
Other investment balances		(4,490)	
Current Liabilities		(15,594)	
Total financial liabilities	**-**	**(20,084)**	**-**
Grand total	**(20,084)**		
Grand net total	**7,747,335**		

To allow reconciliation to the Net Asset Statement and for ease to the reader all long term & current assets and current liabilities have been included in the above note, although not all are classified as financial instruments, the amounts that are not financial instruments are considered immaterial.

15b Net gains and losses on financial instruments

	2017/18 £'000	2016/17 £'000
Financial Assets		
Fair Value through profit and loss	129,691	1,311,436
Loans and receivables	-	-
Total financial assets	**129,691**	**1,311,436**
Financial Liabilities		
Financial liabilities at amortised cost	(4,721)	2,089
Loans and receivables	-	-
Total financial liabilities	**(4,721)**	**2,089**
Net	**124,970**	**1,313,525**

15c Fair value of financial instruments

There is no material difference between the carrying value and fair value of financial instruments. The majority of financial instruments are held at fair value and for those which aren't their amortised cost is considered to be equivalent to an approximation of fair value.

16. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The Fund's objective is to achieve a funding level position of 100% whilst minimising the level and volatility of employer contributions. Investment strategy is decided with clear reference to this objective.

Over the long term, the Fund's objective is to set policies that will seek to ensure that investment returns achieved will at least match the assumptions underlying the actuarial valuation and therefore be appropriate to the liabilities of the Fund.

Having regard to its liability profile, the Fund has determined that adopting a bespoke benchmark should best enable it to implement an effective investment strategy. This strategic benchmark is reviewed every three years, at a minimum, at the time of the actuarial valuation but will be reviewed as required particularly if there have been significant changes in the underlying liability profile or the investment environment.

The Fund has carefully considered the expected returns from the various permitted asset classes and has concluded that in the longer term the return on equities will be greater than from other conventional assets. Consequently, the benchmark is biased towards equities and skewed towards active management, particularly in less developed markets.

The Fund is also cognisant of the risk that the shorter term returns may vary significantly from one period to another and between the benchmark and actual returns. Diversification of assets is seen as key to managing this risk and the risk/return characteristics of each asset and their relative correlations are reflected in the make up of the strategic benchmark.

The Fund believes that, over the long term, a willingness to take on volatility and illiquidity is likely to be rewarded with outperformance. The Fund considers that its strong employer covenant, maturity profile and cash flows enable it to adopt a long term investment perspective. A mix of short term assets such as bonds and cash is maintained to cover short term liabilities while equities (both passive and active), private equity and direct property are held to benefit from the potential rewards arising from volatility and illiquidity risks. The Fund recognises that risk is inherent in investment activity and seeks to manage the level of risk that it takes in an appropriate manner. The Fund manages investment risks through the following measures:

- Broad diversification of types of investment and Investment Managers.
- Explicit mandates governing the activity of Investment Managers.
- The use of a specific benchmark, related to liabilities of the Fund for investment asset allocation.
- The appointment of Independent Investment Advisors to the Investment Monitoring Working Party.
- Comprehensive monitoring procedures for Investment Managers including internal officers and scrutiny by elected Members.

16a Market Risk

The Fund is aware that its key risk is market risk i.e. the unpredictability of market performance in the future. The general practice to quantify these risks is to measure the volatility of historical performance. The tables below show the Fund's exposure to asset classes and their reasonable predicted variance (as provided by the Fund's investment consultants) and the resulting potential changes in net assets available to pay pensions. The figures provided are a forward looking assumption of future volatility based on analysis of previous performance and probability.

	Value March 2018 £million	Potential Variance	Value on increase £million	Value on decrease £million
UK Equities (all equities including pooled vehicles)	1,801	19.0%	2,143	1,459
US Equities	652	21.0%	789	515
European Equities	777	22.5%	952	603
Japan Equities	461	20.5%	556	367
Emerging Markets Equities inc Pac Rim	819	28.0%	1,049	590
UK Fixed Income Pooled Vehicles	712	11.0%	790	634
UK Index Linked Pooled Vehicles	682	9.0%	743	620
Pooled Property	248	12.5%	279	217
Private Equity	563	27.5%	718	408
Hedge Funds	271	9.5%	296	245
Infrastructure	428	18.5%	507	349
Other Alternative Assets	429	14.0%	489	369
Short term deposits & other investment balances	201	0.0%	201	201
	8,044			

	Value March 2017 £million	Potential Variance	Value on increase £million	Value on decrease £million
UK Equities (all equities including pooled vehicles)	1,692	19.0%	2,013	1,370
US Equities	787	21.0%	952	622
European Equities	790	22.5%	968	612
Japan Equities	438	20.5%	527	348
Emerging Markets Equities inc Pac Rim	812	31.0%	1,064	561
UK Fixed Income Pooled Vehicles	566	11.0%	628	503
UK Index Linked Pooled Vehicles	708	9.0%	772	644
Pooled Property	204	12.5%	229	178
Private Equity	545	27.5%	695	395
Hedge Funds	272	9.0%	297	248
Infrastructure	323	18.5%	383	263
Other Alternative Assets	396	14.2%	452	340
Short term deposits & other investment balances	214	0.0%	214	214
	7,747			

16b Credit Risk

The Fund does not hold any Fixed Interest Securities directly and the Managers of the Pooled Fixed Income Vehicles are responsible for managing credit risk, section 16a of this note covers the market risks of these holdings.

The Fund's arrangements for derivatives, securities lending and impaired items are dealt with in other notes to the accounts.

The short term cash deposits and other investment balances are diversified with investment grade financial institutions. The Fund has a treasury management policy that is compliant with current best practice.

The Fund's cash holding under its treasury management arrangements as at 31 March 2018 was £53.2 million (31 March 2017 £75.2 million). This was held in instant access accounts with the following institutions:

	Rating (S&P)	Balances as at 31 March 2018	Balances as at 31 March 2017
		£'000	£'000
Lloyds Bank	Long A Short A-1	33,226	40,222
Invesco	AAAm	10,000	20,000
Santander	Long A Short A-1	10,000	-
Svenska Handelsbanken	Long AA- Short A-1+	-	15,000
Total		**53,226**	**75,222**

16c Liquidity risk

The Fund's key priority is to pay pensions in the long term and in the short term and the asset allocation is the key strategy in ensuring this. The earlier sections have dealt with the longer term risks associated with market volatility.

The Fund has a cash balance at 31 March of £53.2 million. The Fund has £6,157 million in assets which could be realised in under 7 days' notice, £913 million in assets which could be realised in under 90 days' notice and £974 million in assets which could not be realised within a 90 day period.

The Fund has no borrowing or borrowing facilities.

The management of the Fund also prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The Fund has a net addition for 2017/18 in its dealing with members of £89 million, management expenses of £40 million, and investment income of £197 million.

16d Outlook for real investment returns

The expectation of future real investment returns can affect the Fund's liabilities as they may impact on the discount rate used by the actuary to discount the liabilities; the Fund's actuary has calculated that the Fund has sensitivity to this discount rate of 20% per 1% change in real investment returns. The Fund considers both the liabilities and assets together and assesses the funding ratio and the implications for investment strategy on a quarterly basis at the IMWP.

17. FUNDING ARRANGEMENTS

In line with The Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016. The next valuation will take place as at 31 March 2019.

The most recent Triennial Valuation by the actuary was as at 31 March 2016, when the funding level was 85% of projected actuarial liabilities (2013 76%). The funding objective is to achieve and then maintain assets equal to the funding target. The funding target is the present value of 100% of projected accrued liabilities, including allowance for projected final pay. The FSS specifies a maximum period for achieving full funding of 19 years.

The funding method adopted is the projected unit method, which implicitly allows for new entrants replacing leavers.

The key elements of the funding policy are to:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, designating and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

Summary of key whole Fund assumptions used for calculating funding target

	31 March 2016
Long Term Yields	**% p.a.**
Market Implied RPI Inflation	3.20
Solvency Funding Target Financial Assumptions	
Investment Return	4.20
CPI Price Inflation	2.20
Salary Increases	3.70
Pension Increases	2.20
Future Service Accrual Financial Assumptions	
Investment Return/Discount Rate	4.95
CPI Price Inflation	2.20
Salary Increases	3.70
CARE	2.20

18. INVESTMENT LIABILITIES

	2017/18 £'000	2016/17 £'000
Derivative Contracts	-	13
Amounts due to stockbrokers	13,736	4,477
	13,736	**4,490**

19. LONG TERM ASSETS

	2017/18 £'000	2016/17 £'000
Assets due in more than one year	5,013	7,110
	5,013	**7,110**
Relating to:		
Central Government Bodies	922	1,845
Other Local Authorities	3,777	4,717
Public Corporations and Trading Funds	142	280
Bodies External to General Government	172	268
	5,013	**7,110**

Payments are being received in respect of pensioner and deferred members of the Magistrates Courts, which was previously an active employer in the Fund. Year 1 is shown as a current asset, but years 2 onwards are included above. Also included are future payments of pension strain to be paid by employers in 2018/19 onwards.

20. CURRENT ASSETS AND LIABILITIES

	2017/18 £'000	2016/17 £'000
Assets		
Contributions due	17,431	19,273
Amounts due from external managers	41,296	144
Accrued and outstanding investment income	1,152	664
Sundries	14,889	12,749
Provision for bad debts	(118)	(167)
Cash at bank	5,259	1,695
	79,909	**34,358**
Relating to:		
Central Government Bodies	1,868	1,863
Other Local Authorities	11,988	13,828
NHS	1	1
Public Corporations and Trading Funds	140	73
Bodies External to General Government	65,912	18,593
	79,909	**34,358**
Liabilities		
Amounts due to external managers	966	-
Transfer values payable	-	1,226
Retirement grants due	3,467	1,944
Provisions	432	294
Miscellaneous	18,574	12,130
	23,439	**15,594**
Relating to:		
Central Government Bodies	2,795	3,895
Other Local Authorities	3,016	1,881
Public Corporations and Trading Funds	26	2
Bodies External to General Government	17,602	9,816
	23,439	**15,594**
Total current assets and liabilities	**56,470**	**18,764**

"Sundries" mainly covers general debtors, property arrears due, agents' balances and recoverable taxation.

"Provision for Bad Debt" relates to general debtors and property rental income, and is based on an assessment of all individual debts as at 31 March 2018.

The main components of "Miscellaneous Liabilities" are the outstanding charges for Investment Management fees, payable quarterly in arrears, Custodian and Actuarial fees, plus income tax due, pre-paid rent and Administering Authority re-imbursement.

21. CONTRACTUAL COMMITMENTS

Commitments for investments amounted to £534.86 million as at 31st March 2018. (2016/17 £606.12 million). These commitments relate to Private Equity £209.46 million, Infrastructure £128.37 million, Opportunities £31.07 million, Indirect Property £165.96 million. As some of these funds are denominated in foreign currencies, the commitment in sterling is subject to change due to currency fluctuations.

22. CONTINGENT ASSETS

When determining the appropriate Fund policy for employers the different participating characteristics as either a contractor or community body or whether a guarantor of sufficient financial standing agrees to support the pension obligations is taken into consideration when setting the fiduciary strategy.

It is the policy to actively seek mechanisms to strengthen employer covenants by engaging "contingent assets" in the form of bonds/indemnity insurance, local authority guarantors, parent company guarantors or charge on assets to mitigate the risk of employers exiting the Fund leaving unrecoverable debt.

These financial undertakings are drawn in favour of Wirral Council, as the Administrating Authority of Merseyside Pension Fund and payment will only be triggered in the event of employer default.

23. RELATED PARTY TRANSACTIONS

There are three groups of related parties: transactions between Wirral Council, as Administering Authority, and the Fund, between employers within the Fund and the Fund, and between Members and Senior Officers and the Fund.

Management expenses include charges by Wirral Council in providing services in its role as Administering Authority to the Fund, which amount to £3.3 million. (2016/17 £3.6 million). Such charges principally relate to staffing required to maintain the pension service. Central, Finance and IT costs are apportioned to the Fund on the basis of time spent on Fund work by Wirral Council. There was a debtor of £9.1 million (2016/17 £11.9 million) and a creditor of £254,502 as at 31 March 2018 (2016/17 £293,110).

Employers are related parties in so far as they pay contributions to the Fund in accordance with the appropriate Local Government Pension Scheme Regulations (LGPS). Contributions for the year are shown in note 7 and in respect of March 2018 payroll are included within the debtors figure in note 20.

A specific declaration has been received from Pension Committee Members, Pension Board Members and principal officers regarding membership of, and transactions with, such persons or their related parties. A number of Members act as Councillors or Board members of particular scheme employers, listed below, who maintain a conventional employer relationship with the Fund:

Liverpool City Council, Knowsley Council, Sefton Council and St Helens Borough Council, Wirral Council, Knowsley Youth Mutual, Helena Housing, Whiston Town Council, Rainhill Parish Council, Knowsley Housing Trust, One Vision Housing, CDS Housing, Greater Hornby Homes and Wirral Partnership Homes (also known as Magenta Living). The value of the transactions with each of these related parties, namely the routine monthly payments to the Fund of employers' and employees' contributions, is determined by the LGPS Regulations, and as such no related party transactions have been declared.

Peter Wallach, Director of Pensions acts in an un-remunerated board advisory capacity on 4 investment bodies in which the Fund has an interest, Eclipse (£13.8 million), Standard Life (£15.8 million), F&C (£21.5 million) and GLIL (£65.9 million).

Linda Desforges, Senior Portfolio Manager acts in an un-remunerated board advisory capacity on 5 investment bodies in which the Fund has an interest, Standard Life (£15.8 million), BBH Capital (£9.1 million), TEO Plc (£14.3 million), GCM Grosvenor Co-Investment Fund (£6.9 million) and F&C (£21.5 million).

Susannah Friar, Property Manager acts in an un-remunerated board advisory capacity on six investment bodies in which the Fund has an interest, Partners Group Real Estate Asia Pacific 2011 (£7.3 million), Bridges Property Alternatives IV (£1.1 million), Century Bridge China Real Estate Fund II (£5.5 million), Phoenix Asia Secured Debt Fund (£3.5 million) Alma Property Partners (£6.6 million) and Barwood Property.

Adil Manzoor Portfolio Manager, acts in an un-remunerated board advisory capacity on 4 investment bodies in which the Fund has an interest, Standard Life Infrastructure Fund I (£7.9 million), Blackrock GRP Fund I (£25.8 million) and AMP GIF II (£35.3 million) and Impax New Energy Investors III LP .

Each member of the Pension Fund Committee and Pension Board Members formally considers conflicts of interest at each meeting.

Key management personnel

The Fund's senior management during 2017/18 was comprised of 7 individuals: the Director of Pensions, the Head of Pensions Administration, Senior Portfolio Managers (x3), Head of Finance & Risk and Senior Investment Manager, the remuneration paid to the senior management during 2017/18 was £421,487 (2016/17 £416,301). In addition, employer contributions of £56,995 (2016/17 £56,042) was also met from the Fund and charged to the Fund Account. The post of Senior Investment Manager was deleted during the year.

24. ADDITIONAL VOLUNTARY CONTRIBUTION INVESTMENTS

	2017/18 £000	2016/17 £000
The aggregate amount of AVC investments is as follows :		
Equitable Life	2,015	2,089
Standard Life	5,988	6,139
Prudential	7,930	6,331
	15,933	**14,559**
Changes during the year were as follows:		
Contributions	3,432	2,473
Repayments	2,441	2,964
Change in market values	383	1,303

SCHEME EMPLOYERS WITH ACTIVE MEMBERS AS AT 31 MARCH 2018

Scheduled Bodies

Academy of St Francis
Bellerive FCJ Catholic College
Billinge Chapel End Parish Council
Birkdale High School (Academy)
Birkenhead High School Academy
Birkenhead Sixth Form College (Academy)
Blacklow Brow School (Academy)
Blue Coat School (Academy)
Carmel College
Calday Grange Grammer School (Academy)
Chesterfield High School (Academy)
Chief Constable
Childwall Sports and Science Academy
Cronton C of E Primary (Academy)
Cronton Parish Council
De la Salle Academy
Deyes High School (Academy)
Eccleston Parish Council
Edsential SLE
Egremont Primary School (Academy)
Emslie Morgan Academy
Everton Free School (Academy)
Finch Woods Academy
Formby High School (Academy)
Garston C of E Primary School (Academy)
Great Meols Primary School (Academy)
Greenbank High School (Academy)
Halewood Academy Centre for Learning
Halewood C of E Primary (Academy)
Halewood Town Council
Halsnead Primary School (Academy)
Harmonize (Academy)
Hawthornes Free School
Heygreen Community Primary (Academy)
Hilbre High School (Academy)
Hillside High School (Academy)
Hope Academy
Hugh Baird College
Kings Leadership Academy (Liverpool)
Kirkby High School
Knowsley Lane Primary School (Academy)
Knowsley M.B.C.
Knowsley Town Council
LDST – Liverpool Diocesan Schools Trust (Academy)
Litherland High School (Academy)
Liverpool City Council
Liverpool City Region Combined Authority (LCRCA)

Liverpool College (Academy)
Liverpool John Moores University
Liverpool Life Science UTC (Academy)
Liverpool Street Scene Services Ltd
Lord Derby Academy
Maghull High School (Academy)
Maghull Town Council
Merseyside Fire & Rescue Authority
Merseyside Passenger Transport Executive (MPTE)
Merseyside Recycling and Waste Authority
New Park Primary (Academy)
North Liverpool Academy
Office of the Police and Crime Commissioner for Merseyside (OPCCM)
Oldershaw Academy
Our Lady of Pity RC Primary School (Academy)
Park View Academy
Poulton Lancelyn Primary School (Academy)
Prenton High School for Girls (Academy)
Prescot Town Council
Rainford High School (Academy)
Rainford Parish Council
Rainhill Parish Council
Rainhill Learning Village Multi Academy Trust
Rainhill St Anns CE Primary School (Academy)
Range High School (Academy)
Roscoe Primary (Academy)
School Improvement Liverpool Ltd
Sefton M.B.C.
Shared Education Services Ltd
Southport College
St. Anselms College (Academy)
St. Edwards College (Academy)
St. Francis Xavier's College (Academy)
St. Helens College
St. Helens M.B.C.
St John Plessington Catholic College
St Margaret Church of England Academy
St Mary & St Thomas CE Primary School (Academy)
St Marys Catholic College
St Michael's C of E High School (Academy)
St Silas C of E Primary School (Academy)
St Thomas C of E Primary (Academy)
Stanley High School (Academy)
Stanton Road Primary School
Studio @ Deyes Academy
Sylvester Primary Academy
The ACC Liverpool Group Ltd
The Academy of St Nicholas
The Beacon C E Primary School (Academy)
The Belvedere Academy

The Birkenhead Park School
The City of Liverpool College
The Kingsway Academy
The Prescot School (Academy)
The Studio (Academy)
The Sutton Academy
Town Lane Infant School (Academy)
Townfield Primary School (Academy)
Upton Hall School (Academy)
Weatherhead High School (Academy)
West Derby School (Academy)
West Kirby Grammar School (Academy)
Whiston Town Council
Wirral Council
Wirral Evolutions
Wirral Grammar School for Boys (Academy)
Wirral Grammar School for Girls (Academy)
Wirral Metropolitan College
Woodchurch High School (Academy)

Admission Bodies

Addaction (Sefton)
Age Concern – Liverpool
Agilisys Limited
Amey Services Ltd - Highways
Arriva North West
Arvato Public Sector Services Limited
Association of Police Authorities
Balfour Beatty PFI SEN School
Balfour Beatty Workplace
BAM Nuttall
Berrybridge Housing Ltd
Birkenhead Market Services Ltd
Birkenhead School (2002)
Bouygues E & S FM UK Ltd
Care Quality Commission
Castlerock Recruitment Group Ltd
Caterlink Ltd
Catholic Children's Society
CDS Housing
Change Grow Live
City Healthcare Partnership CIC
Cobalt Housing Ltd
Compass Contract Services (UK)
Compass (Scolarest) Liverpool Schools
Compass (Scolarest) Wirral Schools
Elite Cleaning & Environmental Services Ltd
Friends of Birkenhead Council Kennels
Geraud Markets Liverpool Ltd

Glendale (Liverpool Parks Services) Ltd
Glenvale Transport Ltd/Stagecoach.
Graysons Education
Greater Hornby Homes
Greater Merseyside Connexions
Helena Partnerships Ltd.
Hochtief Liverpool Schools
Hochtief Wirral Schools
Interserve (Facilities Management) Ltd
Kingswood Colomendy Ltd.
Knowsley Youth Mutual
Lee Valley Housing Association Ltd
Liverpool Hope University
Liverpool Housing Trust
Liverpool Mutual Homes Ltd.
Liverpool Vision Limited
Local Government Association
Mack Trading
Mellors Catering – Birkdale
Mellors Catering – St Anns
Mellors Catering – St Mary & St Thomas
Mellors Catering - St Paul & St Timothy
Merseyside Lieutenancy
Mosscroft Childcare Ltd
North Huyton Communities Future
One Vision Housing Ltd
Orian Solutions
Partners Credit Union
Port Sunlight Village Trust
Sanctuary Home Care Ltd
Sefton Education Business Partnership
Sefton New Directions Ltd.
Shap Ltd
South Liverpool Housing Ltd
Southern Electric Co Ltd
Tarmac Trading Ltd
Taylor Shaw (Great Meols)
Taylor Shaw (The Grange)
Taylor Shaw (Raeburn)
Taylor Shaw (Range)
Taylor Shaw (St Andrews)
Vauxhall Neighbourhood Council
Veolia ES Merseyside & Halton
Volair Ltd
WCFT (NHS)
Welsh Local Government Association
WIRED
Wirral Autistic Society

Wirral Chamber of Commerce

Wirral Partnership Homes (Magenta)

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WIRRAL

Business Management

Shaer Halewood
Director of Finance and Investment
PO Box 290,
Brighton Street,
Wallasey,
Wirral,
CH27 9FQ.

to Grant Thornton UK LLP
Liver Buildings
Liverpool
L3 1PS

date 23 July 2018

my ref

Dear Sirs

MERSEYSIDE PENSION FUND
Financial Statements for the year ended 31 March 2018

This representation letter is provided in connection with the audit of the financial statements of Merseyside Pension Fund ('the Fund) for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the Fund financial statements are presented fairly, other than liabilities to pay pensions and benefits after the end of the Fund year, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgement based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

vi. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

vii. Except as disclosed in the financial statements:

a there are no unrecorded liabilities, actual or contingent

b none of the assets of the Council has been assigned, pledged or mortgaged

c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the misclassification and disclosures change schedules included in your Audit Findings Report. The financial statements have been amended for the misclassification and disclosure changes and are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiii. We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xiv. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Fund financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. unrestricted access to persons within the Fund from whom you determined it necessary to obtain audit evidence.

xv. We have communicated to you all deficiencies in internal control of which management is aware.

xvi. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xvii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xviii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xix. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xx. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxi. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

xxii. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

xxiii. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the **Pension Committee** at its meeting on 16 July 2018 and by the Audit and Risk Management Committee at its meeting on 23 July 2018.

Yours faithfully

Name: Shaer Halewood

Position: Director of Finance & Investment (S151)

Date: 23 July 2018

Name……………………………

Position: Chair of Audit & Risk Committee

Date: 23 July 2018

Signed on behalf of **Wirral Metropolitan Borough Council** as administering body of the **Merseyside Pension Fund**

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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY

Grant Thornton

Audit Findings

Year ending 31 March 2018

Wirral Council

July 2018 (as at 12 July 2018)

Contents

Your key Grant Thornton team members are:

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Headlines

This table summarises the key issues arising from the statutory audit of Wirral Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion: • the Council's financial statements give a true and fair view of the Council's financial position and of the group and Council's expenditure and income for the year, and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work is substantially complete and was undertaken on site in June and July 2018. Our findings are summarised on the following pages. We have not identified any adjustments affecting the Council's reported financial position for the year ended 31 March 2018 with the draft financial statements setting out recorded net expenditure on cost of services of £251.950m. The key messages arising from our audit of the Council's financial statements • The draft financial statements were prepared to a good standard ahead of the revised and earlier deadline of 31 May 2018. • The statements were supported by prompt provision of appropriate working papers in accordance with the agreed timetable. • The draft financial statements published on the Council website did not include an Annual Governance Statement as is required under the Regulations. A draft was made available on 8 June however it is important the Council accelerates the process for preparing the draft going forward. At this stage of our audit we have not identified any material errors or uncertainties and subject to completion of our testing we anticipate issuing an unqualified audit opinion following the Council's Audit and Risk Management Committee meeting on 23 July 2018. These outstanding items include: - completion of testing on a small number of account balances and clearance of outstanding queries - review of LOBO accounting issues - obtaining and reviewing the management representation letter - review of the final set of financial statements, and - updating our post balance sheet events review, to the date of signing the opinion. We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, is consistent our knowledge of the Council and with the financial statements we have audited. **Merseyside Pension Fund** We also anticipate providing an unqualified opinion on Merseyside Pension Fund's financial statements. The findings from this audit are set out in a separate report.

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Headlines

This table summarises the key issues arising from the statutory audit of Wirral Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	We have completed our risk based review of the Council's value for money arrangements. The Council continues to face a challenging financial position. Whilst progress has been made in establishing a new Growth Company a significant proportion of the £62m budget gap in 2018/19 is to be met through one-off use of reserves and expected asset sales. This approach cannot continue and more needs to be done to put the Council on a firm financial footing going forward. Steps are continuing to address the issues highlighted by OFSTED in the their inspection of Children's services and improvements have been achieved. However, at this stage the Council remains assessed as 'inadequate' and we intend to reflect this in our Value for money conclusion judgement as in previous years. We therefore anticipate issuing a qualified 'except for' value for money conclusion, as detailed in Appendix E.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • certify the closure of the audit	We do not expect to be able to certify the conclusion of the audit as we are yet to complete our consideration of an objection we received in relation to the Council's Lender Option Borrower Option borrowing.

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Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- an evaluation of the Council's internal controls environment including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to completion of outstanding testing and clearance of the final queries, we anticipate issuing an unqualified audit opinion following the Audit and Risk Management Committee meeting on 23 July 2018. These outstanding items include:

- completion of testing on a small number of account balances and clearance of outstanding queries
- review of LOBO accounting issues
- obtaining and reviewing the management representation letter
- review of the final set of financial statements; and
- updating our post balance sheet events review, to the date of signing the opinion.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remains the same as reported in our audit plan. We detail in the table below our assessment of materiality for Wirral Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£13.026m	Considered to be the level above which users of the accounts would wish to be aware of misstatements, in the context of overall expenditure. Based on 1.8% of 2016/17 actual Gross Revenue Expenditure.
Performance materiality	£9.769m	Assessed as 75% of Financial Statement materiality
Trivial matters	£0.686m	ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.
Materiality for specific transactions, balances or disclosures	£20k	Senior Officer remuneration disclosures given the potential public interest in these figures.
	1.8%	Related Party Transactions due to potential public interest. We will review any unusual transactions.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited because there is a high degree of predictability in the main revenue streams • The culture and ethical frameworks of local authorities, including Wirral Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Wirral Council.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.	**We have:** • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness • obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness • evaluated the rationale for any changes in accounting policies or significant unusual transactions. Our audit work completed to date has not identified any evidence of management over-ride of controls.

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Significant audit risks

	Risks identified in our Audit Plan	Commentary
3	**Valuation of property, plant and equipment** The Council revalues its land and buildings on a quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.	**We have:** • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • considered the competence, expertise and objectivity of any management experts used • discussed with the valuer the basis on which the valuation is carried out and challenge of the key assumptions • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding • tested revaluations made during the year to ensure they are input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. **Assurance gained and Issues arising** The Council's property, plant and equipment assets are valued by the Council’s in-house valuation team. Our work has assessed them as having appropriate knowledge of the Council's portfolio and they have used information from the Asset Register and other Council estates systems in carrying out their valuation of Council assets. The assumptions used are reasonable and we are satisfied that the valuer had full access to appropriate levels of information to complete reliable valuations. For the assets not re-valued in year, officers undertake an annual assessment of the carrying value of these assets to be able to satisfy themselves that the carrying value is not materially different to the fair value at the 31 March 2018. This involves a review of the potential impact of indices on the asset valuation, together with consideration of a range of other factors. The assessment of Council officers is that the carrying value of assets in the Council's financial statements is not materially different to the fair value at the 31 March 2018, in the context of an overall carrying value of £433 million for Other Land and Buildings in the final financial statements. We have reviewed and challenged the Council's methodology and assumptions used during this review and found them to be reasonable. We identified a number of assets where capital expenditure, which had been incurred in previous years, was written off during the year, in the absence of a formal revaluation to verify that the expenditure had not contributed to an increase in value to the asset. As such, this practice is contradictory where the original assessment was that the expenditure was capital, and not revenue, in nature. We have performed further investigation of the assets impacted by this assessment and concluded that the total value of £3.8m is below our materiality threshold and does not impact upon our assessment that asset valuations are not materially misstated. Our audit work has not identified any further significant issues in relation to the risk identified.

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Significant audit risks

	Risks identified in our Audit Plan	Commentary
4	**Valuation of pension fund net liability** The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	**We have:** • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out • undertaken procedures to confirm the reasonableness of the actuarial assumptions made • Checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. **Assurance gained and Issues arising** For the valuation of Wirral's pension fund net liability we undertook a review of the actuary's (Mercer) work to satisfy ourselves that the pension liabilities are fairly stated in the financial statements. In doing so we assess the methodology and assumptions used by the scheme's actuary. We confirmed with the LGPS auditor that the controls over membership data were operating as intended. Our audit work has not identified any significant issues in relation to the risk identified.

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Reasonably possible audit risks

	Risks identified in our Audit Plan	Commentary
5	**Employee remuneration** Payroll expenditure represents a significant percentage of the Council's operating expenses. As the payroll expenditure comes from a number of individual transactions and interfaces with different sub-systems, there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.	**We have:** • evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness • gained an understanding of the Council's system for accounting for payroll expenditure and evaluated the design of the associated controls • re-performed all year-end reconciliations and investigated significant adjustments • agreed year end accruals to supporting documentation • performed substantive analytical procedures disaggregated for each month. **Assurance gained and Issues arising** We completed our analytical work and review of payroll reconciliations to gain assurance that payroll expenditure was not materially misstated. Our audit work has not identified any significant issues in relation to the risk identified
6	**Operating expenses** Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenses as a risk requiring particular audit attention:	**We have:** • evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls; • tested April non-pay expenditure to ensure it is charged to the correct year • re-performed all year-end reconciliations and investigated significant adjustments. **Assurance gained and Issues arising** Our testing confirmed that controls around operating expenses are working as expected and our testing completed to date of year end creditors and accruals found that they had been properly accounted for been posted to the correct period. Our audit work has not identified any significant issues in relation to the risk identified.

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Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	Income and expenditure is recognised in the financial year in which goods and services are received or provided. The amounts included are based on actual invoices received or raised after the year end and where actual amounts are not known estimates are included based on an assessment of the value of goods and services received or rendered. Any estimates are calculated using the best available information. Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. If debts are not likely to be settled, the balance of the debtor is written down and a charge made to revenue for income that might not be collected. Income from Council Tax and National Non-Domestic Rates is recognised within the Comprehensive Income and Expenditure Account as the amount due to the Council for the financial year, including its share of the Collection Fund balances for these items at the end of the financial year. This value is subsequently amended through the Movement in Reserves Statement and the Collection Fund Adjustment Account to reflect the amount to be credited to the General Fund for the Council's Council Tax Requirement and income from National Non-Domestic Rates. Interest receivable on investments and payable on borrowings is accounted for as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows set out by contract.	• The Council's policy is appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code). • The main elements of the Council's revenues are predictable and there is minimal judgement required from the Council. • The accounting policies are appropriately disclosed in note 1 to the financial statements.	Green
Group accounts	The Council's accounts include a Group Accounts accounting policy and judgement that the Council's interests and investments in companies are not material and therefore Group Accounts are not required.	We have completed our review of the detailed Group accounts assessment completed by the Council and agree that your assessment is reasonable and supported by the evidence.	Green

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Assessment
- Red - Marginal accounting policy which could potentially be open to challenge by regulators
- Amber - Accounting policy appropriate but scope for improved disclosure
- Green - Accounting policy appropriate and disclosures sufficient

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Accounting policies

Accounting area	Summary of policy/Issue	Comments	Assessment
Judgements and estimates	Key estimates and judgements include: – Useful life of Property, Plant and Equipment – Revaluations and Impairments of assets – Valuation of pension fund net liability – Provision for NNDR appeals – Other provisions and contingent liabilities.	• The Council's accounting policies for key estimates and judgements are appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code). • The accounting policies are appropriately disclosed in notes 1,3 and 4 to the financial statements • Our audit testing of key estimates and judgements has considered the extent of judgement involved, the potential impact of different assumptions and the range of possible outcomes. Other than the issue set out below, we are satisfied that the key estimates and judgements are appropriate and adequately disclosed. • The Council has transferred services to other entities where TUPE provisions apply and in doing so has entered into contractual arrangements to guarantee/indemnify the pension obligations or contributions of the entity. Our view is that where these guarantees are contractual the accounting for these guarantees should be determined with reference to the nature of the agreement between the parties involved and consideration as to whether these are derivative financial liabilities under IAS 39 Financial Instruments: Recognition and Measurement or insurance contracts under IFRS 4 Insurance Contracts, dependent on the risks involved, therefore bringing the liability onto the balance sheet. Management judgement is therefore required as to whether non-financial risks (results in IFRS 4 treatment) or financial risks (results in IAS 39 treatment) are greater. • Management have updated their consideration of these guarantees and concluded that they are derivative financial liabilities and have estimated the unrecorded liability in the draft financial statements to be less than £10,000 in 2017/18. Based on this value Management have decided not to reflect these transactions within the financial statements as the amounts involved are clearly not material.	Green

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Accounting policies

Accounting area	Summary of policy/Issue	Comments	Assessment
Going Concern As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK&I) 570).	The Director of Finance & Investment (s151) officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2017/18 financial statements.	Green
Other critical policies	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	Green

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Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Matters in relation to fraud**	We have previously discussed the risk of fraud with management, Internal Audit and the Audit and Risk Management Committee. We have not been made aware of any significant issues in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	From the work we carried out, we have not identified any related party transactions which have not been disclosed. We noted that six Councillors did not return a declaration of interest form in line with Council requirements. We therefore undertook additional audit procedures to help provide the necessary assurances.
3	**Matters in relation to laws and regulations**	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	A standard letter of representation has been requested from the Council.
5	**Confirmation requests from third parties**	We obtained direct confirmations from banks for confirmation of year end balances alongside other third party confirmations relating to borrowings and investments. A confirmation requested for Holy Spirit Primary School has not yet been received. However, we obtained sufficient assurance by completing alternative audit procedures. All other requests were returned with positive confirmation.
6	**Disclosures**	Our review found no material omissions in the financial statements. A small number of disclosure amendments have been made to the financial statements arising from the audit.
7	**Significant difficulties**	We have not experienced any significant difficulties in the conduct of the audit of the 2017/18 draft financial statements

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Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Other information**	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect – refer to Appendix E
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties Following the late provision of a completed Annual Governance Statement for 2017/18 based on our review we have nothing to report on these matters. It is however important that the Council accelerates its process for preparing the Annual Governance Statement going forward to ensure a draft is available to be published by the end of May.
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of £500 million we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Our work is not yet completed and we plan to complete this work ahead of the 31 August 2018 deadline.
4	**Certification of the closure of the audit**	We do not expect to be able to certify the completion of the 2017/18 audit of Wirral Council in our auditor's report, as detailed in Appendix E as we are currently in the process of completing our work in relation to an objection that we received in relation to the Council's Lender Option Borrower Option borrowing

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Value for Money

Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:

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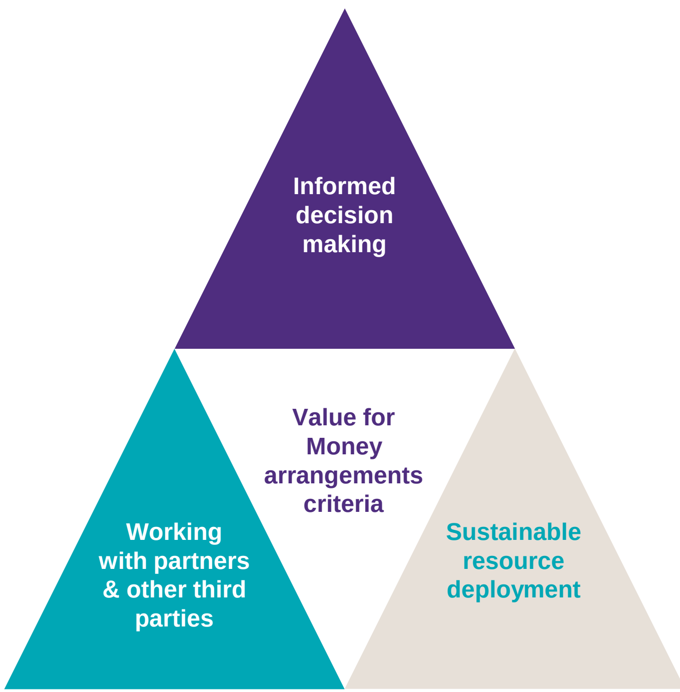

Risk assessment

We carried out an initial risk assessment in earlier in the year and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2018 as set out below.

Financial Planning/sustainability

The Council continues to face an increasingly difficult financial position. The Medium Term Financial Strategy 2017/18 – 2020/21 set out a £132m budget gap and plans are in place to achieve savings of £45m in 2017/18 and £61m in 2018/19. The Council recognise that the balanced position in 2017/18 and 2018/19 has been achieved, in part, through the use of "one –off" options including the use of balances and reserves and the generation of capital receipts through the proposed sale of Council assets.

Plans are in place to secure both service transformation and increased income generation as part of the Council strategy to secure its longer term financial stability. With a key component of this strategy being the establishment of the Wirral Growth Company. The delivery of the required savings in 2017/18 and the plans for further service transformation represent a significant challenge to the Council.

Ofsted inspection of children's services

Ofsted issued a report on the Council's children's services in September 2016 which rated the service as 'inadequate'. Subsequently, the Council have undertaken a range of actions and significantly increased funding to the service and worked toward securing the required service improvement. Ofsted have completed regular follow up reviews and the December 2017 review concluded that "some progress" has been achieved and the "direction of travel is now more promising" however "there is still a great deal of work to be done".

Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council's arrangements.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness. We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

Financial Planning Sustainability

- The Council continues to face an increasingly difficult financial position. The Medium Term Financial Strategy 2017/18 – 2020/21 set out a £132m budget gap and with plans in place to achieve savings of £45m in 2017/18 and £61m in 2018/19. The Council reported that 2017/18 proved to be another financially challenging period with significant overspends recorded for certain care related services and the 2017/18 budget required allocation of £8.5million from the revenue budget contingency reserves.
- During the year the Council updated the Medium Term Financial Strategy and developed the 2018/19 budget proposals following agreement to make an additional £25m investment in Children’s services. The Revenue budget 2018/19 reported to Cabinet in February 2018 confirmed an updated position that set out the basis of the £61m saving requirement. We note that the basis of the savings proposals were £22m savings proposals identified as at February 2017, further proposals for savings identified between Dec 2017 and February 2018 of £13m, required generation of Capital receipts of £10m and planned use of balances and reserves of £16m.
- We acknowledge that the Council recognise that the planned balanced position in 2017/18 and 2018/19 has been achieved, in part, through the use of “one –off” options including the use of balances and reserves and the proposed sale of Council assets. However, we note that of the £61m budget gap “identified” above some £26m is predicated on the realisation of £10m in capital receipts and £16m is based on the use of balances and reserves and this represents 42.5% of the budget savings requirement.
- During the year the Council approved the establishment of a new Joint Venture - Wirral Growth Company – with the aim of leading regeneration plans across the borough. It is anticipated the creation of the Company will result in the creation of jobs, attract investment and boost housing and development. Consequently, this should help alleviate some of the financial pressures in the longer term.
- However the Council faces a £76m funding gap between 2019/20-2021/22 and the majority of reserves established to support the budget have now been utilised. Therefore the Council has plans to update and revise the basis of the MTFS 2019/20 - 2022/23 with the aim of establishing a sustainable and robust financial basis on which the Council can operate over the longer term. This is an absolute priority for the Council.
- The Council recognise the financial challenges and pressures it faces over both the immediate and longer term. It is now critical that action is taken to deliver a sustainable and robust financial plan on which the Council can operate over the longer term. It is important that officers and members work together effectively to make this happen.

OFSTED inspection of Children's Services

- Ofsted have completed four monitoring visits to the Council during 2017/18 following on from the September 2016 inspection that concluded that children's services were inadequate with the latest visit taking place in May 2018. We note that the report following on from the May 2018 inspection concluded that *“the local authority is making progress in improving services for its children and young people who ned to be looked after*”. The report goes on to say that *“more work is needed to improve social work proactive to ensure that all children looked after receive a good service that improves their experiences”.*
- Members are provided with regular updates on the Council’s Improvement Plan and the key actions that have been implemented over the period. The Improvement Plan sets out five key performance areas with a clear focus on “getting the basics right”. During 2017/18 numerous improvement actions have been implemented including improved levels of recruitment with appointments to more senior roles that have helped contribute to reductions in caseload and restructuring of working practices.
- The Council recognise that there is more to be achieved to deliver the further service improvements required. Until such time that Ofsted confirm that adequate arrangements are in place this remains a significant risk to the Councils arrangements.

Value for Money

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- except for the matter we identified in respect of the improvement actions required for Children’s Services, the Council had proper arrangements in all significant respects. We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The text of our proposed report can be found at Appendix E.

Recommendations for improvement

We discussed our VFM findings arising from our work with management and have agreed a recommendation for improvement relating to the Financial Planning risk. Our recommendation and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work - VFM

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management - VFM

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

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Other statutory powers and duties

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Objection**	On 11 August 2016 we received an objection to the accounts under sections 26 and 27 of the Local Audit and Accountability Act 2014. The objector requested that we prepare a public interest report and apply to the courts for a declaration that Wirral Council's Lender Option, Borrower Option loan borrowing as referenced in the 2015-2016 accounts is unlawful. In keeping with objections received by several authorities the objector raises concerns in respect of the: - rationality of the decision to borrow on LOBO terms; - adequacy of the information on which the Council based their decisions to enter into LOBO arrangements; - scale of borrowing on LOBO terms and associated exposure to interest rate increases; - alleged improper speculation on future interest rate changes; and - use of advisers with alleged undisclosed financial incentives to promote LOBOs. Our work in relation to the objection is on-going and we have received prompt and full co-operation from the Council in both provision of relevant information and responses to our queries. Whilst it is impossible to put a definite timeframe on it, we plan to conclude our consideration of the objection as soon as possible

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Independence and ethics

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. The firm, its partners, senior managers, managers and network firms have complied with the Financial Reporting Council's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.

Details of fees charged are detailed in Appendix D.

Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and confirm that the following non-audit services were identified.

Service	£	Threats	Safeguards
Non-audit related			
CFO Insight	12,500	Self Interest	The fee is a subscription, planned to be recurring, and is therefore a possible self-interest threat. However, the fee for this work is small in comparison to the total fee for the audit and in particular GT UK turnover overall. It is also a fixed fee with no contingent element. These factors all mitigate the perceived self-interest threat to an acceptable level.

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Action plan

We have identified two recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	Red	The Council continues to face a challenging financial position. Whilst progress has been made in establishing a new Growth Company a significant proportion of the £61m budget gap in 2018/19 is being met through one-off use of reserves and expected asset sales. This approach cannot continue and more needs to be done to put the Council on a firm financial footing going forward. . It is now critical that action is taken to deliver a sustainable and robust financial plan on which the Council can operate over the longer term. It is important that officers and members work together effectively to make this happen.	Develop and implement a sustainable plan to place the Council on firm financial footing going forward. **Management response** Work has commenced and will continue through 2018/19 on improving the Councils financial sustainability. The first part of this has been the consideration by Cabinet on 16 July of a refreshed Medium Term Financial Strategy for the period 2019 to 2023. This sets out the Council's approach to addressing the financial and sustainability challenges it will face in future years. It also contains details of a programme to improve financial resilience through improvements in areas such as financial management and culture. The second part of our planned improvements is the annual budget setting process. Activities commenced earlier than in previous years as part of a continuous process to set the budget for 2019/20. Further work will be undertaken in the remaining part of the financial year including Member agreement of financial proposals to remove "one – off" funding.
2	Amber	The Council's draft financial statements published on its website at the end of May 2018 did not include a draft Annual Governance Statement as is required under the Regulations. It is important that the Council accelerates its process for preparing the Annual Governance Statement going forward to ensure a draft is available to be published by the end of May.	Accelerate the process for the preparing the Annual Governance Statement to ensure that the required deadlines are met. **Management response** The Council during 2018/19 will undertake forward planning and self-assessments to ensure that the AGS is published in May 2019. A draft of the Annual Governance Statement will be submitted to the Corporate Governance Group and Senior Leadership Team in April 2019 prior to its inclusion in the Councils Statement of Accounts later in the year.

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Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

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Follow up of prior year recommendations

We identified the following issues in the audit of Wirral Council's 2016/17 financial statements, which resulted in three recommendations being reported in our 2016/17 Audit Findings report to which Management provided a response. We have followed up to determine the updated positon as set out below.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	**Payroll – Teachers pension payments** Our testing of a sample of employee pay details identified 8 retired teachers who receive a pension payments from Wirral Council. The Council were unable to provide any evidence to corroborate the values paid, the existence of staff, and verification that these retired teachers were still eligible to receive the payments. We completed specific testing on this issue that allowed us to conclude that the total value of payments made by the Council was not material at £2.9 million.	**Recommendation** - The Council will need to establish that payments to these former employees remain valid and establish controls to monitor the payments in future periods. **Management response 2016/17** An internal audit of the arrangements for the payment of Teachers Pension Payments has been carried out. The recommendations to resolve the issues are currently being developed with a view to improving the effectiveness of the control environment for the system of payments. It is anticipated that these will included liaison with outside bodies over the potential for data matching, validity testing and revised procedures. **Management Update 2017/18** Work is in progress to implement the internal audit recommendations, based upon a planned structured approach. The work already carried out has addressed the specific issue of matching and the plan provides for this to be further progressed to completion. Work is also under way to carry out appropriate validations and mortality checks that form part of the approach to this.
2	✓	**Segregation of duties conflicts** Segregation of duties is a fundamental principle of control. It requires that record keeping, custody of assets; authorisation and reconciliation processes are not performed by the same person. We performed a review of the access rights, known as responsibilities, assigned to users within Oracle E-Business Suite and we identified a number of high-risk segregation of duties conflicts. A full report has been provided to IT and security for review.	**Recommendation -** A review of configuration of all responsibilities in use within Oracle EBS should be undertaken. This review should be driven by the business with IT support. We have provided the Oracle system administrator with the detailed outputs of our work to facilitate this. Responsibilities should be redesigned to reduce the number of segregation of duties conflicts within the system (Inherent conflicts). Where management have decided to accept the risk of the segregation of duties conflicts, this should be formally documented. **Management response 2016/17** We need this functionality to sometimes post transactions into previous periods. We will review the number of users who have access to this functionality to see if it can be reduced. Business need to review the configuration of the responsibilities and identify if there is a resolution to the issue or accept the risk. **Management Update 2017/18** During 2017/18 Digital Services carried out a review of the users who had access to responsibilities which indicated Segregation of Duties issues and in some instances action was taken to end date the accounts or removed the responsibility. There are a number of occurrences where the service except that there is a SOD and they have working practices to prevent or minimise the risk. Action has also been taken by Digital Services to contact services to ask if they could look at the responsibilities that were assigned to users and if possible define additional responsibilities which segregated some of the duties.

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Assessment
- ✓ Action completed/in progress
- X Not yet addressed

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Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
3 ✓	**Default database accounts have not been locked** Oracle E-Business Suite uses Oracle RDMBS for its database technology. This ship with a number of out of the box accounts that have system administrator privileges. Our testing identified that there are one Oracle database accounts with their default passwords: APPLSYSPUB. Such accounts could be used to enable users to access information that they are not permitted to. This condition presents the following risk to the organisation: Default accounts present a security risk as the usernames and passwords are widely available. They therefore present an easy point of compromise for a malicious user. These accounts could then be used to perform unauthorised and unaccountable changes or transactions, providing an easy method of committing fraudulent activity.	**Recommendation -** Default accounts and passwords should be locked or changed immediately to avoid the risk of system compromise. Management should ensure that for any future upgrades or developments a thorough review of shipped accounts is undertaken and all default passwords changed. **Management response 2016/17** We will either update the passwords or end date these accounts. **Management Update 2017/18** During 2017/18 the relevant passwords have been either reset or an end date applied to all relevant accounts. The Grant Thornton review for this year has not raised any issues with APPLSYSPUB

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Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. We are pleased to confirm that based on our work completed to date that we have not identified any issues that require audit adjustments to be made.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value	Account Balance	Auditor recommendations	Adjusted?
Various	N/a		A number of disclosure adjustments/additions were agreed to ensure compliance with accounting practices and to improve the presentation of the financial statements. The more significant of which are listed below.	✓
Disclosure	Various	Note 40 – Private Finance Initiative	The draft financial statements did not include the PFI disclosure for Leasowe Primary School updated for 2017/18 rather the 2016/17 disclosure were included in error. The Note has now been updated to include the 2017/18 values.	✓
Disclosure		Note 23 - Provisions	Figures relating to provisions as set out on the Balance Sheet under current liabilities did not agree with the analysis set out at Note 23. The Note has now been corrected.	✓
Disclosure		Note 16 – Investment properties	The disclosure of Fair Value Hierarchy for Investment Properties included a transposition error in the Fair Value of “General Income sites” that has now been corrected.	✓

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Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit Fees

	Proposed fee	Final fee
Council Audit	£159,863	£159,863
Grant Certification	£24,920	TBC*1
Total audit fees (excluding VAT)	£184,783	-

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. TBC*1 – The final fee for certification will be determined following completion of our work later in the year.

Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	
Teachers Pensions Agency	TBC*2
Non-audit services	
CFO insight	£12,500

TBC*2 – To be confirmed should the Council require us to undertake the review of the 2017/18 return.

Draft Audit opinion

We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of Wirral Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Wirral Council (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the Balance Sheet, Cash Flow Statement, the Collection Fund Income and Expenditure Account and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance & Investment (s151) use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance & Investment (s151) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Director of Finance & Investment (s151) is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages **[**xx to xx**]**, the Narrative Report and the Annual Governance Statement other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, [the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance & Investment (s151) and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 17, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance & Investment (s151). The Director of Finance & Investment (s151) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Director of Finance & Investment (s151 determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance & Investment (s151) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit and Risk Management Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Qualified conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller & Auditor General in November 2017, except for the effects of the matter described in the basis for qualified conclusion section of our report, we are satisfied that, in all significant respects, [name of authority] put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Basis for qualified conclusion

Our review of the Authority's arrangements identified the following matter:

- In September 2016, Ofsted published a report on the findings of its inspection of services for children in need of help and protection, children looked after and care leavers in Wirral. The report concluded that children's services in Wirral were inadequate. Specifically, the report concluded that arrangements for children who need help and protection and leadership, management and governance of children's services were inadequate.

This matter is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - *Delay in certification of* completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have:

- completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Local Audit and Accountability Act 2014.
- completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2018.

We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

[Signature

Robin Baker
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building
Liverpool
L3 1PS

Xx July 2018

DRAFT

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Audit and Risk Management Committee Monday, 23 July 2018

REPORT TITLE:	**STATEMENT OF ACCOUNTS 2017/18 FOR WIRRAL COUNCIL AND MERSEYSIDE PENSION FUND**
REPORT OF:	**Director of Finance and Investment (S151)**

REPORT SUMMARY

The Council Constitution allocates responsibility for the approval of the Statement of Accounts to the Audit & Risk Management Committee. The Statement for 2017/18 was published on 31 May 2018 and was then subject to audit. The Council's external auditor, Grant Thornton LLP will present their findings, within the Audit Findings Report (AFR) together with any additional update, to this meeting.

Committee is asked to consider the findings of Grant Thornton, agree the Letter of Representation, agree any actions for 2017/18 and then approve the Statement of Accounts for 2017/18. This is in order for them to be published by the statutory deadline of 31 July 2018.

The Statement of Accounts includes the Merseyside Pension Fund (MPF) accounts as Wirral Council is the Administering Authority for MPF. As the MPF receives a separate Audit Findings Report this has to be considered by Pensions Committee and also this Committee as part of approving the Accounts.

RECOMMENDATIONS

Committee consider the Audit Findings Report presented by Grant Thornton agreeing the actions taken over the amendments to the Statement of Accounts (referred to in Section 3 of this report).

Committee consider and approve the Statement of Accounts for 2017/18 as presenting a true and fair view of the Council's income and expenditure for the year and it overall financial position.

The Chair and Director of Finance and Investment (S151) Officer sign and date the Letter of Representation.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 Audit & Risk Management Committee has responsibility for approving the Statement of Accounts on behalf of the Council which is a requirement under the Accounts and Audit Regulations 2015.

2.0 OTHER OPTIONS CONSIDERED

2.1 The Statement of Accounts has to be produced in accordance with statutory guidance. The Statement is subject to review by the appointed Auditor and must be published by 31 July 2018.

3.0 BACKGROUND INFORMATION

3.1 The purpose of the Statement of Accounts is to present the overall financial position of the Council at 31 March 2018 in accordance with prescribed guidance – the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This is updated annually and specifies the accounting principles and practices required to prepare a Statement of Accounts which present a true and fair view of the financial position.

3.2 The Accounts and Audit Regulations 2015 require that the Council produces a Statement of Accounts for each year which meets set requirements. The Regulations 2015 state that the Accounts must be approved by an appropriate Committee no later than 31 July 2018, The Director of Finance and Investment, as Section 151 Officer, was required to certify the Accounts by 31 May 2018. It is confirmed that the Director of Finance and Investment, as the Councils Section 151 Officer, certified the accounts by the statutory deadline. At that date, the Accounts were issued and made publicly available.

3.3 The Accounts published at 31 May 2018 have been subject to audit. Under National Audit Commission audit arrangements for Local Government, Grant Thornton UK LLP (as the Council's appointed external auditor,) report on the financial statements and also on the Value for Money conclusion. These are within the Audit Findings Report.

3.4 The Director of Finance and Investment has to re-certify the presentation of the annual accounts. The Regulations require the Accounts to be considered and approved by Members prior to final publication. For Wirral this role is for this Committee. The Accounts must also be signed and dated by the Chair of this Committee. Following this publication takes place, which must include publication on the Council website, of the Accounts together with any certificate, opinion, or report issued, by Grant Thornton.

AMENDMENTS TO THE STATEMENT OF ACCOUNTS

3.5 Amendments to the financial statements requested by Grant Thornton are detailed in the Audit Findings Report. Committee are asked to consider whether or not they agree to the amendments which have been agreed by officers. The Auditor has, at the time of writing the report, identified a number of revised presentational requirements which the Council has agreed to make.

3.6 The Statement of Accounts 2017/18 is appended to this Agenda and reflects the comments made by the Auditors up to Thursday 12 July and the MPF Accounts which were considered by Pensions Committee on 16 July 2018. At the time of circulating this report no further changes are expected to be required.

3.7 Committee will be updated at the meeting of any further audit work, findings and alterations to the Statement of Accounts as the audit process continues until the issuing of the Audit Opinion.

AUDITOR'S REPORT AND OPINION

3.8 The Audit Opinion will be issued following Committee consideration of the Audit Findings Report, approval of any amendments to the Statement of Accounts and agreement of the Letter of Representation (Appendix).

3.9 The Auditor's Opinion will be incorporated within the final version of the Statement of Accounts that will enable the Accounts to be completed and published by the statutory deadline of 31 July 2018. An unqualified opinion on the Accounts for 2017/18 is anticipated and publication of the Accounts will take place by the statutory deadline. There are no anticipated changes to the financial position as reported to Cabinet on 16 July 2018.

3.10 The closure of accounts is a key part of the Council's financial management processes and requires the input of substantial resources across the Council. This is necessary to deliver a smooth final accounts process and to allow Grant Thornton to carry out its audit within agreed timescales.

3.11 Grant Thornton received the Statements and supporting working papers in accordance with the required deadline. However competing pressures within the Finance and Investment Division remain as capacity is limited and the management of these pressures has proven to be a considerable challenge since the commencement of the current financial year.

3.12 The deadlines for the Statement of Accounts for 2017/18 have been shorter than for 2016/17. The S151 Officer must certify and issue the accounts by 31 May 2018 (brought forward from 30 June), with the Accounts approved and published following Audit by 31 July 2018 (brought forward from 30 September).

LETTER OF REPRESENTATION

3.13 The Letter of Representation has to be agreed by this Committee and a draft is an Appendix to this report.

ANNUAL GOVERNANCE STATEMENT (AGS)

3.14 The Annual Governance Statement has, as in previous years been prepared in accordance with the CIPFA/SOLACE Delivering Good Governance in Local Government 2016 Framework and Guidance and is evidenced from the following sources:

- Review of the key governance processes in place;
- Collation and review of Chief Officers and Managers Assurance Statements;
- Review of reports by external review agencies.

3.15 The Annual Governance Statement 2017/18 covers the period from 1 April 2017 to 31 March 2018 and therefore any significant governance issues identified are those which have occurred during this period. The Corporate Governance Group and the Audit and Risk Management Committee have during the year considered governance issues and facilitated improvements through update reports at all meetings, supplemented by officer briefings in targeted areas.

3.16 Significant progress has been made by the Council in year regarding the management of governance issues identified in the 2016/17 Annual Governance Statement that included ICT Business Continuity and Resilience Planning, Absence Management, Essential Training and Contract Procedure Rules and these issues are therefore not included in the statement.

3.17 Following an inspection by Ofsted of Children's Services in 2016, an Improvement Notice was issued by the Secretary of State for Education on the 30th September 2016. Considerable work has been undertaken to date by the Council to address the findings that has involved the formulation of an Improvement Board and the development and implementation of a detailed Action Plan. This issue is the only significant governance issue identified in the Annual Governance Statement Action Plan at Section 7 which outlines actions taken to date and those scheduled for 2018/19.

3.18 The Council's Audit and Risk Management Committee and Corporate Governance Group will continue to receive regular reports during 2018/19 on progress being made to address the governance issue. In addition, further oversight will continue to be provided by the Children's and Families Committee concerning delivery of the Ofsted Inspection Improvement Plan.

4 FINANCIAL IMPLICATIONS

4.1 The amendments to the Statement of Accounts 2017/18 have not changed the level of General Fund balance or reserves and provisions at 31 March 2018 which remain as reported to Cabinet on 16 July 2018.

5 LEGAL IMPLICATIONS

5.1 It is a legal requirement to publish the Statement of Accounts by 31 July 2018.

6 RESOURCE IMPLICATIONS

6.1 There are none arising directly from this report.

7 RELEVANT RISKS

7.1 If any concerns identified by Grant Thornton are not addressed by the Council then there are risks that the Council will not be able to meet its statutory requirements in respect of the Statement of Accounts as well as impacting upon Value for Money and Financial Resilience of the Council.

8 ENGAGEMENT/CONSULTATION

8.1 There has been no specific consultation in respect of this report.

9 EQUALITY IMPLICATIONS

9.1 There are none arising directly from this report.

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APPENDICES

Letter of Representation

Statement of Accounts 2017/18

SUBJECT HISTORY

Council Meeting	Date
Audit & Risk Management Committee Grant Thornton Audit Findings Report – - Merseyside Pension Fund - Merseyside Pension Fund Accounts 2017/18 Grant Thornton Audit Findings Report – - Wirral Council - Statement of Accounts 2017/18	25 September 2017
Pensions Committee Grant Thornton Audit Findings Report – - Merseyside Pension Fund - Merseyside Pension Fund Accounts 2017/18	16 July 2018
Grant Thornton Audit Findings Report – - Merseyside Pension Fund - Merseyside Pension Fund Accounts 2016/17	17 July 2017

Statement of Accounts 2017/18

23 July 2018

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NARRATIVE REPORT

1. WIRRAL

Wirral is a unique place, a combination of beautiful, rural countryside alongside cutting edge technology and advanced manufacturing industries, it has a long and storied history of entrepreneurialism and culture. In a compact peninsula of 60 square miles, the borough has a wealth of parks and countryside and over 20 miles of coastline.

Home to 320,900, Wirral has a relatively high older population and a relatively low proportion of people in their twenties and thirties compared to England and Wales as a whole. The older population (aged 65 years and above) are expected to increase at a faster rate than any other age group over the next decade.

This report provides a short summary of the Council's overall financial and non financial achievements for the year, including the main influences on the accounts, and is set out to assist with the understanding of the accounting statements. Whilst plain language has been used wherever possible, technical language is required in some areas. To assist with understanding of the accounts a glossary of financial terms has been included at the end of the Statement of Accounts.

The Statement of Accounts sets out the financial performance of the Council for the 2017/18 financial year and shows the year-end financial position at 31 March 2018. The Narrative whilst emphasising 2017/18 also covers the ability of the Council to provide sustainable services to meet the needs of local residents and sets out how Wirral works with its local partners to improve the prosperity of the area.

2. WIRRAL PLAN: A 2020 VISION REVIEW OF THE YEAR

In July 2015, Wirral Council unanimously agreed a new plan for the Council (The Wirral Plan), containing '20 Pledges for 2020'. This Plan was subsequently adopted by all partners, who committed for the first time to working together towards a shared set of outcomes and goals. The Wirral Plan is structured around three core themes: People, Environment and Business. The Wirral Plan can be found on our website: www.wirral.gov.uk/wirralplan. This has been further developed by a suite of underpinning strategies which guide and drive the delivery of the Wirral Plan. These strategies are all developed and agreed at a partnership level, with their focus and goals shared by all appropriate agencies in the public, private and third sectors.

The emphasis of the Statement of Accounts which follows this narrative report is upon the financial performance of the Council. This needs to be considered in conjunction with the provision by the Council of a range of services which are in line with both the needs of the local area and our statutory obligations.

Performance this year has been positive, with major progress being made in many areas. Challenges remain, in such areas as children's services in particular, but it is clear that the 20 Pledges are making a positive impact on the lives of Wirral residents.

The Wirral Plan priorities and achievements in 2017/18 have been:

PEOPLE	BUSINESS	ENVIRONMENT
Wirral is a place where the vulnerable are safe and protected, every child gets a good start in life and older residents are respected and valued.	*Wirral is a place where employers want to invest and businesses thrive.*	*Wirral has an attractive and sustainable environment, where good health and an excellent quality of life is enjoyed by everyone who lives here.*
Pledges **1. Older people live well.** **2. Children are ready for school.** **3. Young people are ready for work and adulthood.** **4. Vulnerable children reach their full potential.** **5. Reduce child and family poverty.** **6. People with disabilities live independently.** **7. Zero tolerance to domestic violence.**	**Pledges** **8. Greater job opportunities in Wirral.** **9. Workforce skills match business need.** **10. Increase inward investment.** **11. Thriving small businesses.** **12. Vibrant tourism economy.** **13. Transport and technology infrastructure fit for the future.** **14. Assets and buildings are fit for purpose.**	**Pledges** **15. Leisure and cultural opportunities for all.** **16. Wirral residents live healthier lives.** **17. Community services are joined up and accessible.** **18. Good quality housing that meets the needs of residents.** **19. Wirral's neighbourhoods are safe.** **20. Attractive local environments for Wirral residents.**
How we performed • 90% of schools rated 'good or outstanding' by Ofsted, well on track to achieving the ambition in the Wirral Plan of every child attending a good school. • 70% of children reaching a good level of development by age 5, the highest-ever level in Wirral and almost the highest in the region. • Wirral Metropolitan College's supported intern scheme continues to go from strength to strength. The college reported some challenges around people who are looked after or in supported living being able to sustain employment after the programme. To date, over 30 organisations have signed up to receive emails targeting protected groups to promote recruitment opportunities.	**How we performed** • We commissioned a £6.5m Ways to Work programme to support residents to access employment opportunities. The Wirral Ways to Work Programme has engaged almost 4,000 residents and supported almost 2,000 into employment or training since its start in April 2016. • Wirral is becoming more entrepreneurial, with the fastest growing Chamber in the UK supporting more than 1,304 new businesses to open their doors since 2015. • We have worked with City Region Partners to produce a City Region Skills Strategy and ensured our local businesses are supported to participate in the provision of workforce training, using our businesses networks to promote national and regional campaigns. This includes the City Region Skills for Growth Service which has registered 245 Wirral businesses, invested over £400k in workplace skills, and trained over 1,400 employees this year.	**How we performed** • A new programme of high-profile, cultural and visitor events has been developed, which includes the Tall Ships in May 2018, the Giants in October 2018 and a fireworks event in November. These events are expected to attract more than 1.5 million visitors to Wirral. • Wirral has created the unique Safer Wirral Hub, which sees council services with responsibility for community safety integrated with Merseyside Police under one leadership structure, providing a better, more targeted service for residents. • A successful application for Salix funding has enabled the Council to begin the process of replacing all 27,000 street lights in the borough with LED bulbs – more energy efficient, cheaper to fun, more environmentally friendly.

Over the three years since the Wirral Plan was agreed the Council has changed significantly and work continues to progress the priorities it contains through the implementation of the 20 pledges. The Wirral partnership is now embedded with integration projects such as the provision of integrated health and social care helping older residents live healthy and independent lives. Further integration is planned in future years for mental health and disability services and the commissioning of services with the Wirral NHS Clinical Commissioning Group.

The Council has also during 2017/18 worked to increase investment in the area through the launch of the Wirral Growth Company and selection of the urban regeneration company Muse as partner. Further work will occur in 2018/19 on the advancement of a number of sites that will, it is planned result in new commercial and residential developments. Following the Ofsted announced in September 2016 of an inadequate rating for Children's Services progress has taken place during the year on implementing the improvement plan. Improvements are taking place and will continue through the coming year with approaches such as early intervention being key to the future shape of Children's Services.

The Council is a member of the Liverpool City Region Combined Authority. The Authority's purpose is to bring about closer partnership working to lead large-scale City-regional strategies on transport, housing, economic development and skills.

Political Structure

Wirral Council is made up of 66 locally elected councillors across 22 electoral wards. The political composition of the Council during 2017/18:

- Labour – 39 seats
- Conservative – 21 seats
- Liberal Democrats – 5 seats
- The Green Party – 1 seat

Council Structures and Operating Model

The Council employs over 3,000 people in full time and part time posts. The Council's workforce generally reflects the population of the residents within Wirral. Led by The Chief Executive and Senior Leadership Team, the Council had the following operational structure during the year:

- Strategic Hub: Delivering Outcomes, with overall accountability for the leadership, direction and effective delivery of the Wirral plan and related delivery strategies.
- Corporate Resources and Reform: Supporting and leading organisational change through the Transformation Office, Finance and Human Resources/Organisational Development.
- Business Services: Enabling the effective and efficient functioning of the Council and the services it commissions through Law, Asset and Digital.
- Delivery: Delivering services, leading on designing, negotiating and implementing appropriate delivery options for a range of services.
- Heath and Care: Directing the delivery of and commissioning of adult social care services. This function also has responsibility for development of integrated services with health and other partners.
- Children's Services: Delivers a wide range of specialist and targeted services for children in relation to social care, safeguarding, early help and prevention.

All Council functions work together to forward the themes and pledges set out in Wirral Plan. Further details of the Council's operating model can be found on the Council website:
http://www.wirral.gov.uk/about-council/contact-us/departments-wirral-council

3. REVIEW OF THE FINANCIAL YEAR

REVENUE EXPENDITURE AND INCOME

Revenue expenditure and income generally relates to those items that are used within the year on the provision of services to the people of Wirral. Before the start of the financial year, the Council prepares its annual Budget, which sets out the income and expenditure required during the year to provide services. In March 2017 the Council agreed a net budget of £266.3 million for 2017/18. The Budget was regularly reviewed and was revised upwards by £1.2 million during the year to fund an enhanced tree maintenance programme. The revised budget for 2017/18 was £267.5 million.

The net spend of the Council is met from a combination of Government Grants, the local taxpayer through Council Tax and other income. In 2017/18, the budget was supported by the Council Tax which for 2017/18 was increased by 4.99%, 2% of this being allocated to fund an increase in Adult Social Care, with the band D Council Tax charge increasing to £1,395.59.

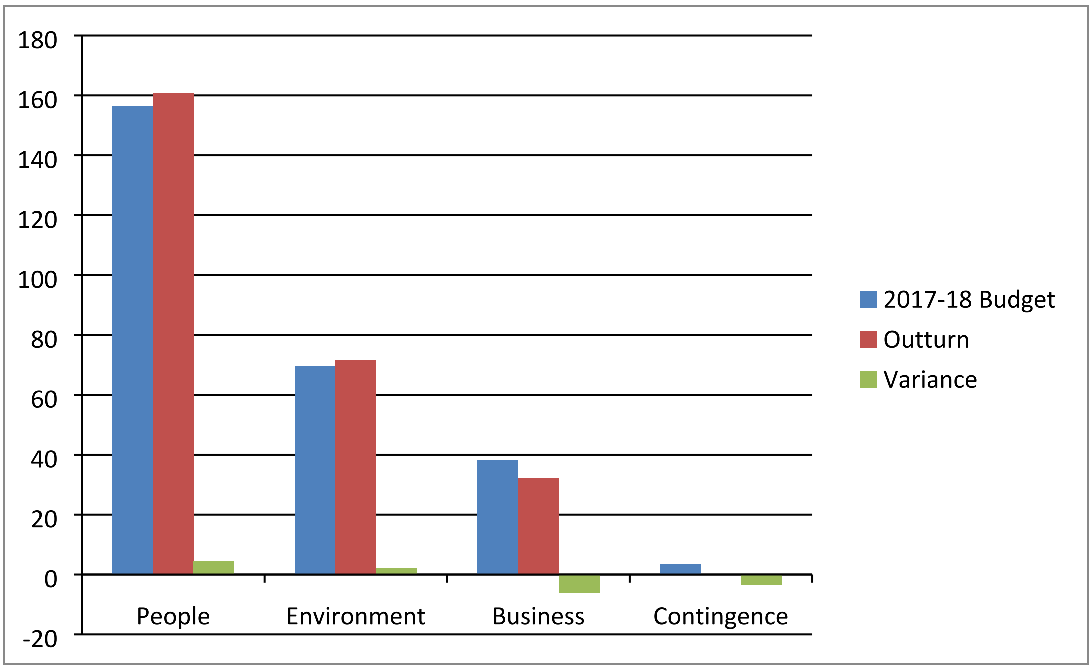
Comparison of the Budget with the Out-turn

Throughout the year spend against the approved Budget was monitored and reported on a monthly basis to maintain an approach of robust financial management to ensure the maintenance of services. 2017/18 has proved to be another difficult year, with a significant overspend for specific care related services being recorded and in turn the allocation of the Revenue Budget Contingency for 2017/18. At the end of 2017/18 the Revenue Out-turn showed an underspend of £2.9 million. During the year the following major issues impacted upon the out-turn:

OVERVIEW OF 2017/18 ON WIRRAL 2020 PLAN THEMES BASIS

Themes and reasons for variances from budget	Budget £million	Outturn £million	Variance £million
People: The main reasons behind the overspend are pressures within the Looked After Children placements, increased demand for services and agency expenditure on social workers. There are also a number of savings that were unachieved in 2017/18.	156.3	160.8	4.5
Environment: This is largely due to slippage in implementing savings options. This is across income targets in Sports and Recreation and also contract negotiations within Waste & Environment	69.5	71.7	2.2
Business: Underspend in this area is mainly due to a one off MRP adjustment in treasury management and the on-going use of internal funds to minimise the requirement for external borrowing which defers the need to borrow and delivers one-off savings.	38.2	32.1	(6.1)
Revenue Budget Contingency	3.5	0	(3.5)
OVERALL UNDERSPEND	267.5	264.6	(2.9)

2017/18 BUDGET COMPARISON TO OUTTURN WIRRAL 2020 PLAN THEMES BASIS (£million)



The financial proposals contained in the 2017/18 budget, delivered by the Council during the year, tracked through financial monitoring, have partly offset the impact of continued reduction in government funding. At the end of the year the general fund balances were at the target level for the year. The balances were supplemented in the year by the addition of earmarked reserves and collection fund surplus. Over £14 million of the year end general fund balances will be used to provide support to the 2018/19 budget.

The actual net cost of services links to the net expenditure chargeable against the general fund and is shown in the Expenditure and Funding Analysis (note 9). It provides a link between the funding basis that is reported for management decision making and the statutory accounting basis as reported in the Comprehensive Income and Expenditure Statement.

CAPITAL EXPENDITURE AND INCOME

Capital expenditure is different from revenue expenditure on day- to-day running cost of services. It is investment in services and the area (such as buildings, roads and land) that will provide benefits over more than one year. The capital programme, due to take place over a number of years is over £70 million.

During the year the Capital Programme was subject to regular monitoring and review. This saw a number of schemes being re-profiled into 2018/19 and future years as a result of a review of the original project timescales, which needed to be replaced with revised ones as the projects progressed. In 2017/18 £46.8 million was spent on capital projects (2016/17 £25.2 million). The spending and how that spending was funded are shown in the tables:

Spend by Wirral Plan Theme	Actual Spend £million	Share %
Business	26.9	58
Environment	4.6	10
People	6.3	13
Transformation	9.0	19
Total	**46.8**	**100**
Funding by Source	**Actual Funding £ million**	**Share %**
Borrowing	18.4	39
Grants	17.8	39
Capital Receipts	10.4	22
Revenue/Reserves	0.2	0
Total	**46.8**	**100**

During the year there was expenditure on programmes for highways improvements (£3.6 million) and schools (£4.9 million). This was in addition to major investment on:

- The Dock Bridge replacement.
- The Strategic Asset Programme purchase of a key site in Birkenhead.
- Council buildings refurbishments to ensure better occupancy and enable building release for sale.
- Development of a data centre to modernise Digital capacity.
- Housing improvements such as aids, adaptions and disable facilities grants.
- Park Depots rationalisation to improve site use.
- Improvements to school buildings including the provision of new primary places.
- Transformation of Children’s social care through the use of the flexible use of capital receipts.

4. BALANCE SHEET

The Balance Sheet at 31 March 2018 shows a net liability position of £34.2 million (2016/17 a net liability position of £48.7 million). The net worth of the Council, excluding the Pensions Liability is £423.1 million (2016/17 £486.7 million). The movement for 2017/18 is due to the combine effects of a decrease in the Councils liability to pay future pensions and an increase in the requirement to borrow. The negative net worth does not impact on the going concern basis upon which the accounts are prepared. This is because the liability for pensions will be deferred over a number of years. The Council has reviewed the Councils financial performance for 2017/18 and Budget for 2018/19 and considers that the Council may be viewed as a going concern.

The most significant item in the Balance Sheet is the requirement for the Council to recognise its estimated Pension Liability. This is valued using an actuarial valuation and can fluctuate dependent upon external factors. For 2017/18, the Pension Liability recognised amounted to £457.3 million (2016/17 £535.4 million). Details of the Pensions Liability can be found in note 44 and is referred to below in the section on Retirement Benefits.

Summary of the Balance Sheet

	March 2018 £ million	March 2017 £ million
Long Term Assets		
Property and Other	644.4	664.1
Long Term Investments	1.3	1.1
Long Term Debtors	38.0	42.6
Long Term Assets	**683.7**	**707.8**
Current Assets and Current Liabilities		
Current Assets	126.3	110.8
Current Liabilities	(170.3)	(104.6)
Net Current Liabilities	**(44.0)**	**6.2**
Long Term Liabilities		
Borrowing	(171.5)	(179.1)
Other Long Term Liabilities	(499.8)	(580.7)
Provisions and Capital Grants	(2.6)	(2.9)
Long Term Liabilities	**(673.9)**	**(762.7)**
Net Assets	**(34.2)**	**(48.7)**

Property and Other Assets
The revaluation of property, plant and equipment now takes place with sufficient regularity to ensure that the carrying amount does not differ materially from fair value at the end of the financial year. In total the Council had an asset portfolio valued at £644.4 million at 31 March 2018 (2016/17 £664.1 million). A breakdown of the value of the asset portfolio is provided in notes 14 to 17 to the accounts and note 21 to the accounts.

Investments
Total investments at 31 March 2018 were £27.8 million (2016/17 £27.2 million). This is made up of long term investments of £1.3 million and short term of £26.5 million. Throughout 2017/18, as in previous years, the over-riding approach was one of security and liquidity with reduced investment returns being the acceptable consequence of this approach. Further details are contained in note 18.

Debtors
Debtors are classified as long-term or short-term debtors and the balance at 31 March 2018 was £101.9 million (2016/17 £92.2 million). The long-term debt includes £31.3 million in respect of the former Merseyside County Council, which is managed by Wirral Council (2016/17 £35.7 million). A breakdown of the debtor balances can be found in notes 19 and 41 to the accounts.

Creditors
Creditors at 31 March 2018 were £62.6 million (2016/17 £56.4 million). A breakdown can be found in note 22 to the accounts.

Borrowing
In managing borrowing levels the aims are to reduce the overall exposure to interest rate movements, to lower long-term interest charges paid and smooth the maturity profile without compromising longer-term stability. In addition to funding the capital programme borrowing also takes place to manage and resource the Council's day to day cash requirements. These can arise from a number of sources from paying suppliers to the repayment of long term loans. The Council's Treasury Management

policy, address both short term cash flow requirements and longer term borrowing for capital purposes. The policy seeks to minimise borrowing costs by taking account of available interest rates and the maturity profile.

The major sources of funding for Council borrowing have traditionally been private sector institutions (banks and building societies) and the Public Works Loans Board (PWLB). As part of effective treasury management, opportunities presented by the market to generate interest savings are pursued and this pro-active management is undertaken in line with approved Government and statutory guidance contained within The Code of Practice for Treasury Management in Public Services.

At 31 March 2018 short-term borrowing totalled £95.3 million (2016/17 £39.5 million). The increase from 2016/17 reflects the greater demands for cash payments that the Council has faced. These have in part come from the capital programme as spend has increased but no new long term borrowing has been taken. The Council has delayed new long term borrowing to minimise interest payments. As a result of this temporary borrowing has been utilised. At 31 March 2018 long-term borrowing totalled £171.5 million (2016/17 £179.1 million). This debt was with financial institutions and the Public Works Loans Board with repayments being spread over a range of maturity dates. This also includes the debt of the former Merseyside County Council which Wirral manages on behalf of the other local authorities and agencies within the former Merseyside County Council area.

Retirement Benefits

All Councils fully adopt the accounting policies contained within International Accounting Standard 19 “Employee Benefits”. The principle behind IAS19 is that an organisation should account for retirement benefits when it is committed to pay them, even if the actual payment will be many years in the future.

The majority of non-teaching staff who work for the Council are members of the Merseyside Pension Fund. This Fund is administered by Wirral Council on behalf of the Merseyside Councils as well as over 170 other employing organisations. The figures included in the Statement of Accounts are based on the latest full valuation of the scheme as at 31 March 2013 and the IAS 19 actuarial report as at 31 March 2018, presented by Mercers, the independent firm of actuaries who value the Fund.

The actuaries have estimated the Council’s underlying long-term commitment to pay retirement benefits to be £457.3 million at 31 March 2018(2017/18 £535.4 million), which is a decrease of £78.1 million. This change has primarily resulted from an improvement in financial assumptions related to a return on assets and a reduction in inflation factors and the discount rate. This is expanded upon in the Merseyside Pension Fund Accounts contained within this Statement and the Merseyside Pension Fund Annual Report.

The recognition of this Pension Liability in the Council accounts has a substantial effect on the net worth of the Council and it is important to note that this change reflects the actuarial valuations and is not an immediate demand upon the Council’s resources. The statutory arrangements for funding the deficit will see the deficit made good by increased contributions over the remaining life of working employees as assessed by the scheme actuary. The contributions are reviewed every three years as part of the triennial revaluation of the Pension Fund and an investment strategy is then determined, which aims to recover the deficit over a stated period (presently 25 years). Funding from the Council is only required to cover discretionary benefits when the pensions are actually paid.

Balances and Reserves

The Council uses a localised approach to determining an appropriate level of balances. This approach takes account of the strategic, operational and financial risks being faced by the Council with particular risks relating to legislative changes, inflation and the delivery of the budget savings.

The Council held Usable Reserves of £95.8 million at 31 March 2018 (2016/17 £101.3 million), consisting of Earmarked Reserves of £54.9 million (2016/17 £55.0 million), General Fund Balances of £24.9 million (2016/17 £25.7 million), Capital Receipts of £1.7 million (2016/17 £5.6 million) and unapplied Capital Grants of £14.4 million (2016/17 £14.9 million). A breakdown of the Usable Reserves can be found in the Movement in Reserves Statement with more details on the Earmarked Reserves found in note 10 to the accounts.

The Council also held a net credit balance in Unusable Reserves of £130 million at 31 March 2018 (2016/17 credit £150.0 million). These are kept to manage statutory accounting processes and do not provide any usable resources to the Council. Further information on the Unusable Reserves can be found in note 25 to the accounts.

Net Assets

The Net Assets of the Council are held in the Usable or Unusable Reserve balances within the Balance Sheet. Usable Reserves can be applied, subject to any statutory limitations on their use, to fund revenue or capital spending. Unusable reserves are not available to fund services and include the Pensions Reserve, which reflects the changes to the net defined benefit liability and the Capital Adjustment Account, which includes both the value of assets written-off on disposal or sale and the value of school assets transferring to Academies.

The Usable Reserves are regularly reviewed to assess whether they are adequate for the purpose intended and whether the sums involved are still required. At 31 March 2018 the major usable reserves were in respect of the Business Rates Equalisation £10.3 million (2016/17 £6.3 million), School balances £10.2 million (2016/17 £10.5 million), which are ring-fenced for use by schools, the Insurance Fund £7.5 million (2016/17 £9.9 million), Waste Development Fund £3.3 million (2016/17 £4.6 million), Financial Resilience £3.3 million (new for 2017/18) and Housing Benefit £2.5 million (2016/17 £4.7 million).

5. CASH FLOW STATEMENT

The Statement shows the changes in cash and cash equivalents of the Council during the financial year.

6. COLLECTION FUND

This Fund is maintained separately from the Council's General Fund to specifically record income and expenditure associated with Council Tax and National Non Domestic Rates (Business Rates). During 2017/18 the Council was part of the Liverpool City Region 100% Business Rates Retention Pilot. Approved by the Ministry of Housing, Communities and Local Government (MHCLG) in early 2017 and agreed by all Merseyside Councils in addition to Halton Council. Under the arrangement the Council has retained the Governments share of business rates, with certain grant payments such as Revenue Support Grant ceasing but being compensated for via the higher percentage of business rates retention. The aim of the pilot is to allow the retention of business rate growth and shadow the operation of the full retention scheme. Under the pilot rates income is collected and apportioned between Wirral Council (99%) and Merseyside Fire and Rescue Service (1%).

The Collection Fund had an in year deficit of £6.9 million for 2017/18 (£5.0 million surplus 2016/17). The accumulated year-end balance at 31 March 2018 was a deficit of £1.4 million (£5.5 million surplus 2016/17). More detail is contained in the Additional Statement - Collection Fund Income and Expenditure Account. A breakdown of the surplus is shown below:

	2017/18 £'000	2016/17 £'000
Council Tax (Surplus)	(1,725)	(4,104)
NNDR (Surplus)/Deficit	3,101	(1,453)
Total	**1,376**	**(5,557)**

7. MERSEYSIDE PENSION FUND

The Fund is administered by Wirral Council and reported and audited separately but forms part of the Council's Statement of Accounts. Further information can be found within the Additional Statements, and also in the Merseyside Pension Fund Report and Accounts 2017/18.

8. ABOUT THE STATEMENT OF ACCOUNTS

The Statement of Accounts brings together the financial performance for the Council for the year and its financial standing as at the 31 March 2018. They contain both revenue and capital transactions across all services. The Council is required to produce an annual Statement of Accounts by the Accounts and Audit Regulations 2015 in accordance with proper accounting practices, comprising of the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) supported by International Financial Reporting Standards (IFRS). There are no new accounting policies adopted in 2017/18. The Council reviews annually any interests in companies and other entities for any financial arrangements that may require the production of Group Accounts. In 2017/18 there were no material transactions that require this.

The following provides brief descriptions of the purpose of the various statements:

- **Narrative Report** provides an overview of the Council's financial and non-financial position for 2017/18.
- **Statement of Responsibilities for the Statement of Accounts** details the responsibilities of the Council and of the Director of Finance and Investment (S151).
- **Independent Auditor's Report**, is the Council external Auditor's report to Members of Wirral Council including the conclusion of arrangements for securing Value for Money. This will be added post audit Statement of Accounts.

The **Core Financial Statements** comprise four key statements:-

- **Comprehensive Income and Expenditure Statement**, which shows all income and expenditure for the Council;

- **Movement in Reserves Statement**, which shows the movement on the different reserves that the Council holds;
- **Balance Sheet**, which shows the financial standing of the Council at 31 March 2018, detailing all assets and liabilities;
- **Cash Flow Statement**, which shows the inflows and outflows of cash arising from transactions with other parties.

The **Notes to the Core Financial Statements**. This section provides further detail and explanation of the items contained within the four Core Financial Statements.

There are **Additional Financial Statements** for –

- The **Collection Fund** (and notes), which covers Council Tax and Non-Domestic Rates collected and the amounts paid to precepting authorities and to Government;
- The **Merseyside Pension Fund Accounts**, which covers the financial position of the Merseyside Pension Fund, which is administered by Wirral Council.

The **Annual Governance Statement**, which does not form part of the formal Statement of Accounts but will be included in the final version, as it:-

- Gives public assurance that the Council has proper arrangements in place to manage its affairs. The Statement summarises the Council's responsibilities and shows the effectiveness of the arrangements in place to manage its affairs;
- Shows the actions agreed by the Leader and Chief Executive to address those matters identified as requiring action to further enhance the governance arrangements.

9 FUTURE DEVELOPMENTS

The Statement of Accounts provides information about the Council's expenditure and income for the year and the overall financial position at the end of the financial year. It is a key element in reporting how finances have been administered. The Council managed its performance and finances during 2017/18 with the progression of the Wirral Plan, the delivery of a number of savings and the budget.

The Council agreed its Budget for 2018/19 in March 2018. This has seen an increase in Council Tax levels from 1 April 2018 and includes a package of financial proposals including the use of over £26 million one off funding to support the budget for services. To address the use of this one year only funding and future financial pressures, the Medium Term Financial Strategy (MTFS) is being reset for the period up to 2023. The aim of this is to establish a sustainable and robust financial position for the period 2019/20 to 2022/23. This reset is looking at changing needs such as demands for services and rising costs, new ways to working, the latest financial projections and external funding announcements to ensure that the forecasts remain robust and sustainable over the longer term.

There remains a funding gap between planned spend and funding for future years. The Council continues to face financial constraints and pressures. The medium term financial planning period to 2023 will see continued grant funding reductions and increasing financial pressures. Aligned to this the Council will in 2020 assume full responsibility for the raising and collection of income generated locally and used to fund the services accessed by Wirral residents.

During 2018 a new MFTS will be developed alongside the Wirral Plan using a number of approaches. The solutions, balancing the budget, will come from the Council's Income strategy and enhanced approaches generating additional income from new and existing sources. Investing to establish long term and diverse sources of income will be combined with an examination of how and where the Council currently spends. The solutions will also come from examination of costs as well as a review of how services operate to reduce inefficiencies and duplication.

Alongside the development of longer term, strategic financial planning Financial Business Partnering will be developed to provide support to services and assist with Transformation. The development in the Finance and Investment Division of this approach will support services and embedded strong and robust financial management in all parts of the Council. It will also involve staff being involved in the development and implementation of future financial proposals as well as concentrating on the delivery of in year financial performance.

The new MTFS will align to themes and pledges the Councils budgets, however it has to be recognised that risk is an inherent part of all the Councils operations. Risks come from both the external environment in which Wirral operates and internally from the changes that are necessary to implement the Wirral plan and the MTFS. The management of risks is part of the overall governance framework that ensures that risk is managed in a consistent and clear way. The Council has in place a Corporate Risk Register that holds in one location all the major risks that must be addressed so that the Council can successfully implement the themes and pledges. A key risk that the register details is Financial Resilience. It provides details of the existing and additional controls in place to mitigate this risk. The register is subject to review on a regular basis by the Senior Leadership Team to ensure that there is awareness of risks as well as the identification of mitigating actions following assessment.

There is within the Council an understanding of the on-going challenges that Wirral faces. The Statement of Accounts for 2017/18 have been published in line with the earlier statutory deadline of 31 May 2018. This benefits the Council by allowing an earlier concentration on financial performance in the current year and the development of the MTFS for future years. Our plan is to work to ensure that progress continues in 2018/19 and future years, in a continually challenging financial world for local government. As a Council, through the Wirral Plan and the MTFS further actions are planned to meet the demands and requirements of local residents and our partners.

Shaer Halewood
Director of Finance & Investment (S151)
23 July 2018

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:-

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. The responsible officer is designated as the Chief Financial Officer, or equivalent. In this Council, that officer is the Director of Finance and Investment (S151);
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

The Director of Finance and Invesment(S151) Responsibilities

The Chief Financial Officer (in Wirral Council this is the Director of Finance and Investment (S151)) is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practice as set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts the Chief Financial Officer has:-

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code of Practice.

The Chief Financial Officer has also:-

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certification of the Accounts

I certify that the Statement of Accounts presents a true and fair view of the financial position of Wirral Council at 31 March 2018 and its income and expenditure for the year then ended.

Shaer Halewood
Director of Finance & Investment (S151)
23 July 2018

Approval of the Accounts

The Statement of Accounts are to be considered by the Audit and Risk Management Committee on 23 July 2018.

Councillor Adrian Jones
Chair of the Audit & Risk
Management Committee

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WIRRAL COUNCIL

The auditor's report on the 2017/18 Statement of Accounts will be included when issued, prior to the final Statement of Accounts to be published by 31 July 2018.

ANNUAL GOVERNANCE STATEMENT 2017-18

1. Scope of Responsibility

Wirral Borough Council has continued with its ambition to continually improve upon the manner in which it strives to discharge its governance responsibilities.

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

The Council also retains a best value duty under the Local Government Act 1999, to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness

By discharging this responsibility (including as accountable body for the Merseyside Pension Fund), the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions which includes arrangements for the management of risk.

The Council has approved and adopted the Code of Corporate Governance, which is consistent with the principles of the CIPFSA / SOLACE Framework for Delivering Good Governance in Local Government 2016. A copy of the Code is available on our website: www.wirral.gov.uk.

This statement explains how the Council has complied with the Code and also meets the requirements of Regulation 6 (1) (b) of the Accounts and Audit (England & Wales) Regulations 2015, which requires all relevant bodies to prepare an Annual Governance Statement.

2. What is Corporate Governance?

Corporate Governance generally refers to the processes by which organisations are directed, controlled, led and held to account.

The Council's governance framework aims to ensure that in conducting business it:

- Operates in a lawful, open, inclusive and honest manner
- Ensures that public money is safeguarded, properly accounted for and used economically, efficiently and effectively
- Has effective arrangements for the management of risk
- Secures continuous improvements in the manner in which it operates.

3. The purpose of the Governance Framework

The governance framework comprises the culture, values, systems and processes by which the Council is directed and controlled. The framework brings together an underlying set of legislative requirements, good practice principles and management processes.

Adhering to this framework enables the Council to monitor the success of its strategic objectives and to consider whether these objectives have led to the delivery of appropriate / cost effective services.

Both risk management and internal control measurements are a significant part of the Council's corporate governance framework and are designed to manage risk to a reasonable level.

These safeguarding processes cannot eliminate all risk of failure to achieve the goals set by the Council's policies, aims and strategic objectives and can therefore only provide reasonable, rather than absolute assurances of their effectiveness.

The system of risk management and internal control is based upon an ongoing process, designed to identify and prioritise the risk to the achievement of the Councils' policies, aims and strategic objectives, to evaluate the likelihood and potential impact of those risks being realised and to manage them efficiently, effectively and economically.

This statement builds upon those of previous years. Many of the key governance mechanisms remain in place and are referred to in previous statements, as well as in the Council's Code of Corporate Governance. Both are available on the Council's website: www.wirral.gov.uk . This statement therefore describes the key changes and developments within the Council's governance framework during 2017-18 and up to the date of the approval of the annual financial report.

The progress that has been made in dealing with significant governance issues last year is included and those governance issues that have been identified from the governance review are highlighted.

4. The Governance Framework

The CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' identifies seven core principles of governance best practice. Wirral Council's governance framework is aligned to these core principles. The key elements of the systems and processes which comprise the Council's governance arrangements (as detailed in the Code of Corporate Governance) and where assurance against these is required are shown below.

Principle A: Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of la

This is achieved by:

- Applying a set of standards (the Nolan principles) of conduct and behaviours expected from Members with constitutional oversight.
- Ensuring all Officers receive performance appraisals linked to the organisational priorities, values and the required Code of Conduct. Additionally, officers must undertake mandatory training, which includes training for equality and diversity.
- Equality Impact Assessment is embedded in all decision making.
- Applying clear conflict of interest policy approaches for employees and Members and maintaining a Register of Interests.
- Ensuring compliance with the Contract Procedure Rules (CPR's) and a range of corporate policies, including gifts and hospitality and anti-fraud and corruption.

***Principle B:* Ensuring openness and comprehensive stakeholder engagement**

This is achieved by:

- Developing constructive relationships with stakeholders.
- Ensuring consultation responses inform future developments.
- Ensuring residents engage in budget proposals to influence decision making.
- Taking an active and planned approach to dialogue with the public.
- Commitment to the delivery of the Wirral Plan pledges and its underpinning strategies via the Partnership Framework
- Utilising the Wirral View publication and associated website to communicate and share information with stakeholders.
- Using social media to reach a wider community demographic.
- Publishing an annual report which communicates the authority's activities and achievements, its financial position and performance
- The publishing of Council Committee minutes

***Principle C:* Defining outcomes in terms of sustainable economic, social and environmental benefits**

This is achieved by:

- Clearly communicating the outcome focused vision of the Wirral Plan.
- Continued working with all partners and stakeholders to provide outcome focused delivery.
- Making best use of resources and providing services that are good value for money including development of commercial opportunities.
- Seeking the views of residents to inform the development of planning and improvement.
- Ensuring the inclusion of the regional dimension to maximise outcome delivery.
- Effective medium term financial planning within a transparent financial framework, thus ensuring that the Council retains its commitment to stability, utilising available resources, whilst monitoring income and expenditure levels.

Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes

This is achieved by:

- Utilising insight to develop evidence based decision making.
- Robust reporting, monitoring and review to support delivery of impact and benefits.
- Optimise partnership approaches including integration to derive best value.
- Effective use of transformational expertise and capacity.
- Service planning, supported by appropriate corporate performance and risk management arrangements.

***Principle E:* Developing the entity's capacity including the capability of its leadership and the individuals within it**

This is achieved by:

- Clearly setting out the roles and responsibilities of Members and Officers.
- Setting out executive and non-executive functions and roles and responsibilities of the scrutiny function.

- Embedding the Councils restructured Operating Model approach.
- Providing appropriate training and personal developmental opportunities linked to the Council's corporate performance appraisal process.
- Delivering the Wirral Leadership Programme – a shared partnership approach to developing leadership skills and behaviours.
- Delivering the Transformation programme.
- Ensuring clarity on what is expected from partners.
- Effective and regular strategic and operational communication.
- The Council is currently designing the Member's Development Plan. The Members Development Steering Group has been convened to oversee this process.

Principle F: Managing risk and performance through robust internal control and strong public financial management

This is achieved by:

- Ensuring the risk management approach is effective and embedded in practice
- Delivering the Business Planning and Performance Management Framework
- Having rigorous and transparent decision making processes in place
- Maintaining an effective scrutiny process
- Acting within the law
- Effective medium term financial planning

Principle G: Implementing good practices in transparency, reporting and audit to deliver effective accountability

This is achieved by:

- Providing good quality information, advice and support to Members and partners.
- Ensuring published information is accurate and reliable, including key reports to the public, such as the Wirral Plan, Statement of Accounts and Annual Governance Statement.
- Delivering an effective audit function.
- Adhering to the Transparency Code requirements.
- Publicising a robust complaints process and responding effectively to complaints.
- Adhering to all access to information statutory requirements

The Council carries out regular review of the elements that make up the governance framework to ensure it remains effective. In 2017-18 key changes that impact on the framework include:

- The ongoing work of the Council's Improvement Board to oversee improvement in response to the Ofsted inspection report published in September 2016 that provided an overall judgement of inadequate for Children's Services.
- A review of the Council's governance structure, designed to create a focus upon delivery of the Council and Wirral partnership priorities and to modernise operations.
- The recruitment of the new Corporate Director for Children, reporting directly to the Chief Executive, to ensure a robust response to all inspection findings.
- A review of the Risk Management Strategy

- A review of the Code of Corporate Governance has been completed. This ensures our commitment to the principles of good governance.
- The recruitment of the new Director of Governance and Assurance / Monitoring Officer
- The temporary recruitment of a General Data Protection Regulation (GDPR) project manager, to ensure the Council's compliance with the GDPR.
- The people Committee has been replaced by two new Committees:
    i. The Adult and Care and Health Overview and Scrutiny Committee

       This Committee will support an enhanced profile for health scrutiny, including integrated services and the work of partner organisations.
    ii. The Children and Families Overview and Scrutiny Committee.

       This Committee will support the Council's response to the improvement journey.

5. Review of Effectiveness

Wirral Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control.

This review is informed by the work of Internal Audit and the Chief Internal Auditor's Annual Report, findings and reports issued by the external auditors and other review agencies and inspectorates. It also reflects feedback and comments provided by Chief Officers and managers within the Authority who have responsibility for the development and maintenance of the governance environment.

Governance monitoring framework

Internal Audit

Internal Audit is a key component of the Council's overall governance framework. Wirral Internal Audit Service has been able to demonstrate its compliance with the Public Sector Internal Audit Standards during 2017/18 providing relevant assurance that it is discharging its responsibilities in accordance with current best professional practice.

One of the key assurance statements the Council receives is the annual report and opinion of the Chief Internal Auditor. The opinion provided for the 12 month period ending in March 2018 is:

'On the basis of our programme of work for the year, Internal Audit can provide a good level of assurance overall, that there is a generally sound system of internal control, designed to meet the Council's objectives, and controls are generally being applied consistently. However some weaknesses in the design and inconsistent application of controls put the achievement of some objectives at risk'.

The key area of weakness is included as a significant governance issue in Section 7.

External Audit

Grant Thornton UK LLP is the Council's independently appointed External Auditor with a broad remit covering the Council's finance and governance matters. The annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the National Audit Office and includes nationally prescribed and locally determined work. The

Auditors work considers the Council's key risks when reaching its conclusions under the Code.

External audit of the Council’s statutory financial statements for 2017-18 is currently being undertaken and will be reviewed by the Council’s Audit and Risk Management Committee 23 July 2018.

Responsible Financial Officer

This role is a member of the Senior Leadership Team which permits direct access to the CEO and other team members and has responsibility for delivering and overseeing the financial management arrangements of the Council. The role conforms to the good practice requirements within the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015).

The Responsible Financial Officer has been involved in reviewing the Code of Corporate Governance and prepared this Statement. She is satisfied with the arrangements that are in place for managing finances and is satisfied that no matters of significance have been omitted from this statement.

Corporate Management Assurance

The Council’s Corporate Governance Group is chaired by the Corporate Director for Delivery Services. The group includes strategic leads including Governance, Performance, Risk, Internal Audit and Strategy to ensure it has an appropriate profile within the organisation and significant governance issues are monitored and responded to in a timely manner. This group has managed the development of the Annual Governance Statement and oversees the monitoring arrangements of the action plan, holding officers at all levels accountable for delivery of actions.

A quarterly report on significant governance issues is presented to the Council’s Audit Risk Management Committee

The Council’s Strategic Leadership Team will approve the Annual Governance Statement to provide a level of corporate engagement and ownership.

Council

Council sets the authority’s overall policies and budget each year and holds the Cabinet to account. Council has an agreed policy framework that is embedded within its constitution.

Cabinet

The Leader of the Council leads on ensuring the effective governance of the Council on behalf of the Executive. However, all Cabinet Members along with Elected Members and officers play a vital role in ensuring good governance arrangements are in place across the Council.

Audit and Risk Management Committee

The Audit and Risk Management Committee has an important role in maintaining the Council’s system of internal control. It provides an independent assurance and scrutiny of the Council’s financial and non-financial performance, including an assessment of the adequacy of the Council’s risk management arrangements.

Audit and Risk Management Committee receive and review internal and external audit reports and the Chair of the Committee produces an annual report. The Committee also complete an annual self-assessment based on CIPFA guidance.

Standards and Constitutional Oversight Committee

The Standards and Constitutional Oversight Committee is responsible for keeping the Council's constitutional arrangements under review and recommends constitutional amendments to Council which support the Council to better achieve its aims and objectives. The Committee also oversees and agrees minor changes to the Council's constitutional arrangements as recommended by the Monitoring Officer.

The Standards and Constitutional Oversight Committee plays an important part in ensuring the council's governance arrangements are fit for purpose.

Overview and Scrutiny Committees

Overview and Scrutiny (O&S) supports good governance by holding the Council's Executive and key partners to account.

This function is discharged through four Overview and Scrutiny Committees which reflect the Wirral Plan themes of Business, People and Environment. Due to the large scope of the People theme, this has been split across two committees: the Adult Care and Health Committee and the Children and Families Committee. This provides the extra capacity needed for oversight of children's safeguarding and the Ofsted Improvement Plan.

Each committee develops a work programme for the year, prioritising topics for examination in support of improved outcomes for Wirral residents.

The committee work programmes ensure that statutory responsibilities for scrutinising local health provision, the Community Safety Partnership and flood and coastal erosion risk are effectively delivered.

Each committee meets at least five times a year, interspersed with workshops and task and finish groups to deliver the work programme.

Merseyside Pension Fund

Wirral Council is also the administering authority for the Merseyside Pension Fund which publishes its own statement of accounts on an annual basis and includes a "Governance Compliance Statement". The statement outlines compliance to industry specific governance principles.

Governance effectiveness impact areas

Children's Services Ofsted Inspection 2016

In 2016 Ofsted completed an inspection of services for children in need of help and protection, children looked after, care leavers and the effectiveness of the Wirral Safeguarding Children's Board (WSCB) and reported its findings in September 2016. The inspection provided an overall judgement that children's services are inadequate and made nineteen recommendations for action. They also concluded that WSCB was inadequate and made seven recommendations for action. An Improvement Notice was issued by the Secretary of State for Education (30th September 2016).

In response to the findings, an improvement plan has been established which is being overseen by the Improvement Board. The Board meets every month to consider its progress against the Ofsted recommendations and monitor the impact of the delivery of the improvement plan.

Following their original inspection in 2016, Ofsted have and will continue to conduct quarterly monitoring visits, following which they have provided correspondence communicating their findings. This guidance is complemented by continuing input received from the Department for Education.

The Ofsted progress reports to date are summarised in section 6 of this statement

Additional oversight for the improvement plan is provided through the Council's Children and Families Overview and Scrutiny Committee.

This remains a significant governance issue for 2017-18.

Information Commissioner's Office Voluntary Audit 2016

In January 2016 the Council agreed to a voluntary audit by the Information Commissioner's Office (ICO) of their processing of personal data, focussing on the areas of subject access requests and records management (manual and electronic). The overall conclusion of the review was that "there is a limited level of assurance that processes and procedures are in place and delivering data protection compliance". The Council meets its legal obligations in relation to information governance however the audit considers areas for improvement beyond the minimum legal obligations.

The Council chose to subject itself to the audit as part of its drive for continuous improvement.

The Council Information Governance Delivery Group (IGDG), which is an officer group led by the Senior Information Risk Owner (SIRO), has oversight of the information governance / security issues and additionally reports into the Corporate Governance Group.

The final recommendations from the ICO audit were to ask the Council to consider and accept 88 recommendations; these were split evenly between Subject Access and Records Management and are highlighted below:

RECORDS MANAGEMENT

As at the 15th May 2018, there were 3 out of 44 outstanding recommendations for Records Management, these recommendations are currently at Green status and will be completed as part of the Council's commitment for GDPR compliance. The 3 recommendations are detailed below:-

b4. WMBC should ensure that they have comprehensively identified Information Asset Owners (IAOs) and Information Asset Administrators (IAAs) in all Service areas and appropriately briefed those individuals so that they are each fully aware of and understand, their roles and responsibilities.
b13. WMBC should ensure that they make appropriate training provision for IAOs and IAAs and that these individuals undertake the relevant training on a regular basis.

b69. WMBC should ensure that all Services properly identify and document their localised information risks, and provide assurance to the SIRO in respect of the mitigation of those risks.

In relation to b4, IAOs and IAAs have been identified and the outdated list has been refreshed and brought up to date. The Council is providing training, to be rolled out 2018/19, to ensure responsibilities and roles are understood.

In relation to b13, once the appropriate training has been provided, refresher training for the Officers will be given on a regular basis and no later than at 2 year intervals.

In relation to b69, a template will be made available for officers to complete and will be reported upon to the SIRO at the IGDG meetings.

SUBJECT ACCESS

As at the 15th May 2018, there were 3 out of 44 outstanding recommendations for Subject Access. These recommendations are currently at Green status and will be completed as part of the Council's commitment for GDPR compliance. The 3 recommendations are detailed below:-

a19. WMBC should amend the Children Services subject access guidance and / or policies, to ensure that these fully and accurately outline the procedures to be followed in practice and the statutory 40 calendar day period (in particular, 'stopping the clock.').
a21. WMBC should review and update subject access guidance on their public website to assist data subjects in exercising their rights. WMBC should ensure that their website clearly explains and / or provides: the right to subject access, procedures in regard to verification of identity of the data subject (for example, a list of acceptable proofs of identity) and authorisation of third party representatives, the fee charging policy (for example, confirmation that WMBC waive the fee), email and postal addresses for each of the Information Management Team, Children's Services and Department of Adult Care, and copies of the forms that these teams utilise to obtain further information from the requester.
a62. WMBC should review all subject access policies to ensure that they include the relevant complaints processes in respect of subject access, the role of the ICO in regard to the same and the ICO's expectation that requesters exhaust complaints processes with WMBC prior to escalating complaints to the ICO.

In relation to a19 and a62, Children's Services procedures are available at:

http://wirralchildcare.proceduresonline.com/p_access_to_recs.html?zoom_highlight=subject+access

This document is being updated in line with the GDPR and changes required at a19 and a62 will be incorporated in July 2018. The Council's corporate Data Protection policy has been refreshed in line with GDPR and changes required at a62 will be included.

In relation to a21, as part of the compliance work for GDPR the website will be updated in July 2018 to incorporate the requirements of a21.

As part of this review of effectiveness, progress against the issues identified in 2016-17 have been assessed and an update of the progress included in Section 6. Where sufficient progress has not been made, the issues and outstanding actions have been carried forward and included in the 2017-18 significant governance issues list for continued action. No new key areas have been included this year.

The significant governance issues, associated review and action plan are outlined below.

6. Progress of the Governance Issues from 2016-17

The table below describes the significant governance issues identified during 2016-17 and the progress that has been made against the implementation of actions to address these issues during 2017-18. Where evaluation determines that the progress is not sufficient for removal as a significant governance issue this is noted, and the issue will be carried forward into the 2017-18 statement.

Key Area for Improvement	Update on Position and Implication for the 2017-18 Annual Governance Statement
Improvement Notice issued by the Secretary of State for Education (30th September 2016)	Ofsted's "*Inspection of services for children in need of help and protection, children looked after and care leavers and Review of the effectiveness of the Local Safeguarding Children Board",* in July 2016 found significant weaknesses in each area reviewed. The Council and partners are delivering an Improvement Plan to address the identified findings. The Wirral Improvement Board meets each month to consider progress against Ofsted recommendations and monitor the impact of delivery of the Improvement Plan. Ofsted Monitoring Visits have taken place at three month intervals with formal reports published by Ofsted. Their findings can be summarised as: 5-6 April 2017 Ofsted indicated that some progress was being made in improving services however overall improvement was slow. 30-31 August 2017 the report found some progress was being made in the new care leavers service, the work of the Independent Reviewing Officers and audit practice with further improvement required. 11-12 December 2017 the inspectors found signs of progress in improving services for children looked after but with a great deal of work to be done. 14-15 March 2018 the monitoring visit found that progress had been made in improving the arrangements for access to services for those children who need support and protection including the new integrated front door as a single point of entry for all contacts to children's services. **Carry forward**
ICT Business Continuity Planning	Business Continuity plans are now in place for all identified critical services and are stored electronically on the secure Cabinet Office hosted website. All plans have been subject to a walkthrough exercise with the Business Continuity & Environment Officer supported by a representative from Digital. **Complete**
ICT Resilience	The corporate risk of having two data centres in the same building has been

Key Area for Improvement	Update on Position and Implication for the 2017-18 Annual Governance Statement
Planning	addressed with all production services now running from Georges Dock in Liverpool. The review of disaster recovery capabilities in Treasury Building was completed by end of April 2018, marking the closure of the project. **Complete**
Compliance - Absence Management	A revised and updated action plan was presented to SLT on 12 September 2017 and to Audit & Risk Management Committee on 21 November 2017. A report of the Chief Executive was presented to the Employment and Appointments Committee on 6 March 2018, providing a summary of how absence is being managed and monitored, including a summary of new initiatives in place or under development to support staff and managers across the organisation and improve management accountability. The attendance plan agreed by SLT is being implemented. A new suite of management information reports have been developed to support management of absence. These have improved management oversight. Specific areas have been identified for targeted action by service managers supported by HR, who have re-allocated some dedicated resources to this issue. A system of regular case conferences are in place to ensure that the issue is being managed in accordance with policy. Training for line managers is currently being rolled out, starting with managers in identified' hotspot' areas. It is considered that compliance with sickness absence procedures is no longer a significant governance issue given the range of management arrangements and training introduced over the past 18 months. It is recognised that it will take some time for significant improvement to be evidenced within the overall figures; the latest verified performance indicators at 31 March 2018 showed an adjusted forecast for the financial year at 11.13 days against a target of 10.75 days. Sickness absence levels are in line with comparator organisations and recent initiatives have already seen some success in resolving some of the longest term cases. There is also evidence that cases are being progressed through the stages of the absence procedure quicker. **Complete**
Compliance - Essential Training	By 31 March 2018, completion rates for the essential training (e-learning) modules, Responsibility for Information 2017 and Equality and Diversity in the Workplace, were 86.7% and 84.6% respectively. Going forward, strategic training and development issues will be addressed through the People Strategy and Organisational Development Plan. **Complete**
Compliance – Contract Procedure Rules (CPRs)	A full review of the CPR's has been undertaken as required every two years. Recommendations for amendments were presented for Member approval at the March 2018 ARMC, to be operational from the 1 July 2018 alongside the new senior management structure. The recommendations further enhance and support compliance. The Use of Procurement Rules Approval Documents (PRAD) is reported on a six monthly basis to ARMC. The new Corporate Procurement Structure has been finalised and came into operation, subject to the consultation and recruitment process, from April 2018. **Complete**

7. Significant Governance Issues and Action Plan for 2018-19

Based on the Council's established risk management approach, the following issue has been assessed as being "significant" in relation to the Council achieving its vision. In 2018-19 appropriate actions to address these matters and further enhance governance arrangements will be taken. These actions will address the need for improvements identified in the review of effectiveness and their implementation and operation will be robustly monitored.

Key Improvement Area and Actions for Implementation	Responsibility and Implementation Date
Improvement Notice issued by the Secretary of State for Education (30th September 2016) Ofsted's "*Inspection of services for children in need of help and protection, children looked after and care leavers and Review of the effectiveness of the Local Safeguarding Children Board", in July 2016 found significant weaknesses in each area reviewed.* In response to the Ofsted findings the Improvement Plan is being delivered with oversight by the independently chaired Improvement Board. The board convenes monthly to consider progress against the Ofsted recommendations and monitor the impact of the delivery of the improvement plan. Ofsted monitoring visits occur at three monthly intervals providing independent oversight of progress. Additional oversight for the improvement plan is provided by the Council's Children and Families Overview and Scrutiny Committee.	Director of Children's Services March 2019

8. Certification

On the basis of the programme of work undertaken, the Chief Internal Auditor has concluded that he can provide a good level of assurance overall that there is a generally sound system of internal control, designed to meet the Council's objectives, and controls are generally being applied consistently.

To the best of our knowledge, the governance arrangements, as outlined above have been effectively operating during the year with the exception of those areas identified as requiring improvement. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified during the review of effectiveness and will monitor their implementation and operation as part of our annual review.

Signed:________________________Date: ___________

Eric Robinson, Chief Executive

Signed:________________________Date: ___________

Phil Davies, Leader of the Council

Core Financial Statements

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Wirral Plan Theme and Portfolio	2017/18			2016/17 Restated		
	Exp-enditure	Income	Net	Exp-enditure	Income	Net
	£'000	£'000	£'000	£'000	£'000	£'000
People						
Adult Care and Health	160,967	87,944	73,023	157,440	81,859	75,581
Children & Families	61,641	4,233	57,408	60,146	3,574	56,572
Children & Families - Schools	230,144	210,023	20,121	228,508	210,764	17,744
People Total	**452,752**	**302,200**	**150,552**	**446,094**	**296,197**	**149,897**
Environment						
Environment	48,516	23,933	24,583	53,176	19,894	33,282
Housing & Community Safety	154,882	127,899	26,983	159,084	136,504	22,580
Localism & Engagement	1,731	112	1,619	1,717	105	1,612
Environment Total	**205,129**	**151,944**	**53,185**	**213,977**	**156,503**	**57,474**
Business						
Finance & Income Generation	32,788	5,642	27,146	41,588	6,323	35,265
Highways & Transport	22,259	7,643	14,616	17,402	4,572	12,830
Leadership	4,601	2,058	2,543	2,602	1,102	1,500
Transformation	3,946	398	3,548	1,999	-	1,999
Business Total	**63,594**	**15,741**	**47,853**	**63,591**	**11,997**	**51,594**
Cost Service	**721,475**	**469,885**	**251,590**	**723,662**	**464,697**	**258,965**
Other Operating Expenditure (Note 11	64,840	-	64,840	42,846	-	42,846
Financing and investment income and expenditure (Note 12)	25,394	2,586	22,808	29,389	2,756	26,633
Taxation and Non-Specific Grant Income and Expenditure (Note 13)	-	283,349	(283,349)	-	283,339	(283,339)
(Surplus) or Deficit on Provision of Services	**811,709**	**755,820**	**55,889**	**795,897**	**750,792**	**45,105**
Surplus or deficit on revaluation of Property, Plant and Equipment			(9,319)			9,181
Surplus or deficit on revaluation of available for sale financial assets			35			2
Remeasurement of the net defined benefit liability/(asset)			(61,113)			65,528
Other Comprehensive Income and Expenditure			**(70,397)**			**74,711**
Total Comprehensive Income and Expenditure			**(14,508)**			**119,816**

The figures for 2016/17 have been restated and re-presented to be in line with the portfolio format adopted by the Council for monitoring financial performance during 2017/18.

MOVEMENT IN RESERVES STATEMENT

This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to, or from, earmarked Reserves undertaken by the Council.

	General Fund Balance	Ear-marked General Fund Reserves	Capital Receipts Reserve	Capital Grants Un-applied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2017	**25,723**	**55,064**	**5,558**	**14,919**	**101,264**	**(149,978)**	**(48,714)**
Total Comprehensive Income and Expenditure	**(55,889)**	**-**	**-**	**-**	**(55,889)**	**70,397**	**14,508**
Adjustments between accounting basis and funding basis under regulations (Note 8)	54,820	-	(3,886)	(531)	50,403	(50,403)	-
Net Increase/Decrease before Transfers to Earmarked Reserves	**(1,069)**	**-**	**(3,886)**	**(531)**	**(5,486)**	**19,994**	**14,508**
Transfers to/from Earmarked Reserves (Note 10)	202	(202)	-	-	-	-	-
Increase/ Decrease in 2017/18	**(867)**	**(202)**	**(3,886)**	**(531)**	**(5,486)**	**19,994**	**14,508**
Balance at 31 March 2018	**24,856**	**54,862**	**1,672**	**14,388**	**95,778**	**(129,985)**	**(34,207)**

	General Fund Balance	Ear-marked General Fund Reserves	Capital Receipts Reserve	Capital Grants Un-applied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2016	**22,242**	**73,915**	**8,047**	**10,261**	**114,465**	**(43,363)**	**71,102**
Total Comprehensive Income and Expenditure	**(45,105)**	**-**	**-**	**-**	**(45,105)**	**(74,711)**	**(119,816)**
Adjustments between accounting basis and funding basis under regulations (Note 8)	29,735	-	(2,489)	4,658	31,904	(31,904)	-
Net Increase/Decrease before Transfers to Earmarked Reserves	**(15,370)**	**-**	**(2,489)**	**4,658**	**(13,201)**	**(106,615)**	**(119,816)**
Transfers to/from Earmarked Reserves (Note 10)	18,851	(18,851)	-	-	-	-	-
Increase/ Decrease in 2016/17	**3,481**	**(18,851)**	**(2,489)**	**4,658**	**(13,201)**	**(106,615)**	**(119,816)**
Balance at 31 March 2017	**25,723**	**55,064**	**5,558**	**14,919**	**101,264**	**(149,978)**	**(48,714)**

BALANCE SHEET

This shows the value of the assets and liabilities recognised by the Council at the Balance Sheet date. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories - usable and unusable reserves. Usable reserves are those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. Unusable reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses where amounts would only become available to provide services if the assets were sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

	Notes	31 March 2018	31 March 2017
		£'000	**£'000**
Property, Plant & Equipment	14	607,652	637,595
Heritage Assets	15	14,308	12,575
Investment Property	16	21,546	12,604
Intangible Assets	17	932	1,315
Long Term Investments	18	1,250	1,100
Long Term Debtors	41	38,028	42,613
Long Term Assets		**683,716**	**707,802**
Short Term Investments	18	26,465	26,104
Assets Held for Sale	21	11,051	11,078
Inventories		112	104
Short Term Debtors	19	63,913	49,588
Cash and Cash Equivalents	20	24,737	23,951
Current Assets		**126,278**	**110,825**
Short Term Borrowing	18	95,297	39,497
Short Term Creditors	22	62,616	56,436
Short Term Deferred Credit		5	667
Provisions	23	12,381	7,969
Current Liabilities		**170,299**	**104,569**
Provisions	23	2,275	2,196
Long Term Borrowing	18	171,503	179,084
Other Long Term Liabilities	42	499,750	580,769
Capital Grants Receipts in Advance	36	373	723
Long Term Liabilities		**673,901**	**762,772**
Net Assets		**(34,206)**	**(48,714)**
Usable Reserves	24	95,779	101,264
Unusable Reserves	25	(129,985)	(149,978)
Total Reserves		**(34,206)**	**(48,714)**

The audited accounts were issued on 23 July 2018.

Shaer Halewood
Director of Finance & Investment (S151)
23 July 2018

CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in Cash and Cash Equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or by raising income from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

	2017/18	2016/17
	£'000	£'000
Net (surplus) / deficit on the provision of services	55,889	45,105
Adjust net (surplus)/ deficit on the provision of services for non cash movements (Note 26)	(57,830)	(49,211)
Adjust for items in the net (surplus)/ deficit on the provision of services that are investing or financing activities (Note 26)	20,035	17,918
Net Cash Flow From Operating Activities	18,094	13,812
Net Cash Flows From Investing Activities (Note 27)	4,481	(10,381)
Net Cash Flows From Financing Activities (Note 28)	(23,361)	(9,925)
Net (increase) or decrease in cash and cash equivalents	(786)	(6,494)
Cash and cash equivalents at the beginning of the reporting period	(23,951)	(17,457)
Cash and cash equivalents at the end of the reporting period	**(24,737)**	**(23,951)**

Notes to the

Core Financial Statements

NOTES TO THE CORE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

General Principles

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The Council is required to produce an Annual Statement of Accounts by the Accounts and Audit Regulations 2015 which require the accounts to be prepared in accordance with proper accounting practices. These practices under section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18(the Code) supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 act.

The accounting convention adopted is principally historical cost modified for the valuation of certain categories of property, plant and equipment and financial instruments. The accounts are also prepared on a going concern basis. The Code of Practice specifies the principles and practices of accounting required to prepare a Statement of Accounts which provides a true and fair view of the financial position and transactions of the Council and is based on approved international accounting standards, except where these might conflict with specific statutory accounting requirements.

In accordance with the Code, the Council has adopted a number of principles to be followed in selecting accounting policies to be used and the corresponding disclosures needed to help users to understand those selected policies and how they have been implemented. In doing so, the Council tries to ensure that the policies selected are the most suitable to its particular circumstances for the purpose of providing a true and fair view of the financial position and transactions of the Council. Policies are reviewed regularly to ensure their appropriateness and are changed as necessary to maintain this position. In such cases a full disclosure will be provided. As permitted under the Code, the concept of materiality has been used when determining appropriate disclosures to be made in the financial statements. Information is not material if omitting or misstating it would not influence the decisions of an informed user of the statements.

The concepts that the Council has regard to in selecting and applying these policies are:-

Qualitative characteristics of financial information	Revenue accounting concepts
• Understandability. • Relevance. • Reliability. • Comparability.	• Accruals. • Going concern. • Primacy of legislative requirements.

Accounting policies can be defined as the principles, bases, conventions, rules and practices applied that specify how the transactions and other events are to be reflected in the financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves.

Changes to Accounting Policies

There are no new accounting policies adopted in 2017/18. Minor changes including updated names have been reflected in the policies that follow.

Accruals of Income and Expenditure (Debtors and Creditors) and Revenue Recognition

Income and expenditure is recognised in the financial year in which goods and services are received or provided. The amounts included are based on actual invoices received or raised after the year end and where actual amounts are not known estimates are included based on an assessment of the value of goods and services received or rendered. Any estimates are calculated using the best available information.

Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. If debts are not likely to be settled, the balance of the debtor is written down and a charge made to revenue for income that might not be collected.

Income from Council Tax and National Non-Domestic Rates is recognised within the Comprehensive Income and Expenditure Statement as the amount due to the Council for the financial year, including its share of the Collection Fund balances for these items at the end of the financial year. This value is subsequently amended through the Movement in Reserves Statement and the Collection Fund Adjustment Account to reflect the amount to be credited to the General Fund for the Council's Council Tax Requirement and income from National Non-Domestic Rates.

Interest receivable on investments and payable on borrowings is accounted for as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows set out by contract.

Capital Receipts

Sales of assets give rise to capital receipts if the receipt exceeds £10,000. These are recorded on an accruals basis and, if required, are divided into a reserved part (based on applicable statutory requirements) and a usable part (the balance).

Usable receipts are initially credited to Other Operating Expenditure within the Comprehensive Income and Expenditure Statement and then transferred to finance capital expenditure by a debit through the Movement in Reserves Statement and a credit to the Capital Receipts Unapplied Reserve. Reserved receipts are credited to the Capital Adjustment Account to reduce the Council's Capital Financing Requirement. Receipts under £10,000 in value remain as credits within the General Fund.

The Secretary of State has determined that, under provisions included in the Local Government Act 2003, the Council is required to pay over to the Department for Communities and Local Government (DCLG) a proportion of receipts derived from the disposal of housing land.

Carbon Reduction Commitment Scheme

The Council is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. This scheme is currently in the fourth year of its second phase, which ends on 31 March 2019. The Council will purchase allowances retrospectively, and surrender them on the basis of emissions i.e. on the amount of carbon dioxide produced as energy is used. The liability will be discharged by surrendering allowances.

The liability is measured as the best estimate of the expenditure required to meet this obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and is included in the cost of service costs shown in the Comprehensive Income and Expenditure Statement being apportioned to services on the basis of energy consumption.

Cash and Cash Equivalents
Cash includes all balances, including overdrafts and all deposit accounts, held by the Council with financial institutions as part of its cash management procedures, which are accessible without notice.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. They are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Contingent Assets and Liabilities
These are not recognised in the Balance Sheet but are disclosed by way of notes to the accounts if there is a possible obligation / receipt which may require a transfer, payment or receipt of economic benefits. This will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. The note discloses the nature of the asset or liability and either its probable financial effect or an estimate of its financial effect, if this cannot be measured reliably.

Debt Redemption through the Minimum Revenue Provision (MRP)
Debt is redeemed as and when it falls due. Under regulations issued by the Ministry of Housing, Communities and Local Government (MHCLG) the Council has approved an MRP Statement. Detailed rules place a single duty to charge an amount of MRP which the Council considers ‘prudent’.

The Council approved the following MRP policy for the 2017/18 financial year:

(a) For capital expenditure incurred before 1st April 2008, and for supported capital expenditure incurred on or after that date, MRP will be determined in accordance with the former regulations that applied on 31st March 2008.

(b) 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 assets using an annuity method, starting in the year after the asset becomes operational (Option 3 in England and Wales).

(c) 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.

Ex-Merseyside County Council debt is managed in a separate fund. Interest is charged to constituent authorities at the average rate for the fund. Principal repayments are made on the basis of equal instalments over 36 years commencing 1 April 1988.

Employee Benefits

Benefits payable during employment

Short-term employee benefits (other than termination benefits) are those that are due to be settled within 12 months of the year end. They include benefits such as salaries and paid annual leave and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of outstanding annual leave that staff have earned but not taken before the year end. The accrual is charged to the service lines within the Comprehensive Income and Expenditure Statements but then reversed out through the Movement in Reserves Statement so that annual leave benefits are charged to revenue in the financial year in which the annual leave absence occurs.

Termination benefits

Termination benefits are dealt with separately from other employee benefits because the event which gives rise to an obligation is the termination rather than employee service. Termination benefits are payable as a result of either:

- the Council's decision to terminate an employee's employment before the normal retirement date, or

- an employee's decision to accept voluntary redundancy in exchange for those benefits. Termination benefits are often lump-sum payments.

The liability for termination benefits is charged on an accruals basis to service lines in the Comprehensive Income and Expenditure Statement when either the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring that involves the payment of termination benefits, whichever is the earlier.

Post-employment benefits

Employees of the Council are members of three separate pension schemes which provide members with defined benefits (retirement lump sums and pensions) related to pay and service. The schemes are as follows: -

- The Teachers' Pension Scheme, administered by Capita on behalf of the Department for Education. The arrangements for this scheme mean that liabilities for these benefits cannot be identified by the Council. The scheme is therefore accounted for as if it were a defined contributions scheme and therefore no liability for future payments of benefits is recognised in the Balance Sheet, and the Children's Services and Education line within the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the Teachers' Pensions Scheme in the year. The pension cost charged to the accounts is the contribution rate set on the basis of a notional fund.

- The NHS Pension Scheme, which is an unfunded defined benefit scheme that covers NHS employers, general practices and other bodies allowed under the direction of the Secretary of State for England and Wales. This scheme covers staff transferred to the employment of the Council following the transfer of public health services to the Council on 1 April 2013. It is not possible for the Council to identify its share of the underlying scheme liabilities. The scheme is therefore accounted for as if it were a defined contributions scheme, and therefore no liability for future payments of benefits is recognised in the Balance Sheet.

- The Local Government Pension Scheme, administered by the Merseyside Pension Fund for all other employees. From 1 October 1987 the Council has administered this Fund on behalf of all scheduled and admitted bodies. This operates as a defined benefit scheme and the liabilities of the Merseyside Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit credit method - i.e. an assessment of the future payments that will be made in relation to future retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc. and projections of projected earnings for current employees costs.

Further information on the specific accounting policies may be found in the section dealing with the Merseyside Pension Fund.

Post-employment benefits are accounted for in accordance with IAS19. The principle behind this is that an organisation should account for retirement benefits when it is committed to give them, even if the actual payment will be many years in the future. This reflects the Council’s commitment in the long-term to increase contributions to make up any shortfall in attributable net assets in the Pension Fund.

The assets of the Merseyside Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:-

- Quoted securities - bid market value;
- Unquoted securities - professional estimate;
- Unitised securities - average of the bid and offer rates;
- Property - market value.

The change in the net pension’s liability is analysed into seven components:-

(i) Current service cost - the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

(ii) Past service gains - the increase in liabilities arising from current year decisions where the effect relates to years of service earned in earlier years, which is debited to Non Distributed Costs within the Comprehensive Income and Expenditure Statement.

(iii) Net interest on the net defined benefit liability – i.e. the net interest expense for the Council – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments.

(iv) Administration costs, which are charged to the Other Operating Expenditure line within the Comprehensive Income and Expenditure Statement.

(v) Gains/losses on curtailments - the results of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees, debited or credited to Non Distributed Costs within the Comprehensive Income and Expenditure Statement.

(vi) Contributions paid to Merseyside Pension Fund - cash paid as employer's contributions to the Pension Fund.

(vii) Re-measurement comprising items charged as Other Comprehensive Income and Expenditure:

- the return on plan assets charged to the Pensions Reserve, excluding amounts in net interest on the net defined benefit liability.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions.

Statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement appropriations are required to and from the Pensions Reserve, to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirement. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are either accrued in the year of the decision to make the award or reimbursed to the Pension Fund over a five-year period.

Events after the Balance Sheet date

Material events are those after the Balance Sheet date, favourable or unfavourable, which occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue.

Adjusting events provide evidence of conditions that existed at the end of the reporting period and the Statement of Accounts is adjusted to reflect such events.

Non-adjusting events are indicative of conditions that arose after the reporting period and the Statement of Accounts is not adjusted. However, where a category of events would have a material effect on the Statement of Accounts then disclosure is made in the notes of the nature of the events and either their estimated financial effect or a statement that such an estimate cannot be made reliably. Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Fair Value

A number of non-financial assets such as Investment Properties and financial instruments are valued at Fair Value.

Fair Value is the price that would be received to sell an asset or paid to transfer a liability. A fair value assessment assumes that the transaction to sell the asset or transfer the liability occurs either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council uses appropriate valuation techniques for each circumstance. This takes account of three levels of categories from inputs to valuations for fair value assets:

Level 1 – Quoted prices.
Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or the liability, either directly or indirectly.
Level 3 – Unobservable inputs for the assets or liability.

Financial Instruments

Recognition and Measurement

A financial instrument is any contract that gives rise to a financial asset of an entity and a financial liability or equity instrument in another. The term “financial instrument” covers both financial assets and liabilities and includes, amongst others, trade receivables and payables, borrowings, financial guarantees, bank deposits and loans receivable.

- **Initial Recognition**
  Financial instruments are recognised on the Balance Sheet when, and only when, the Council become a party to the contractual provisions of the instrument, i.e. when the purchasers become committed to the purchase or, in the case of the loan, the cash changes hands. Sales and disposals of financial assets are recognised in the same way.

  Trade receivables and payables are, in contrast, only recognised when the goods and services have actually been delivered or received.

- **Initial Measurement**
  Financial assets and liabilities are measured initially at fair value less transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Financial Assets
Financial Assets are classified into two types:-

- Loans and Receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- Available for sale – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables
Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. Assets are initially measured at fair value and carried at their amortised cost. Annual credits are made to the Surplus or Deficit on the Provision of Services within the Comprehensive Income and Expenditure Statement for interest receivable, based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most loans the Council has made, this means that the amount shown in the Balance Sheet is the outstanding principal receivable, and the interest credited to Financing and Investment Income and Expenditure within the Comprehensive Income and Expenditure Statement is the amount receivable for the year. Where assets are identified as being impaired because of a likelihood arising from a past event that payment due under the contract will not be made, the asset is written down and a charge is made to Financing

and Investment Income and Expenditure within the Comprehensive Income and Expenditure Statement.

Available for Sale Assets
Available for sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. Assets are initially measured at fair value and carried at their amortised cost. Where the asset has fixed or determinable payments, annual credits to Financing and Investment Income and Expenditure within the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income is credited to Financing and Investment Income and Expenditure within the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Financial assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:-

- Instruments with quoted market prices – the market price;
- Other instruments with fixed or determinable payments – discounted cash flow analysis;
- Equity Share with no quoted market price – appraisal of the valuation.

Changes in fair value are balanced by an entry in the Available for Sale Reserve and the gain/loss is recognised in the surplus or deficit on revaluation of Available for Sale financial assets. The exception is where an impairment loss has been incurred. These are debited to Financing and Investment Income and Expenditure within Comprehensive Income and Expenditure Statement along with any net gains/losses for the asset accumulated in the Available for Sale Reserve. Where fair value cannot be measured reliably the instrument is carried at cost (less any impairment).

Financial Liabilities
Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. Liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Surplus or Deficit on the Provision of Services within the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability multiplied by the effective rate of interest for the instrument.

Instruments entered into before 1 April 2006
The Council has entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts if either a provision or a contingent liability note is required.

Disclosure of the nature and risk arising from Financial Instruments
The Council activities expose it to a variety of financial risks such as:

- Credit risk – the risk that other parties might fail to pay amounts due;
- Liquidity risk – insufficient funds available to meet commitments;
- Market risk – financial loss as a result of changes in interest rates.

In order to minimise these risks, the Council complies with the CIPFA Prudential Code, the CIPFA Treasury Management in Public Services Code of Practice and Investment Guidance issued to meet the requirements of the Local Government Act 2003.

Government Grants and Other Contributions

Government grants and other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received. This also applies to grants received in respect of revenue expenditure funded from capital under statute (REFCUS).

Specific revenue grants and contributions are credited to the relevant service to match the expenditure to which they relate. In the event that the revenue grant is not utilised to match expenditure, the unused grant is transferred into earmarked reserves for future use. In the event that conditions attached to a revenue grant are not met then the balance of the revenue grant that will require repayment to the funding body is transferred to creditors.

General revenue grants are provided to finance the general activities of the Council. Grants are credited to the Comprehensive Income and Expenditure Statement in the year receivable within Taxation and Non-specific Grant Income.

Grants related to the funding of capital expenditure are credited to the Comprehensive Income and Expenditure Statement, also within Taxation and Non-specific Grant Income, when the conditions regarding their use are met. This income is reversed out in the Movement in Reserves Statement to either the Capital Adjustment Account, if the grant has been used to finance capital expenditure in the year or to the Capital Grants Unapplied Account until it is applied. Capital grants with conditions attached are also held as receipts in advance in the Capital Grants Unapplied Account until such time as the conditions are met and the grant applied to finance capital expenditure. Where a capital grant has been received but the conditions regarding its use are not met, it is transferred to Capital Grants Received in Advance until such time as the grant conditions are met. At this point, it is then recognised as a capital grant within the Comprehensive Income and Expenditure Statement as Taxation and Non-specific Grant Income.

Group Accounts

Group Accounts are covered by IFRS Standard 10 – Consolidated Financial Statements, IFRS Standard 11 – Joint Arrangements, IFRS 12 - Disclosure of Interests in Other Entities, IAS 27 - Separate Financial Statements and IAS 28 - Investments in Associates and Joint Ventures. An assessment of the criteria for the completion of Group Accounts has been undertaken and the conclusion reached that there was no requirement to produce such accounts. The Council has a number of interests in other entities that fall within the group boundary of the Council on the grounds of control and significant influence in line with the Code. However as interests in total are not material when reviewing both quantitative and qualitative information group accounts have not been produced. In order to ensure compliance with the Code further details are covered in note 37 Related Parties. Only the Council’s share of Joint Operations has been included in the Statement of Accounts.

Heritage Assets
Heritage assets are assets which have historic, artistic, scientific, geophysical or environmental qualities. This group of assets are held and maintained principally because of their contribution to knowledge and culture.

These assets are recognised in the Balance Sheet when their value exceeds the approved de-minimis value for capital expenditure. Their value at the time of recognition is, wherever possible, at either valuation or cost. If this has not been possible, particularly in respect of the art collection assets and civic regalia, where the distinctive and rare nature of these assets can make valuations complicated (and in some cases unobtainable), the assets are not included as a value on the Balance Sheet but are detailed in notes to the Statement of Accounts.

There is no depreciation charged on heritage assets. The Council considers that because the various categories of heritage assets have indeterminate lives and / or high residual values it is not considered appropriate to charge depreciation.

Intangible Assets
Expenditure on assets that do not have physical substance but are identified and controlled by the Council (e.g. software licences) is capitalised when it will bring benefits to the Council for more than one financial year.

A purchased intangible asset is capitalised at cost. Internally developed intangible assets are only capitalised if there is a readily ascertainable market. They are reviewed for impairment at the end of the first full financial year following operation. The balance is amortised to the relevant service revenue line in the Comprehensive Income and Expenditure Statement over the economic life of the investment to reflect the pattern of consumption of benefits. Any impairment loss recognised is similarly treated in the Comprehensive Income and Expenditure Statement. Any gain or loss on the disposal of an intangible asset is shown within the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

When expenditure on intangible assets qualifies under statutory definition as capital expenditure, amortisation, impairment losses and gains / losses on disposal are not permitted to have an impact on the General Fund balance. Gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve for receipts over £10,000.

Investment Properties
The Council classifies investment properties as property which is held exclusively for revenue generation or for the capital gain that the asset is expected to generate. These assets are not used directly to deliver Council services. Any property that is used to facilitate the delivery of services as well as earn rentals or, for capital appreciation, does not meet the definition of an investment property, is accounted for as property, plant and equipment.

An investment property is measured initially at cost. After initial recognition, investment property is measured at fair value. A gain or loss arising from a change in the fair value of investment property is recognised in Financing and Investment Income and Expenditure within the Comprehensive Income and Expenditure Statement for the period in which it arises. The fair value of investment property reflects the market conditions at the Balance Sheet date and, as held at fair value, is not depreciated.

Rentals received in relation to investment properties are recognised in Financing and Investment Income and Expenditure within the Comprehensive Income and Expenditure Statement and result in an increase to the General Fund balance. Gains and losses on the revaluation and disposal of investment properties are not permitted by statute to affect the General Fund balance. Any such gains and losses are therefore reversed out through the Movement in Reserves Statement to the Capital Adjustment Account and (for sale proceeds over £10,000) to the Capital Receipts Reserve.

Joint Operations

Joint operations are activities undertaken by the Council in conjunction with other parties that involve the use of the assets or resources rather than the establishment of a separate entity. The Council recognises on its Balance Sheet its share of the assets and liabilities generated by the operation, and the Cost of Services within the Comprehensive Income and Expenditure Statement includes its share of the expenditure incurred and of income earned from the activity. The Council has entered into a pooled budget (Better Care Fund) arrangement under Section 75 of the National Health Service Act 2006. Under this arrangement the Council accounts for its share of assets, liabilities, income and expenditure arising from the transactions and operations of the pooled budget in accordance with the pooled budget agreement.

Leasing

Leases are classified as either finance leases or operating leases based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of any legal agreement.

The Council as Lessor

Finance Lease

The Council, as lessor, recognises assets held under finance lease as receivable at an amount equal to the net investment in the lease. The lease payment receivable is treated as repayment of principal and finance income. The finance income is calculated so as to produce a constant periodic rate of return on the net investment.

Arrangements containing a lease

An arrangement comprising a transaction that does not take the legal form of a lease but conveys a right to use an asset (e.g. an item of property, plant and equipment) in return for a payment or a series of payments, may be accounted for as though the arrangement is, or contains, a lease.

Determining whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether:-

a) Fulfilment of the arrangement is dependent on the use of a specific asset or assets; or
b) The arrangement conveys a right to use the asset.

Non-Current Assets Held for Sale

The Council classifies assets as non-current assets held for sale if the carrying amount is to be recovered through a sale rather than through continued use. The criteria for such a classification also includes the asset being available for immediate sale in its present condition, the sale must be highly probable, there must be a management plan to sell the asset and it is being actively marketed. The sale also has to be expected to be completed within one year from the date of classification, although there are exceptions.

Assets classified as held for sale are valued at the lower of carrying value immediately prior to classification and fair value less costs to sell where known. If assets no longer meet the criteria to be classified as held for sale, they are reclassified back to non-current assets, usually as Property, Plant and Equipment. The value of an asset treated in this way is the lower of:

- Its carrying amount before it was classified as held for sale: adjusted for depreciation, amortisation or revaluations that would have been recognised had it not been classified as held for sale, or
- Its recoverable amount at the date of the decision not to sell was reached.

Overheads and Support Service Costs
The cost of overheads and support services are charged to each theme and portfolio in accordance with the Councils arrangements for accountability and financial performance.

Prior Year Adjustments
Prior period adjustments may arise as a result of changes in accounting policies. These are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Material adjustments from the changes in accounting policies or the correction of fundamental errors are accounted for by restating the comparative figures for the preceding period in the Statement of Accounts and supporting notes.

Private Finance Initiatives (PFI) and Similar Contracts
For a PFI or similar contract the Council will recognise the asset and liability on the Balance Sheet and account for it as if it was a finance lease if:-

- this involves an operator constructing, acquiring or enhancing and then operating and managing an asset in order to provide or enable the Council to provide services to the public; and
- the Council controls or regulates the services provided through use of the asset and has a significant residual interest in the asset.

The remaining service element of the contract payment will be charged to revenue as incurred.

Property, Plant and Equipment

Recognition
Expenditure over £10,000, the Council's de-minimis level for the recognition of capital spending on the acquisition, creation or enhancement of property, plant and equipment, is capitalised on an accruals basis in the accounts provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost can be measured reliably.

Capital includes expenditure on such things as the acquisition of land and buildings, the acquisition of vehicles, plant and equipment and the construction and enhancement of roads, buildings and other structures.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefit or service potential, i.e. repairs and maintenance, is charged as an expense to revenue when it is incurred.

The Council does not capitalise borrowing costs against capital projects, which are incurred when borrowing takes place to finance capital spending on assets under construction. Such costs are charged as an expense to revenue within the Comprehensive Income and Expenditure Statement under Financing and Investment Income and Expenditure.

The Council maintains a detailed asset register of all assets that it owns and recognises under finance leases and PFI contracts. The basis of valuation and depreciation for each category of asset is included in a note to the Statement of Accounts.

Measurement

Property, plant and equipment are valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by The Royal Institution of Chartered Surveyors (RICS). Under the Code of Practice on Local Authority Accounting valuations now need to be made with sufficient regularity to ensure that the carrying amount of assets does not differ materially from their fair value. Items within a class of property, plant and equipment are to be revalued simultaneously to avoid selective revaluations and ensure that the reporting amounts in the financial statements are not a mixture of costs and values at different dates. Classes of assets may be revalued on a rolling basis provided that the revaluation of the class of assets is completed within a short period and that their values are kept up to date. Valuations shall be carried out at intervals of no more than five years.

Property, plant and equipment are classified according to the Code of Practice on Local Authority Accounting and are included in the Balance Sheet using the following measurement techniques:-

- Infrastructure assets and community assets are included in the Balance Sheet at historic cost net of depreciation, where appropriate;
- Land and buildings, vehicles, plant and equipment are included at fair value;
- Property, plant and equipment under construction are held at cost;
- Surplus assets are included at fair value.

Increases in valuations are credited to the Revaluation Reserve except where they arise from the reversal of an impairment or revaluation loss previously charged to the surplus or deficit on the provision of services.

Revaluation gains are depreciated with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost. This amount is transferred each year from the Revaluation Reserve to the Capital Adjustment Account. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date when it came into existence. Gains arising before that date have been consolidated in the Capital Adjustment Account.

Assets are recognised into components for depreciation purposes when the component has a significant cost compared to the total cost of the item (greater than 10% of the asset value) and a different useful life to the remainder of the asset. Only assets with a value of over £2 million are componentised. Where enhancement expenditure replaces an existing component, it becomes necessary to de-recognise the carrying value of the component replaced or restored, and replace it with the value of the new component in the carrying amount, even where parts of an asset were not previously recognised as separate components.

Impairment
The value of each category of assets is reviewed at the end of each financial year to assess whether there is any evidence of an impairment loss. This would arise, for example, from a significant decline in the asset's market value, evidence of obsolescence or physical damage, a change in the regulatory environment within which the Council operates or a commitment to undertake a significant re-organisation. Impairment can also be recognised where capital spending does not result in a corresponding increase in the carrying value of an asset.

Impairment losses are accounted for by either:

- Charging the Revaluation Reserve with the value of any impairment, up to the level of historical revaluations held within the Reserve for that particular asset; or

- Charging service revenue accounts within the Comprehensive Income and Expenditure Statement for all impairments that are not covered by historical revaluations within the Revaluation Reserve.

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service lines in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

To avoid impairment becoming a charge against Council Tax the value of all such impairments is reversed out within the Movement in Reserves Statement and charged to the Capital Adjustment Account.

Depreciation
Depreciation is provided for on all Property, Plant and Equipment assets with a determinable finite life, by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Buildings – straight line allocation over the remaining life of the property (or its components), as estimated by an authorised valuer; and

- Vehicles, plant, furniture and equipment and Infrastructure – straight line allocation over the estimated useful life of each class of assets in the Balance Sheet, as advised by a suitably qualified officer.

- Infrastructure – straight line allocation over estimated useful life of the asset.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals

When an asset is disposed of, the value of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to Other Operating Expenditure within the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Assets are not revalued immediately prior to disposal unless legislation requires or allows the Council to do so.

Amounts in excess of £10,000 are classified as capital receipts. Such receipts from disposals are accounted for on an accruals basis and credited to the Capital Receipts Reserve. A proportion of receipts relating to housing disposals are paid over to Central Government as a ‘housing pooled capital receipt’. This is charged to Net Operating Cost within the Comprehensive Income and Expenditure Statement and the same amount is appropriated from the Usable Capital Receipts Reserve and credited to Movement in Reserves Statement.

Charges to Revenue for Property, Plant and Equipment

All general fund service revenue accounts, including support services are charged with the following amounts to record the real cost of all assets used in the provision of services:-

- Depreciation attributable to the assets used by the relevant service;
- Impairment/revaluation losses attributable to the clear consumption of economic benefits on non-current assets used by the service, but only when there is no associated balance on an existing Revaluation Reserve;
- Amortisation of intangible assets attributable to the service.

The financing of capital expenditure from revenue is disclosed separately as an appropriation in the Movement in Reserves Statement.

Provisions

The Council sets aside provisions for specific future expenses that are likely or certain to be incurred but the amount and timing of which cannot yet be determined accurately. They are only made where there is a present obligation based on a past event, it is probable that a transfer of economic benefit will occur and a reliable estimate can be made of the obligation.

Provisions are charged to an appropriate service line in the Comprehensive Income and Expenditure Statement in the year the Council becomes aware of the obligation. When payments for expenditure are incurred to which the provision relates they are charged directly to the provision. They are reviewed at the Balance Sheet date and adjusted as necessary to reflect the current best estimate.

The principal provisions relate to local taxation, bad debts and insurance.

The bad debts provision is deducted from debtors in the Balance Sheet, rather than being shown in provisions. As part of compliance with IFRS 7, “Financial Instruments:

Disclosure", amounts shown as due from debtors are individually or collectively (for debts that are not significant) reviewed for impairment annually and the level of the bad debt provision is adjusted accordingly. Debts due to the Council that become uncollectable are charged to the provision when the debt is approved for write-off. Debts which are found to have been raised in error, rather than being uncollectable, are charged back directly to services that raised the initial debt.

The insurance provision relates to outstanding liability claims. The figure is the sum indicated by actuaries, updated by an internal assessment, as being required to fund claims for years up to and including 2017/18.

Repurchase of Borrowing
Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Surplus or Deficit on the Provision of Services within the Comprehensive Income and Expenditure Statement in the period during which the repurchase or early settlement is made.

Where repurchase has taken place as part of a restructuring of borrowing with substantially the same overall economic effect when viewed as a whole, the premiums or discounts can respectively be deducted from or added to the amortised cost of the new or modified loan. The write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate. If the repurchase has been determined as being substantially different, the premiums or discounts are immediately fully written-off to the Comprehensive Income and Expenditure Statement.

For premiums and discounts that have been charged to the Comprehensive Income and Expenditure Statement, Government regulations allow for the impact on the General Fund balances to be spread over future years with an offset through a transfer to the Financial Instrument Adjustment Account shown within the Movement in Reserves Statement.

Balances held in the Financial Instrument Adjustment Account will be written-off to revenue in accordance with the Government regulations.

Reserves
Amounts set aside for purposes falling outside the definition of provisions are considered as reserves. Reserves are categorised as either "Usable" or "Unusable" and include earmarked reserves set aside for specific policy purposes and balances that represent resources set aside for purposes such as general contingencies and cash flow management. Reserves are created by appropriating amounts through the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the cost of services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back to the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Usable reserves are those the Council may use to fund either revenue or capital expenditure. Unusable reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council.

An estimation technique applies to the Insurance Fund Liability Reserve which is similar to that referred to in the section on provisions.

Revenue Expenditure Funded from Capital Under Statute (REFCUS)
This is expenditure that may be capitalised but does not result in the creation of an asset and has been charged to the Cost of Services within the Comprehensive Income and Expenditure Statement. These items are normally written-off as expenditure in the year of payment. If financed from existing capital resources or borrowing, a transfer to the Capital Adjustment Account from the Movement in Reserves Statement reverses out the amounts charged to the Comprehensive Income and Expenditure Statement so that there is no impact on the level of Council Tax.

Schools
The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 states the way that schools are recognised within the Council's accounts. Where the balance of control for local authority maintained schools lies with the Council – i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended, then the assets, liabilities, reserves and cash flows of those schools are recognised in the Council's financial statements, rather than within Group Accounts. Non-current assets are recognised in the Balance Sheet where the Council directly owns the assets or where the school own the assets or have had rights to use the assets transferred to them.

The numbers and types of schools recognised within the financial statements on this basis are as follows;

Type of School	Nursery	Primary	Secondary	Special	Total
Community	3	55	2	11	71
Voluntary Aided	-	25	-	-	25
Voluntary Controlled	-	4	-	-	4
Foundation	-	-	2	-	2
Total	**3**	**84**	**4**	**11**	**102**

Value Added Tax (VAT)
Income and expenditure excludes any amounts related to VAT, as VAT collected is payable to HM Revenue and Customs and VAT paid is recoverable from them. VAT is included in the Comprehensive Income and Expenditure Statement only if it is irrecoverable.

2. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

For 2017/18 there are amendments to the following Accounting Standards which will become effective from 1 April 2018:

- IFRS 9 Financial Instruments
  IFRS 9 provides a single approach to the classification and measurement of financial instruments. A key impact will be that whilst many of the council's loans and investments will continue to be held at amortised cost, gains and losses arising from changes in the fair value of some categories of investment will have to be recognised in the Councils revenue budget. This means that from 2018/19 changes in the value of certain investments will have a consequent impact on the

general fund. Previously any changes in the fair value of these investments were only recognised in the general fund when the asset was sold.

The Council does not expect the reclassification changes to have a material impact upon the financial statements because the majority of its assets will retain the same measurement basis. To this end, on 1st April 2018 the Council irrevocably elected to present changes in the fair value of the following equity investments in other comprehensive income as permitted by the IFRS:

- Columbia Threadneedle Strategic Bond Fund

The Council does not expect the impairment changes to have a material impact upon the financial statements because the impairment charge will be immaterial for its treasury management assets (e.g. bank deposits and bonds).

- IFRS 15 Revenue from Contracts with Customers
  IFRS 15 changes the basis for deciding whether revenue is recognised at a point in time or over a period of time and introduces five steps for revenue recognition. This covers all contracts with customers except leases, financial instruments and insurance contracts, and excludes Council Tax and Business Rate Income. The Council does not have any material revenue streams that would fall within the scope of this new standard.

- IAS 7 Statement of Cash Flows (Disclosure Initiative)
  IAS 7 could require further analysis of Cash Flows from Financing Activities (Note 28). No additional disclosures are anticipated to be required as the amendment is not considered to have a material impact on the financial statements.

- IAS 12 Income Taxes (Recognition of Deferred tax Assets for Unrealised Losses)
  IAS 12 relates to deferred tax assets related to debt instruments measured at fair value and applies to group accounts. The Council currently does not have any assets that would fall within the scope of this standard.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The following are critical judgements that have been made in the process of applying the accounting policies and that have the most significant effect on the amounts recognised in the Statement of Accounts:

- There is a high degree of uncertainty about future levels of funding for local government and the impact on the economy of implementation of Brexit However, the Council has determined that these uncertainties are not yet sufficient to provide an indication that assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

- The Council has made judgements about the likelihood of pending liabilities and whether a provision is required or a contingent liability noted. A provision will be made where a future event is uncertain but there is a legal or constructive obligation.

- In order to deliver Education Services to Wirral residents, the Council provides funding through the Dedicated School Grant to schools. The Council has made a judgement, based on information provided by the Roman Catholic Church and the Church of England that it does not exercise a balance of control over the majority of Voluntary Aided, Voluntary Controlled or Foundation Schools of these schools, which therefore fall outside the revised accounting requirements of IFRS10 (Consolidated Financial Statements) and IFRS12 (Disclosure of Interests in Other Entities). The Council does however include within its balance sheet the value of the land and buildings for 2 Foundation Schools where control through ownership remains. School assets are recognised as a disposal from the Council's balance sheet on the date on which a school converts to academy status, not on the date of any related announcement, nor is any impairment recognised by the Council prior to conversion.

- Investment properties have been assessed using the identifiable criteria under the international accounting standards and are being held for rental income or for capital appreciation. Properties have been assessed using this criteria, which is subject to interpretation to determine if there is an operational reason for holding the property such as regeneration.

- The Council is responsible for making superannuation payments to cover the costs of post-employment benefits that Members of the pension fund are entitled to receive. For the 3 year period 2017/18 – 2019/20 the Council has agreed with the Merseyside Pension Fund that the pension deficit contribution payable to the Local Government Pension Scheme (LGPS) can be paid as a single up-front payment. In 2017/18 the Council paid £35.068 million. Agreed as part of the Triennial review of the fund this arrangement has made a budget saving. In line with the Council's accounting policies and relevant regulations the amount relating to 2017/18 (£12.174million) has been accounted for in year, the amounts relating to 2018/19 (£11.683million) and 2019/20 (£11.211 million) have been offset against the pension liability in the balance sheet. The pension reserve will be brought into line with the pension liability in 2019/20 as the up-front payment arrangements are accounted for. For further details see note 44 Defined Benefit Pension Schemes.

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used,	The effects on the net pensions liability of changes in individual assumptions can be measured. For

Item	Uncertainties	Effect if actual results differ from assumptions
	the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £131.5 million. During 2017/18, the Council's actuaries advised that the net pensions liability had decreased by £60.6 million as a result of updating of the assumptions.
Property, Plant and Equipment	Land and buildings are revalued using as a guide a 5–year rolling programme, ensuring that the current value of the assets is reflected in the Balance Sheet. Guidance states that assets should be revalued with sufficient regularity to ensure that their carrying value does not differ materially from fair value at the year-end. The uncertainty surrounds the potential difference between current value and fair value as assets with a high value may not have been revalued with sufficient regularity.	If the carrying value of the land and buildings is under-stated by 1% then the carrying value within the Balance Sheet would change by +/- £4.6 million and would be matched by a corresponding change to either the Revaluation Reserve, and/or the Comprehensive Income and Expenditure Statement as a charge for, or reversal of impairment.

This list does not include assets and liabilities that have recently observed market price.

5. MATERIAL ITEMS OF INCOME AND EXPENSE

There were no material items of income and expenditure in 2017/18.

6. EXCEPTIONAL ITEMS

There were no exceptional items in 2017/18.

7. EVENTS AFTER THE BALANCE SHEET DATE

Relevant events after the balance sheet date have been considered up to 23 July 2018. This is the date the accounts were authorised for issue by the Director of Finance and Investment.

8. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the Council in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2017/18	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movement in Usable £'000
Adjustments to the Revenue Resources				
Pension cost (transferred to (or from) the Pensions Reserve)	5,932	-	-	(5,932)
Financial Instruments (transferred to the Financial Instruments Adjustments Account)	(49)	-	-	49
Council tax and NDR (transfers to or from the Collection Fund)	5,784	-	-	(5,784)
Holiday pay (transferred to the Accumulated Absences reserve)	(1,576)	-	-	1,576
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	67,632	204	-	(67,836)
Total Adjustments to Revenue Resources	**77,723**	**204**	**-**	**(77,927)**
Adjustments between Revenue and Capital Resources				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(6,331)	6,331	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	2	(2)	-	-
Statutory Provision for the repayment of debt (transfer to the Capital Adjustment Account)	(7,307)	-	-	7,307
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(189)	-	-	189
Total Adjustments to Revenue Resources	**(13,825)**	**6,329**	**-**	**7,496**
Adjustments to Capital Resources				
Use of the Capital Receipts Reserve to finance capital ...	-	(10,419)	-	10,419
Application of capital grants to finance capital expenditure	(9,078)	-	(531)	9,609
Total Adjustments to Capital Resources	**(9,078)**	**(10,419)**	**(531)**	**20,028**
Total Adjustments	**54,820**	**(3,886)**	**(531)**	**(50,403)**

2016/17	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movement in Usable £'000
Adjustments to the Revenue Resources				
Pension cost (transferred to (or from) the Pensions Reserve)	8,285	-	-	(8,285)
Financial Instruments (transferred to the Financial Instruments Adjustments Account)	(46)	-	-	46
Council tax and NDR (transfers to or from the Collection Fund)	(2,098)	-	-	2,098
Holiday pay (transferred to the Accumulated Absences reserve)	(1,160)	-	-	1,160
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	43,752	-	-	(43,752)
Total Adjustments to Revenue Resources	**48,733**	**-**	**-**	**(48,733)**
Adjustments between Revenue and Capital Resources				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(3,465)	3,465	-	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	3	(3)	-	-
Statutory Provision for the repayment of debt (transfer to the Capital Adjustment Account)	(5,792)	-	-	5,792
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(310)	-	-	310
Total Adjustments to Revenue Resources	**(9,564)**	**3,462**	**-**	**6,102**
Adjustments to Capital Resources				
Use of the Capital Receipts Reserve to finance capital ...	-	(5,951)	-	5,951
Application of capital grants to finance capital expenditure	(9,434)	-	4,658	4,776
Total Adjustments to Capital Resources	**(9,434)**	**(5,951)**	**4,658**	**10,727**
Total Adjustments	**29,735**	**(2,489)**	**4,658**	**(31,904)**

9. EXPENDITURE AND FUNDING ANALYSIS

This analysis shows how annual expenditure is used and funded from annual resources (government grants, rents, council tax and business rates) by the council in comparison with those economic resources consumed or earned by the authority in accordance with generally accepted accounting practices. The Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's Functions. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement (CIES).

	2017/18			2016/17 Restated		
Wirral Plan Theme and Portfolio	**Expenditure Chargeable to the General Fund**	**Adjustments between Funding and Accounting Basis**	**Net Expenditure in the CIES**	**Expenditure Chargeable to the General Fund**	**Adjustments between Funding and Accounting Basis**	**Net Expenditure in the CIES**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
People						
Adult Care and Health	72,372	651	73,023	74,975	606	75,581
Children & Families	57,863	(455)	57,408	57,318	(746)	56,572
Children & Families - Schools	5,189	14,932	20,121	6,058	11,686	17,744
People Total	**135,424**	**15,128**	**150,552**	**138,351**	**11,546**	**149,897**
Environment						
Environment	24,581	2	24,583	31,614	1,667	33,281
Housing & Community Safety	23,542	3,441	26,983	21,348	1,232	22,580
Localism & Engagement	1,641	(22)	1,619	1,636	(24)	1,612
Environment Total	**49,764**	**3,421**	**53,185**	**54,598**	**2,875**	**57,473**
Business						
Finance & Income Generation	24,165	2,981	27,146	24,345	10,920	35,265
Highways & Transport	6,568	8,047	14,615	6,572	6,259	12,831
Leadership	2,443	100	2,543	1,520	(20)	1,500
Transformation	2,186	1,363	3,549	2,005	(6)	1,999
Business Total	**35,362**	**12,491**	**47,853**	**34,442**	**17,153**	**51,595**
Cost Service	**220,550**	**31,040**	**251,590**	**227,391**	**31,574**	**258,965**
Other Operating Expenditure	37,541	27,299	64,840	39,983	2,863	42,846
Financing and investment income and expenditure	18,422	4,386	22,808	16,887	9,746	26,633
Taxation and non-specific grant income and expenditure	(275,445)	(7,904)	(283,349)	(268,891)	(14,448)	(283,339)
Deficit of Services	**1,068**	**54,821**	**55,889**	**15,370**	**29,735**	**45,105**
Opening General Fund & Earmarked Reserves	80,787			96,157		
Less Deficit of Services	(1,068)			(15,370)		
Closing General Fund & Earmarked Reserves	**79,719**			**80,787**		

Council Portfolios: Organisation of Wirral Council

Wirral Councils Cabinet in 2017-18 has responsibility for individual Portfolios, which operate within three themes. The services in each Portfolio are :

Theme	Portfolio	Description
People	Adult Care and Health Children & Families Children & Families - Schools	Adult Social Care and Public Health, Childrens Care, Schools and Education
Environment	Environment Housing and Community Safety Localism and Engagement	Environmental Health, Planning, Leisure, Parks and Culture, Customer Contact, Community Safety and Housing Standards, Includes constituency committees, Communications and marketing
Business	Finance and Income Generation Highways and Transport Leadership Transformation	Digital(IT), HR, Finance, Assets, Legal and the Head of Paid Services, Eric Robinson , Highway Management and Transport , Growth, Business Intelligence & Strategy , Project support and Transformation Programme management

The following table details adjustments to the General Fund to add expenditure or income not chargeable to taxation or rents. It also removes items which are only chargeable under Statute.

	2017/18			2016/17 Restated		
Wirral Plan Theme and Portfolio	**Adjustments for Capital Purposes**	**Net change for the Pensions Adjustment**	**Total Adjustments**	**Adjustments for Capital Purposes**	**Net change for the Pensions Adjustment**	**Total Adjustments**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
People						
Adult Care & Health	818	(167)	651	1,052	(446)	606
Children & Families	54	(509)	(455)	(31)	(715)	(746)
Children & Families - Schools	16,104	(1,172)	14,932	13,036	(1,350)	11,686
People Total	**16,976**	**(1,848)**	**15,128**	**14,057**	**(2,511)**	**11,546**
Environment						
Environment	334	**(332)**	2	**2,065**	**(398)**	1,667
Housing & Community Safety	3,716	**(275)**	3,441	**1,555**	**(323)**	1,232
Localism & Engagement		(22)	(22)		(24)	(24)
Environment Total	**4,050**	**(629)**	**3,421**	**3,620**	**(745)**	**2,875**
Business						
Finance & Income Generation	6,173	**(3,192)**	2,981	14,178	(3,258)	10,920
Highways and Transport	8,112	(65)	8,047	6,354	(95)	6,259
Leadership	132	(32)	100		(20)	(20)
Transformation	1,374	(11)	1,363		(6)	(6)
Business Total	**15,791**	**(3,300)**	**12,491**	**20,532**	**(3,379)**	**17,153**
Cost Service (i)	**36,817**	**(5,777)**	**31,040**	**38,209**	**(6,635)**	**31,574**
Other Operating Expenditure (ii)	26,777	522	27,299	2,319	544	2,863
Financing and investment income and expenditure (iii)	(7,642)	12,028	4,386	(6,192)	15,938	9,746
Taxation and non-specific grant income and expenditure (iv)	(7,904)	-	(7,904)	(14,448)	-	(14,448)
General Fund Balance (surplus)/deficit	**48,048**	**6,773**	**54,821**	**19,888**	**9,847**	**29,735**

Adjustments for Capital Funding and Expenditure Purposes:

Adjustments to General Fund Balances to meet the requirements of generally accepted accounting practices, this column adds in depreciation and impairment and revaluation gains and losses in the services line and for:

i) Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets
ii) Financing and investment income and expenditure - the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from financing and investment income and expenditure as these are not chargeable under generally accepted accounting practices
iii) Taxation and Non Specific Grant Income and Expenditure – Capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year

Net change for the removal of pension contributions and the addition of pension (IAS 19) related expenditure and income:

i) For services this represents the removal of the employer pension contributions made by the authority as permitted by statute and the replacement with current service costs and past service costs
ii) For Other Operating Expenditure this is the cost of the Pensions Administration as part of the IAS 19 adjustment
iii) For Financing and investment income and expenditure - the net interest on the defined benefit liability is charged to the CIES.

10. TRANSFERS TO/FROM EARMARKED GENERAL FUND RESERVES

The Council keeps a number of reserves in the Balance Sheet that have been set up to earmark funding for future spending plans. These are held for costs which are likely to be incurred but their timing is not certain and they cannot be met from annual budgets. A review of reserves is carried out as part of the budget setting process and has resulted in the transfer of a number of unused funding to the General Fund Balance. The following table discloses each earmarked reserve where the balance is in excess of £0.25 million on either 31 March 2017 or 31 March 2018. Overall movement in the reserves is £0.2 million (made up of £12.5 million additions to reserve and £12.7 million contributions from reserve).

Earmarked General Fund Reserves	Balance at 31 March 2016	Movement 2016/17	Balance at 31 March 2017	Movement 2017/18	Balance at 31 March 2018
	£'000	£'000	£'000	£'000	£'000
Business Rates Equalisation	10,304	(4,012)	6,292	4,036	10,328
Schools Balances	11,738	(1,238)	10,500	(274)	10,226
Insurance Fund	10,867	(998)	9,869	(2,318)	7,551
Waste Development Fund	6,018	(1,444)	4,574	(1,246)	3,328
Financial Resilience	-	-	-	3,314	3,314
Housing Benefit	5,204	(487)	4,717	(2,240)	2,477
Public Health Outcomes	247	1,480	1,727	(146)	1,581
Dedicated Schools Grant	1,272	(199)	1,073	420	1,493
Parks Tree Maintenance	-	-	-	1,128	1,128
Better Care Fund	-	-	-	988	988
School Harmonisation	656	-	656	-	656
Stay, Work, Learn Wise	676	(21)	655	(16)	639
Selective Licensing	537	-	537	-	537
Flood Prevention	555	(5)	550	(14)	536
Support & Assistance to Public in Need	770	-	770	(268)	502
Public Health 15-16 Allocations	348	(348)	-	488	488
Community Assets Transfer	836	(183)	653	(191)	462
Intensive Family Intervention Project	549	(174)	375	58	433
Schools Capital Programme	603	(44)	559	(126)	433
Wirral Ways to Work	-	740	740	(348)	392
Enterprise Zone Investment	9	168	177	203	380
Community Safety Initiatives	231	52	283	79	362
Backdated Long Term Care	-	-	-	350	350
Wirral Ways to Work/Reachour Project Underspend	-	-	-	347	347
Section 106 - Bloor Homes	-	389	389	(50)	339
Major Infrastructure Project Development	652	(205)	447	(137)	310
General Data Protection Regulation	-	-	-	276	276
Europa Centre - Rent Free Top Ups	-	-	-	267	267
Champs Innovation Fund	380	133	513	(257)	256
Human Resources Reserve	410	77	487	(232)	255
One Stop Shop/Libraries IT Networks	1,483	(251)	1,232	(1,000)	232
Discretionary Housing Payments	297	127	424	(211)	213
Wirral HIA	295	(145)	150	-	150
IT Development	681	(8)	673	(545)	128
Early Years 2 Year Old Funding	461	(331)	130	(36)	94
Future School Redundancy	367	(367)	-	36	36
Home Improvements	309	(85)	224	(224)	-
Transformation Fund	10,973	(8,095)	2,878	(2,878)	-
Property Development Framework	700	(700)	-	-	-
Parks & Countryside	311	(311)	-	-	-
Other Reserves	5,176	(2,366)	2,810	565	3,375
	73,915	**(18,851)**	**55,064**	**(202)**	**54,862**

The purposes for the individual earmarked reserves

Business Rates Equalisation

This reserve is held to meet fluctuations in the income received from business rates. The full impact of the Liverpool City Region Pilot is still emerging and the effects of the operation of the national 75% Business Rate Retention is unclear. To smooth any variation in income the reserve aims to mitigate against changes in the amount of business rates received.

Schools Balances

These are earmarked for use purely by the schools. The balance consists of: -

	2017/18	2016/17
	£'000	£'000
Schools underspending	11,364	11,351
Schools overspending	(1,137)	(851)
Net Schools balances	**10,227**	**10,500**

	Number of schools with in hand balances	Number of schools with overdrawn balances
Nursery	2	1
Primary	73	11
Secondary	1	4
Special	9	2

Insurance Fund

This is primarily required to cover possible liability insurance claims. The overall estimate of the amount required to cover these is based on an actuarial investigation which seeks to estimate the ultimate claims arising in respect of each risk period, adjusted to allow for any subsequent deterioration in the Council's claims experience. The basis for calculation of the provision is claims not yet reported but anticipated.

Waste Development Fund

This reserve has been set up from a contribution from Merseyside Waste and Recycling Authority to support the delivery of the Joint Recycling and Waste Management Strategy.

Financial Resilience

The Council's Medium Term Financial Strategy shows that there are further future financial pressures. It is prudent to retain a reserve that is specifically designed so that future spending reductions can be implemented in a planned and efficient fashion. This reserve will serve this purpose and is to facilitate budget strategy management.

Housing Benefit

The reserve is held to meet an ongoing issue relating to the previous Housing Benefit Supporting People arrangements and the potential claw-back of subsidy. Sums have also been set aside for the further development of integrating supporting IT systems.

Public Health Outcomes

This reserve was set up to meet future commitments in relation to Public Health in accordance with the terms of the Public Health Grant provided by the Department of Health.

Dedicated Schools Grant

Department for Education regulations require that any unspent Dedicated Schools Grant (DSG) balances are either redistributed to schools or carried forward to future years. The Schools Forum have agreed that any balances arising following the final DSG announcement in June (or at the year-end) are carried forward until the end of the funding period. After this time, balances are to be redistributed.

Parks Tree Maintenance

As part of Council in July 2017 and Cabinet in October 2017 it was agreed that £1.255M of 'one-off' funding be allocated from General Fund balances for an extended borough wide programme of tree maintenance works. The balance of this reserve represents the amount that remained unspent at the end of 2017/18.

Better Care Fund
A number of schemes have been committed from the 2017/18 Better Care Fund, which have experienced delays in implementation. The underspend caused by this has been put into a reserve and will be used to fund these schemes in 2018/19.

Schools Harmonisation
To fund the potential costs associated with implementing Phase 2 of the Local Pay Review which relates to those employees within schools.

Stay, Work, Learn Wise
This reserve has been provided to fund the possible future repayment of the Stay, Work, Learn Wise grant awarded to the Council.

Selective Licensing
This reserve was set up to fund the costs of the implementation of the Selective Licensing scheme.

Flood Prevention
This funding was provided to cater for the LA's new responsibilities and burdens under the Flood and Water Management Act. This reserve is also earmarked as the partnership contribution to the West Kirby Flood Alleviation Scheme.

Support and Assistance to the Public in Need
The reserve provides Local Welfare Assistance to Wirral residents in cases of disaster or emergency, where financial support is needed to meet one-off costs as opposed to funding ongoing expenses.

Public Health 2015/16 Allocations
The reserve included 2015/16 funding from the national ring fenced Public Health grant that was to meet targeted future public health needs as per the department’s 5 year financial plan.

Community Asset Transfer
The Community Fund grant has been allocated by Magenta Living and this is the balance of the grant to implement the Community Asset Transfer programme

Intensive Family Intervention Project
Funding was allocated from the Department for Communities and Local Government for the Intensive Families Intervention Programme which is a 3 year programme.

Schools Capital Schemes
This is for the delivery and completion of capital schemes within schools.

Wirral Ways to Work
This reserve was set up to hold match funding for the ESF funded Wirral Ways to Work project. Wirral Ways to Work is a multi-strand project to support adults and young people into employment that is anticipated to operate until June 2020.

Enterprise Zone Investment
Authorities are able to retain growth in business rates income in designated areas outside the Business Rates Retention scheme, which includes Wirral's area of the 'Mersey Waters' Enterprise Zone. The growth element retained by Wirral is to be used for future investment in the Enterprise Zone to improve the area, attract further businesses and investment, and increase income.

Community Safety Initiatives
This reserve was set up to hold funds relating to Community Safety Partnership (CSP). Any underspends relating to CSP at the end of the year are transferred to this reserve to be utilised in future years as this grant relates to the Partnership and is not the authority's money.

Backdated Long Term Care
Funding to resource the payment schedule for residential & nursing care.

Wirral Ways to Work – Reach out Project
This reserve was set up to hold match funding for the ESF funded Wirral Ways to Work project. Wirral Ways to Work is a multi-strand project to support adults and young people into employment that is anticipated to operate until June 2020.

Section 106 Bloor Homes
Monies set aside for Section 106 planning agreement relating to land at Bridle Road Eastham.

Major Infrastructure Project Development
This reserve was set up to fund the research and development of major development projects in line with Corporate and Regeneration priorities.

General Data Protection Regulation
In 2017/18 £300,000 was allocated from General Fund balances in order to cover additional costs associated with new General Data Protection Regulation which will come into force in May 2018. The unspent balance at the end of 2017/18 was transferred to reserve to be utilised in 2018/19.

Europa Centre – Rent Free Top Ups
In 2017/18 the Council acquired Europa Centre and it was agreed that the total amount payable by the authority would be reduced for charges relating to Dilapidations and Rent Free Tops. These amounts are held in this reserve.

Champs Innovation Fund
This is collective funding from the 9 Local Authorities for the Champs-Public Health team whom Wirral host. The objective is to pool funding for collective Public Health investments.

Human Resources (HR) Reserve
This reserve will be utilised to fund HR System development fixed term posts related to HR in 2018/19

One Stop Shop / Libraries IT Network
This reserve was set up to develop the Information Technology systems within the One Stop Shops and libraries as part of the provision of a more integrated service. During

2017/18 £1 million of this reserve was released to General Fund Balances, as there were no future commitments against it.

Discretionary Housing Payments
The reserve is held to supplement the Governments annual allocation of Discretionary Housing Payment Grant. Discretionary Housing Payment is a payment made at the discretion of the Council to help towards housing costs.

Home Adaptations
This reserve will facilitate a programme of minor adaptations to improve standards of living.

IT Development
This reserve was set up to fund the expansion and development of IT services in the implementation of the programme agreed as part of the IT Strategy.

Early Years – 2 Year Olds Funding
Early Years reserve created to fund the expansion of the free Early Education for two year olds.

Future School Redundancy Costs
Reserve to help support any redundancy costs incurred within Schools.

Home Improvements
This reserve is used for payments made back to the Council against charges for Housing Renovation loans.

Transformation Fund
This reserve has been fully utilised in 2017/18 to fund transformation projects. Over the past 4 years this reserve has been used to fund expenditure including employee related payments and investment in services to enable transformation.

Property Development Framework
This reserve was set up to meet potential budget pressures arising from the use of a head lease delivery model. This was released to General Fund balances in 2016/17.

Parks and Countryside – Planned Preventative Maintenance
This reserve funded a programme of work that enabled maintenance issues to be addressed. This reserve has been fully utilised in 2016/17.

Other Reserves
This line adds together smaller individual reserves, each with a value of less than £0.25 million.

11. OTHER OPERATING EXPENDITURE

	2017/18	2016/17
	£'000	£'000
Levies	37,541	39,983
Payments to the Government Housing Capital Receipts Pool	2	3
Losses on the disposal of non current assets	26,775	2,316
Other	522	544
Total	**64,840**	**42,846**

For 2017/18 the increase in loss on the disposal of non-current assets is due to the change in ownership status of a number of schools. On 1 June 2017 four schools became part of the Oak Trees Multi Academy Trust. In addition the ownership of Ridgway High school transferred to the school governors. The value of these schools, removed from the Council balance sheet in the year, is shown as part of the loss on disposal figure above.

12. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2017/18	2016/17
	£'000	£'000
Interest payable and similar charges	12,625	12,501
Pensions – net interest cost	12,028	15,938
Interest receivable and similar income	(686)	(748)
Income and expenditure in relation to investment properties and changes in their fair value	(1,197)	(1,190)
Gains and losses on trading accounts	38	132
Total	**22,808**	**26,633**

13. TAXATION AND NON SPECIFIC GRANT INCOME

	2017/18	2016/17
	£'000	£'000
Council tax income	129,342	122,484
Non domestic rates income (including Top-Up Grant)	117,684	76,886
Non ring-fenced government grants	22,635	69,521
Capital grants and contributions	13,688	14,448
Total	**283,349**	**283,339**

The difference in income received in 2017/18 for Non-Domestic rates income and government grants is due to the Council’s participation in the Liverpool City Region 100% Business Rates Retention Pilot. This involved the Council retaining 99% of the business rates collected (1% continuing to be paid to the Merseyside Fire and Rescue Service) in the area rather than 49% in 2016/17. Under the arrangement, to main the Councils funding level, the government payment of Revenue Support Grant (RSG) and other specific grants ceased.

Further details on grants are contained in note 36.

14. PROPERTY, PLANT AND EQUIPMENT

Movements on Balances

Movements in 2017/18:

	Land and Buildings	Vehicles, Plant, Furniture & Equip-ment	Infra-structure Assets	Comm-unity Assets	Surplus Assets	Assets Under Con-struction	Total Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation							
At 1 April 2017	475,009	31,461	167,273	27,037	10,309	8,173	719,262
Additions	8,175	3,761	6,606	108	124	402	19,176
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(432)	-	-	-	285	-	(147)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(6,234)	-	-	-	(644)	(190)	(7,068)
Derecognition - disposals	(28,003)	-	-	-	(92)	(5,813)	(33,908)
Reclassifications/transfers	(1,001)	-	-	-	1,001	-	-
At 31 March 2018	**447,514**	**35,222**	**173,879**	**27,145**	**10,983**	**2,572**	**697,315**
Accumulated Depreciation and Impairment							
At 1 April 2017	(13,877)	(19,884)	(47,730)	-	(177)	-	(81,668)
Depreciation charge	(12,588)	(2,433)	(5,163)	-	(1)	-	(20,185)
Depreciation written out to the Revaluation Reserve	7,697	-	-	-	36	-	7,733
impairment losses /(reversals) recognised in the Revaluation Reserve	3,287	-	-	-	-	-	3,287
Derecognition disposals	1,168	-	-	-	3	-	1,171
Other movements in depreciation and impairment	(28)	-	-	-	28	-	-
At 31 March 2018	**(14,341)**	**(22,317)**	**(52,893)**	**-**	**(111)**	**-**	**(89,662)**
Net Book Value							
At 31 March 2017	**461,132**	**11,577**	**119,543**	**27,037**	**10,132**	**8,173**	**637,594**
At 31 March 2018	**433,173**	**12,905**	**120,986**	**27,145**	**10,872**	**2,572**	**607,653**

In 2017/18 the increase in loss on the disposal of non-current assets is due to the change in ownership status of a number of schools. On 1 June 2017 four schools became part of the Oak Trees Multi Academy Trust. In addition the ownership of Ridgway High school transferred to the school governors.

Comparative Movements in 2016/17:

	Land and Buildings	Vehicles, Plant, Furniture & Equip-ment	Infra-structure Assets	Comm-unity Assets	Surplus Assets	Assets Under Con-struction	Total Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation							
At 1 April 2016	498,037	28,704	161,882	26,861	10,280	7,230	732,994
Additions	7,853	2,757	5,391	176	483	943	17,603
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(15,981)	-	-	-	2,692	-	(13,289)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(13,152)	-	-	-	(3,132)	-	(16,284)
Derecognition - disposals	(631)	-	-	-	(242)	-	(873)
Reclassifications/transfers	(1,117)	-	-	-	805	-	(312)
Assets reclassified (to)/from Held for Sale	0	0	0	0	(577)	0	(577)
At 31 March 2017	**475,009**	**31,461**	**167,273**	**27,037**	**10,309**	**8,173**	**719,262**
Accumulated Depreciation and Impairment							-
At 1 April 2016	8,996	17,863	42,810	-	118	-	69,787
Depreciation charge	11,965	2,021	4,920	-	125	-	19,031
Depreciation written out to the Revaluation Reserve	(4,229)	-	-	-	(61)	-	(4,290)
Depreciation written out on revaluation taken to the surplus/deficit on the Provision of Services	(2,787)	-	-	-	-	-	(2,787)
Derecognition disposals	(68)	-	-	-	(5)	-	(73)
At 31 March 2017	**13,877**	**19,884**	**47,730**	**-**	**177**	**-**	**81,668**
Net Book Value							
At 31 March 2016	**489,041**	**10,841**	**119,072**	**26,861**	**10,162**	**7,230**	**663,207**
At 31 March 2017	**461,132**	**11,577**	**119,543**	**27,037**	**10,132**	**8,173**	**637,594**

Depreciation
The following useful lives and depreciation rates have been used in the calculation of depreciation:

Land and Buildings – 1-60 years
Vehicles, Plant, Furniture and Equipment - 3-40 years
Infrastructure – 10-120 years
Surplus Assets – up to 30 years

Land and Buildings asset lives range from 1 to 60 years which reflect the service lives of the assets as assessed by the Council's valuers.

Revaluations
The Code of Practice on Local Authority Accounting requires the Council to revalue its assets sufficiently regularly to ensure that their carrying value does not differ materially from fair value at the year end.

In 2017/18, the Council based its revaluations on a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Current guidance is that all high value assets should be revalued more regularly to ensure that the Balance Sheet accurately reflects their up to date values. To achieve this, a number of significant high value assets groups e.g. Leisure Centres and schools have been revalued irrespective of when the last valuation was undertaken.

Carrying Value measured against fair value
All valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

	Land and Buildings	**Surplus Assets**	**Total**
	£'000	**£'000**	**£'000**
Carried at historical cost	1,858	75	1,933
Valued at fair value as at:			
31 March 2018	413,416	10,908	424,324
31 March 2017	15,017	-	15,017
31 March 2016	6,927	-	6,927
31 March 2015	7,850	-	7,850
31 March 2014	2,446	-	2,446
Total Cost or Valuation	**447,514**	**10,983**	**458,497**

15. HERITAGE ASSETS

Reconciliation of the carrying value of Heritage Assets held by the Council

Cost or Valuation	Decorative Art & Other Collections	Buildings	Civic Regalia	Transport	Fine Art	Total Assets
	£000	£000	£000	£000	£000	£000
Balance as at 1 April 2017	**3,130**	**757**	**441**	**507**	**7,740**	**12,575**
Revaluations	-	-	-	(17)	1,750	**1,733**
Balance as at 31 March 2018	**3,130**	**757**	**441**	**490**	**9,490**	**14,308**

Cost or Valuation	Decorative Art & Other Collections	Buildings	Civic Regalia	Transport	Fine Art	Total Assets
	£000	£000	£000	£000	£000	£000
Balance as at 1 April 2016	**3,130**	**937**	**408**	**507**	**7,775**	**12,757**
Revaluations	-	(180)	33	-	(35)	(182)
Balance as at 31 March 2017	**3,130**	**757**	**441**	**507**	**7,740**	**12,575**

Fine Art, Decorative Art and Other Collections

These collections are housed at the Williamson Art Gallery and the more important collections consist of:

Fine Art

British Watercolours – by a series of bequests and purchases, notably between 1920 and 1935, the Gallery has a significant collection of 18th and 19th century watercolour paintings and drawings by British artists;

The Liverpool School – Merseyside produced a large number of significant artists in the period 1810 to 1910 and the Liverpool School is well represented in the Williamson collections;

Philip Wilson Steer – born in Birkenhead in 1860 he became especially important in the artistic heritage of the Wirral. The Williamson now holds a collection of his work that is of national importance;

Local paintings – the Museum is virtually the only institution on Merseyside actively researching local historic and contemporary painters. Works by leading local artists are housed at the Museum;

There are over 5,000 items in the Fine Art collection, the most important of which are by Albert Joseph Moore (£200,000) and one attributed to Jan Breughel (£200,000).

Valuations are based on insurance estimates for which there was a 22% increase in 2017/18. This relates to the 5 most valuable works of art.

Decorative art and other collections
There are a number of collections of this type held by the Council. The most important ones are:

- The Knowles Boney collection of some 300 pieces is very comprehensive and was presented to the Museum some 55 years ago and represents examples of work from several factories that were producing porcelain of various types and quality in Liverpool between 1750 and 1800;

- The collection of Della Robbia pottery forms an unrivalled addition to the history of Merseyside ceramics. Produced in Birkenhead between 1894 and 1906, items purchased in the 1920's from the founder Harold Rathbone form the basis of this comprehensive collection.

Apart from these two important collections there is also a good collection of 18th and 19th century British ceramics.

When Lee Tapestry Works of Birkenhead closed in 1970 the Museum acquired a collection of drawings, photographs and fabric samples illustrating the work of Arthur H. Lee and Sons.

There are also collections of glass, metalwork, jewellery, furniture, maritime models, ethnography, artefacts, geology and others. In total there are over 4,700 items in these various collections.

Acquisition policy
The Museum recognises its responsibility in acquiring additions to its collections, to ensure that care of collections, documentation arrangements and the use of collections meet the requirements of the Accreditation Standard. It will take into account limitations on collections imposed by such factors as staffing, storage and care of collection arrangements.

The Council has determined criteria governing future acquisitions including the subject of themes, periods of time and/or geographical areas and any collections which are not subject to further acquisition. The expansion of collections is achieved by donation, bequest and purchase using the Museum's own small purchase fund and grant aid from the Friends of the Williamson Art Gallery and Wirral Museums, The Art Fund and the Museums Association Purchase Funds administered by the Victoria and Albert Museum and Science Museum.

Examples of how this policy translates would include the plan to develop the collection of British watercolours in perceived areas of weakness e.g. Pre-Raphaelite artists and to seek additions to the Liverpool School. In the case of the various collections of porcelain, the Liverpool collection would be expanded only for exceptional items whereas there are no plans to add to the Oriental collection.

Disposal procedure
The Museum does not undertake disposal motivated principally by financial reasons. The decision to dispose of material from the collections will be taken after full consideration of the reasons for disposal. This includes curatorial and financial reasons as well as the public benefit, the implication for the Museum's collections and collections held by museums and other organisations collecting the same material. External expert

advice will be obtained and the views of stakeholders such as donors, researchers, local and source communities served by the Museum will also be sought.

A decision to dispose of a specimen or object, whether by gift, exchange, sale or destruction will only be taken acting on the advice of professional curatorial staff, if any, and not of the curator of the collection acting alone.

There have been no disposals in 2017/18.

Conservation and storage

The Council maintains its access to professional conservation advice through its liaison with the National Museums Liverpool and freelance conservators. There is a programme in place encompassing environmental monitoring and control in display as well as storage areas. Improvements to the heating and humidifier equipment will be undertaken as necessary based on curatorial staff and conservation advice.

Staff ensure that a programme of lighting monitoring and control consistent with the preservation and maintenance of collections is maintained. The programme will continue to replace perishable and dangerous materials used in the preservation and storage of the collections. Alternative materials will be consistent with good conservation practice. A record of all conservation work undertaken will be maintained.

Exhibition and public services

The temporary and permanent exhibition policy includes specific periodic displays of all items in the collection where conditions and time to research permit. Exhibitions in non-gallery venues are also encouraged provided suitable conditions are available. Adequate interpretative facilities are ensured for permanent and temporary displays.

Subject to adequate notice and staff supervision any member of the public will be given controlled access to any stored item and related information.
Loan applications are sympathetically considered and the advice of conservation and curatorial staff will determine the feasibility of such applications.

The latest comprehensive valuation was undertaken during the 2017/18 financial year. The present Collection Management Plan suggests valuations to be reconsidered every ten years. This period is retained for the general overview, but consideration may be given to individual items in the interim, especially with regard to adjustments of attribution or identification. Valuations are based on the knowledge of the Curator of Museums.

Acquisitions are initially recognised at cost (where that cost is greater than £5,000) and donations are recognised at valuation.

Transport

The Council has a long term commitment towards the development of a heritage trail embracing a transport museum with particular emphasis on Wirral's heritage. The collection of some 30 assets (excluding those on loan) is housed within the Wirral Transport Museum and primarily consists of a number of buses, the oldest being a Guy Arab double decker built in 1943 and a collection of motor cycles, the oldest a 1938 Norton H.

Valuations are based on insurance quotes obtained during 2017/18.

Civic Regalia
The collection of civic regalia includes 28 items connected with civic functions undertaken as part of the mayoral role and civic events. It consists of mayoral badges, chains, borough maces etc. with the oldest item dated 1877. It also includes 18 items of memorabilia commemorating events and associations that are of local interest. These items are reported in the Balance Sheet at insurance valuation. The most recent valuation was undertaken in April 2012 by Mr. J. Phillips of St. George Valuations and is based on the likely cost of replacing the item valued with as near a comparable item as is available for purchase second hand. The valuation only reflects the inherent characteristics of the items and does not reflect the surrounding circumstances of the items e.g. their provenance. Revaluations are to be undertaken at a minimum of every ten years.

Buildings
There are two buildings included in the valuation of heritage assets. These are Leasowe Lighthouse, which is the oldest brick built lighthouse in the country and Bidston Hill Windmill, which was operational until 1875. Leasowe Lighthouse is supported by the Friends of Leasowe Lighthouse, which has an active series of events. Similarly there is public access to Bidston Hill Windmill, supported by the Friends of Bidston Hill.

Valuations have been undertaken by the Council's own valuers and are based on their fair value. Valuations were undertaken between January 2008 and March 2018.

Heritage Assets not reported in the Balance Sheet

Sites of Special Scientific Interest (SSIs) or Biological Importance (SBIs)
There are 12 SSIs which can be seen as the basic building block of site based nature/geological nature conservation legislation whereas SBIs (27 owned by the Council) are local non statutory sites. A number of these sites are already included in historic cost information within the Council's classification of Community Assets. However, because of their specific nature they only form part of an overall community asset and as such it is considered that any attempt to separately identify specific costs associated with the SSI or SBI would produce unreliable information. The decision has been taken therefore not to separately identify such assets within the Balance Sheet under the category of heritage assets.

War memorials and other monuments
There are 146 such assets that the Council owns ranging from those commemorating historic events to historic personages. No reliable cost or valuation information is available regarding these assets. Because of their diverse and very individual nature and the lack of comparable market values, the Council considers that the cost of obtaining external valuations outweighs the benefit to the reader of the accounts in obtaining such information. Consequently, these assets are not included in the Balance Sheet.

Archaeological sites
In the case of the 2 sites that are considered to be of an archaeological interest the Council does not consider that reliable cost or valuation information can be obtained because of the diverse nature of the assets and the lack of comparable market values. Consequently, any such assets are not included in the Balance Sheet.

16. INVESTMENT PROPERTIES

Investment properties are held by the Council for the purposes of income generation or capital gain.

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

In 2017/18 the Council has made the first of a number of acquisitions that forms part of the Strategic Acquisition Programme that supports the key economic goals of the Council.

The following table summarises the movement in the fair value of investment properties over the year:

	2017/18	2016/17
	£'000	£'000
Balance at 1 April	12,605	12,092
Additions:	8,950	21
Disposals	(282)	(198)
Net gains / (losses) from fair value adjustments	273	378
Transfers:		
To / (from) Property, Plant and Equipment	-	312
Balance at 31 March	**21,546**	**12,605**

Fair Value Hierarchy for Investment Properties

Details of the Authority's Investment Properties and information about the Fair Value Hierarchy at 31st March 2018 are as follows:

2017/18 Recurring Fair Value measurements using:	Quoted Prices in Active Markets for identical assets (Level 1) £'000	Other significant observable inputs (Level 2) £'000	Significant unobservable inputs (Level 3) £'000	Fair Value as at 31st March 2018 £'000
Development Sites	0	2,810	0	2,810
General Income Buildings	0	9,563	0	9,563
General Income Sites	0	5,034	0	5,034
Industrial Land & Buildings	0	4,139	0	4,139
Total	**0**	**21,546**	**0**	**21,546**

Transfers between levels of the Fair Value Hierarchy

There were no transfers between levels 1 and 2 throughout the year.

Valuation Techniques used to determine Level 2 Fair Values for Investment Properties

Development sites
Development site valuations are based on the potential for the sites such as residential or commercial developments and in all cases are based upon the value by area, typically per acre, for similar sites in similar locations.

General Income Buildings
This sub category includes a wide range of properties including Halls, cafes and recreational buildings which generate rental income. In each case the valuation is based on the current income stream and where possible the potential to achieve a market rent by determining the potential price for space of similar buildings, typically a price per square foot.

General Income Sites
This is the broadest sub category and includes land which generates income and comprises properties such as ground leases and advertising hoardings. In all cases a lease or licence determines the income stream and also determines the potential for review of rental levels. Where rental levels can be reviewed the rent will be based on market levels by comparison to similar properties on an area basis.

Industrial Land and Buildings
This sub category comprises the Council's industrial portfolio of managed workspace. Let on short term tenancies with regular rent review patterns, the properties are let at market rent based upon directly comparable properties based on the area, typically a price per square foot.

Highest and best use of investment properties
In estimating the fair value of the authority's investment properties, the highest and best use of the properties is their current use.

17. INTANGIBLE ASSETS

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets relate to purchased licences.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The major item of software relates to the Oracle financial system and has been assigned a 10 year life.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation charged to revenue in 2017/18 was £0.383 million (2016/17 £0.395 million).

The movement on Intangible Asset balances during the year is as follows:

Intangible Assets	2017/18	2016/17
	£'000	£'000
Balance at 1 April	1,315	1,710
Amortisation for the year	(383)	(395)
Balance at 31 March	**932**	**1,315**

18. FINANCIAL INSTRUMENTS

Financial Instruments Balances

The financial assets and liabilities disclosed in the Balance Sheet are analysed across the following categories:

	Long Term	Long Term	Short Term	Short Term
	31 March 2018	31 March 2017	31 March 2018	31 March 2017
	£'000	£'000	£'000	£'000
Financial Assets				
Loans and Receivables	1,250	1,100	20,482	24,088
Available for Sale	-	-	5,983	2,017
Total Financial Assets	**1,250**	**1,100**	**26,465**	**26,105**
Financial Liabilities				
Borrowings	171,502	179,084	95,296	39,497
PFI Liability	42,418	45,361	2,947	2,624
Total Financial Liabilities	**213,920**	**224,445**	**98,243**	**42,121**

The table below reflects the composition of borrowing recorded on the Balance Sheet:

	Long Term	Long Term	Short Term	Short Term
	31 March 2018	31 March 2017	31 March 2018	31 March 2017
	£'000	£'000	£'000	£'000
Borrowings				
Nominal Amount	174,059	181,762	93,003	37,203
Accrued Interest	-	-	2,293	2,294
EIR Adjustments	(2,557)	(2,678)	-	-
Total Amortised Cost	**171,502**	**179,084**	**95,296**	**39,497**

The table below reflects the composition of investments recorded on the Balance Sheet:

	Long Term	Long Term	Short Term	Short Term
	31 March 2018	31 March 2017	31 March 2018	31 March 2017
	£'000	£'000	£'000	£'000
Loans and Receivables				
Nominal Amount	1,250	1,100	20,400	24,000
Accrued Interest	-	-	82	88
Impairment/ Revaluation	-	-	-	-
Total Amortised Cost	**1,250**	**1,100**	**20,482**	**24,088**
Available for Sale				
Nominal Amount	-	-	6,000	2,000
Accrued Interest	-	-	-	1
Impairment/ Revaluation	-	-	(17)	16
Total Fair Value	**-**	**-**	**5,983**	**2,017**
TOTAL INVESTMENTS	**1,250**	**1,100**	**26,465**	**26,105**

Gains and Losses on Financial Instruments

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following items:

2017/18	Financial Liabilities	Financial Assets		Total
	Liabilities Measured at amortised cost	Loans and Receivables	Available for sale assets	
	£'000	£'000	£'000	£'000
Interest expense	(12,907)	-	-	(12,907)
Impairment losses	-	-	-	-
Interest payable and similar charges	**(12,907)**	**-**	**-**	**(12,907)**
Interest Income	-	192	102	294
Total Interest and Investment Income	**-**	**192**	**102**	**294**
Net gain/ (loss) for the year	**(12,907)**	**192**	**102**	**(12,613)**

This compares with the gains and losses recognised in 2016/17:

2016/17	Financial Liabilities	Financial Assets		Total
	Liabilities Measured at amortised cost	Loans and Receivables	Available for sale assets	
	£'000	£'000	£'000	£'000
Interest expense	(12,470)	-	-	(12,470)
Impairment losses	-	-	-	-
Interest payable and similar charges	**(12,470)**	**-**	**-**	**(12,470)**
Interest Income	-	235	123	358
Total Interest and Investment Income	**-**	**235**	**123**	**358**
Net gain/ (loss) for the year	**(12,470)**	**235**	**123**	**(12,112)**

Fair Value of Assets Carried at Amortised Cost

For each class of financial assets and financial liability, the Council is required to disclose the fair value of that class of assets and liabilities in such a way that a comparison with the carrying amount is possible. For most assets, including money market funds and other pooled funds, the fair value is taken from the market price. The fair values of other instruments have been estimated calculating the net present value of remaining contractual cash flows at 31st March 2018.

The Council's borrowings are carried in the Balance Sheet at amortised cost. Investments consist of loan and receivables and available for sale financial assets. Loans and receivables are carried on the Balance Sheet at amortised cost. The calculation of the net present values for these instruments has been carried out using the following methods and assumptions:

- Loans borrowed by the council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of 'Lender's Option Borrower's Option' (LOBO) loans have been increased by the value of the embedded options. Lender's options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31st March.
- The fair value of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at appropriate AA rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities e.g. bond prices.
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments.
- Level 3 – fair value is determined using unobservable inputs. E.g. non-market data such as cash flow forecasts or estimated creditworthiness.

	Fair Value Level	Carrying Amount as at 31 March 2018	Fair Value as at 31 March 2018	Carrying Amount as at 31 March 2017	Fair Value as at 31 March 2017
		£'000	£'000	£'000	£'000
Financial Liabilities held at amortised cost:					
PWLB Loans	2	22,560	26,413	31,006	36,249
LOBO Loans	2	112,113	209,377	115,094	226,371
Other Loans	2	45,140	87,661	44,363	89,971
Lease Payables & PFI	2	45,365	49,194	47,985	53,366
Total		**225,178**	**372,645**	**238,448**	**405,957**
Others for which fair value is not disclosed *		**121,363**		**51,083**	
Total Liabilities		**346,541**		**289,531**	
Financial Assets held at fair value:					
Money Market Funds	1	22,650	22,650	25,030	25,030
Externally Managed Funds	1	5,983	5,983	2,017	2,017
Total		**28,633**	**28,633**	**27,047**	**27,047**
Others for which fair value is not disclosed *		39,190		30,940	
Total Financial Assets		**67,823**		**57,987**	
Financial Assets:					
Loans and Receivables		21,732	21,732	25,188	25,188
Trade Receivables		17,458	17,458	5,752	5,752
Total Financial Assets		**39,190**	**39,190**	**30,940**	**30,940**

* The fair value of short term financial instruments including trade payables and receivables are assumed to approximate the carrying amount.

The fair value of financial instruments held at amortised cost is higher than their balance sheet carrying amount because:

- the authority's portfolio of loans include transactions where the interest rate payable is higher than the current rates available for similar loans as at the balance sheet date.
- the interest rate on similar investments is now lower than that obtained when the investment was originally made.

19. DEBTORS

	31 March 2018	31 March 2017
	£'000	£'000
Central government bodies	11,834	2,106
Other local authorities	10,595	6,076
NHS bodies	6,646	11,475
Collection Fund	7,410	12,634
Other entities and individuals	27,428	17,297
Total	**63,913**	**49,588**

20. CASH AND CASH EQUIVALENTS

Cash comprises cash on hand and demand deposits. Balances classified as 'Cash Equivalents' fit the definitions of being short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The net balance of Cash and Cash Equivalents is made up of the following elements at the Balance Sheet date:

	31 March 2018	31 March 2017
	£'000	£'000
Cash held by Authority	2,087	(1,079)
Call accounts (same day access funds)	22,650	25,030
Total Cash and Cash Equivalents	**24,737**	**23,951**

21. ASSETS HELD FOR SALE

	31 March 2018	31 March 2017
	£'000	£'000
Balance outstanding at start of year	**11,078**	**20,277**
Assets newly classified as held for sale	21	672
Net revaluations	(23)	(5,071)
Disposals	(25)	(4,800)
Balance outstanding at year-end	**11,051**	**11,078**

22. CREDITORS

	31 March 2018	31 March 2017
	£'000	£'000
Central government bodies	6,909	13,660
Other local authorities	1,189	1,248
NHS bodies	6,621	3,530
Public corporations and trading funds	-	7
Other entities and individuals	47,896	37,991
Total	**62,615**	**56,436**

23. PROVISIONS

The following are the main provisions made by the Council:-

Bad Debts
This provision has been deducted from the debtors figure in the Balance Sheet and therefore does not appear in the provisions total.

	Balance at 1 April 2017	Utilised in 2017/18	Additions in 2017/18	Balance at 31 March 2018
	£'000	£'000	£'000	£'000
Council Tax	12,171	(14,445)	12,526	10,252
NNDR	1,584	(993)	2,491	3,082
Housing Benefit	9,571	-	356	9,927
Sundry Debtors	9,330	(2,078)	885	8,137
Summons Costs	669	(2,227)	2,394	836
Total	**33,325**	**(19,743)**	**18,652**	**32,234**

Others
The provisions figure shown in the Balance Sheet comprises:-

	Balance at 1 April 2017	Utilised in 2017/18	Additions in 2017/18	Balance at 31 March 2018
	£'000	£'000	£'000	£'000
Short Term				
Severance Pay	24	(24)	173	173
Insurance Fund	1,000	-	-	1,000
NNDR Appeals	6,126	(1,999)	6,377	10,504
Carbon Reduction Commitment	450	(450)	346	346
Land Charges	248	-	-	248
Other	121	(12)	1	110
	7,969	**(2,485)**	**6,897**	**12,381**
Long Term				
Insurance Fund	2,196	-	78	2,274
	2,196	**-**	**78**	**2,274**

Severance Pay
The Council has identified funding that will be required for staff reductions in financial year 2017/18 that will cost £0.173 million and has therefore made provision for this liability.

Insurance Fund
This is primarily required to cover possible liability insurance claims. The overall estimate of the amount required to cover these is based on an actuarial investigation, which seeks to estimate the ultimate claims arising in respect of each risk period. The basis for calculating the provision is claims actually reported as outstanding. The timing of future payments depends almost entirely upon when claims are settled, but are likely to run over a number of years.

NNDR Appeals
Following the introduction of the Business Rates Retention Scheme from 1 April 2013, billing authorities are required to make an estimate of the impact of successful appeals covering not only 2017/18 but also any backdated amount relating to earlier years. This will include decisions made in future years regarding appeals which may affect the 2017/18 and earlier financial years' business rates charges. The provision calculation is based upon data supplied by the Valuation Office at 31 March 2018 regarding outstanding and settled appeals.

Carbon Reduction Commitment
To fund carbon reduction payments to the Government which are paid in arrears but which need to be reflected in the correct financial year. Payments relating to 2016/17 have been met from this provision in 2017/18.

Land Charges
For claims for searches carried out in previous years and is to cover any Council liability for claims for income incorrectly charged in respect of searches.

Other Provisions
All other provisions are individually insignificant in being below £0.25 million.

24. USABLE RESERVES

Usable Reserve	Balance at 1 April 2017	Movement in Year	Balance at 31 March 2018	Purpose of Reserve
	£'000	£'000	£'000	
General Fund Balance	25,723	(867)	24,856	Resources available to meet future revenue and capital costs.
Earmarked General Fund Reserves	55,065	(202)	54,863	See note 10 for further details. This includes schools balances.
Capital Receipts Reserve	5,558	(3,886)	1,672	Contains the proceeds of fixed asset sales that are available to meet future capital investment.
Capital Grants Unapplied	14,919	(531)	14,388	Government Grants and contributions received in year for projects.
Total	**101,265**	**(5,486)**	**95,779**	

The balances on the General Fund and Earmarked General Fund Reserves are available for funding both capital and revenue expenditure. The amounts relating to balances held by schools are accounted for as Earmarked Reserves and are not included in the General Fund Balance. The Capital Receipts Reserve and Capital Grants Unapplied are held for capital purposes only.

25. UNUSABLE RESERVES

Unusable Reserves	Balance at 1 April 2017	Movement in Year	Balance at 31 March 2018
	£'000	£'000	£'000
Revaluation Reserve	228,563	(7,651)	220,912
Capital Adjustment Account	158,492	(23,327)	135,165
Pensions Reserve	(535,408)	55,182	(480,226)
Other	(1,625)	(4,211)	(5,836)
Total Unusable Reserves	**(149,978)**	**19,993**	**(129,985)**

Revaluation Reserve
The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2017/18	2016/17
	£'000	£'000
Balance at 1 April	228,563	241,645
Upward revlauation of assets	15,784	36,215
Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	(6,465)	(45,396)
Surplus or deficit on revalution of non-current assets not posted to the surplus or deficit on the provision of services	9,319	(9,181)
Difference between fair value depreciation and historical cost depreciation	(3,888)	(3,464)
Accumulated gains on assets sold or scrapped	(13,082)	(437)
Total written off the the Capital Adjustment account	(16,970)	(3,901)
Balance at 31 March	**220,912**	**228,563**

Revaluation Reserve Adjustments
When an asset is revalued downwards (impaired) and there has been a previous upward revaluation which has created a revaluation reserve, the impairment is charged to the revaluation reserve until it is depleted; thereafter it is charged to service revenue accounts.

When an asset that has been revalued is depreciated, the associated revaluation reserve is written off at the same rate. In this situation the revaluation reserve is debited and the capital adjustment account is credited. If an asset is deemed to have a residual value, depreciation stops when the residual value has been reached. Writing off of the revaluation reserve stops at the same time.

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different accounting arrangements for the consumption of non-current assets and for their financing under statutory provisions. The Account is charged with costs of acquisition, construction or enhancement of assets. Depreciation, impairment losses and amortisations of assets are charged to the Comprehensive Income and Expenditure Statement with postings from the Revaluation Reserve to convert fair values to an historical cost basis.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

	2017/18	2016/17
	£'000	£'000
Balance at 1 April	**158,492**	**181,508**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation, revaluation losses and impairment of non-current assets	(24,372)	(37,994)
Historic cost adjustment on Revaluation losses on Property, Plant and Equipment	3,888	3,464
Revenue expenditure funded from capital under statute	(15,099)	(5,391)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(33,044)	(5,758)
	(68,627)	**(45,679)**
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	10,419	5,951
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	14,235	9,795
Statutory provision for the financing of capital investment charged against the General Fund	7,307	5,792
Capital expenditure charged against the General Fund and other balances	189	310
	32,150	**21,848**
Balance in Revaluation Reserve written off on disposal of assets	13,081	437
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	273	378
Public Sector Housing Loans	(204)	-
	13,150	**815**
Balance at 31 March	**135,165**	**158,492**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2017/18	2016/17
	£'000	£'000
Balance at 1 April	(535,408)	(461,595)
Re-measurement of pensions assets and liabilities	61,113	(65,528)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(39,417)	(42,606)
Employer's pensions contributions and direct payments to pensioners payable in the year	33,486	34,321
Balance at 31 March	**(480,226)**	**(535,408)**

Other Reserves

Financial Instrument Adjustment Account

The Financial Instrument Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions. The balance in the Financial Instrument Adjustment Account at the end of the year represents the amount that should have been charged to the Comprehensive Income and Expenditure Statement in accordance with proper accounting practices under the Code of Practice, but which Statutory Provisions allow or require to be deferred over future years. At 31 March 2018 the account had a balance of £3.423 million (2016/17 £3.456 million)

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax and National Non-domestic Rates income in the Comprehensive Income and Expenditure Statement as it falls due from tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. At 31 March 2018, the account had a balance of £1.588 million Debit (2016/17 £4.196 million Credit).

Accumulated Absences Account

The Accumulating Compensated Absences Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account. The account had a credit balance of £3.465 million at 31 March 2018 (2016/17 balance £5.041 million credit).

Available for Sale Financial Instrument Reserve
The Available for Sale Financial Instrument Reserve contains gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. At 31 March 2018, the reserve had a debit balance of £0.019 million (2016/17 credit £0.012 million).

Deferred Capital Receipts
Deferred capital receipts relate to the principal element of loans provided by the Council, which are repaid over a number of years. The capital receipt is only recognised as and when the principal sum is repaid. At 31 March 2018 the reserve had a balance of £2.660 million (2016/17 £2.664 million).

26. CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2017/18	2016/17
	£'000	£'000
The net (surplus)/deficit on the provision of services includes:		
Interest received	(686)	(542)
Interest paid	12,625	12,770
Adjust net (surplus)/ deficit on the provision of services for non cash movements:		
Depreciation	(20,185)	(19,031)
Impairment	(3,531)	(18,190)
Amortisations of intangible assets	(383)	(395)
(Increase) / decrease in long & short term creditors	(6,180)	4,335
Increase / (decrease) in long & short term debtors	14,325	690
Increase / (decrease) in stock / WIP	8	(43)
Movement in Pensions Liability	(5,932)	(8,285)
Non cash items relating to the disposal of fixed assets	(33,044)	(5,798)
Other non-cash items charged to the net surplus or deficit on the provision of services	(2,908)	(2,494)
	(57,830)	(49,211)
Adjust for items in the net (surplus)/ deficit on the provision of services that are investing or financing activities		
Proceeds from the sale of property, plant and equip., investment property and intangible assets	6,331	3,465
Grants applied to the financing of capital expenditure	13,704	14,453
	20,035	17,918

27. CASH FLOW STATEMENT - INVESTING ACTIVITIES

	2017/18	2016/17
	£'000	£'000
Purchase of property, plant and equipment, investment property and intangible assets.	28,126	18,347
Purchase of short-term and long-term investments	511	500
Other payments for investing activities	103	183
Proceeds from sale of property, plant and equipment, investment property and intangible assets	(6,331)	(3,465)
Proceeds from short-term and long-term investments	361	(7,210)
Other receipts from investing activities	(18,289)	(18,736)
Net cash flows from investing activities	**4,481**	**(10,381)**

28. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	2017/18	2016/17
	£'000	£'000
Cash Receipts from short and long-term borrowing	(57,371)	(19,000)
Cash payments for the reduction of outstanding liabilities relating to finance leases and on Balance Sheet PFI contracts	2,620	2,418
Repayment of short- and long-term borrowing	2,711	8,470
Other payments for financing activities	28,679	(1,813)
Net cash flows from financing activities	**(23,361)**	**(9,925)**

29. EXPENDITURE AND INCOME ANALYSED BY NATURE

The authority's expenditure and income is analysed as follows:

	2017/18	2016/17
	£'000	£'000
Employees	254,489	261,496
Other Service Expenses	410,902	420,285
Depreciation, Amortisement & Impairment	57,347	43,375
Interest Payments	24,653	28,439
Precepts & Levies	37,541	39,983
Payments to Housing Capital Receipts Pool	2	3
Gain on Disposal of Assets	26,775	2,316
Total Expenditure	**811,709**	**795,897**
Fees, charges and other service income	(119,612)	(112,834)
Interest and investment income	(1,845)	(1,806)
Income from council tax and non domestic rates	(247,026)	(199,370)
Government grants and contributions	(387,337)	(436,782)
Total Income	**(755,820)**	**(750,792)**
(Surplus) / Deficit on the provision of service	**55,889**	**45,105**

30. TRADING ACCOUNT

The Council has currently one trading unit for Building Cleaning where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. Details are as follows:

	2017/18	2016/17
	£'000	£'000
Turnover	(575)	(621)
Expenditure	613	753
	38	**132**

31. POOLED BUDGETS

Wirral Council operates 1 pooled fund (Better Care Fund) in partnership with Wirral Clinical Commissioning Group under section 75 of the Health Act 2006. This fund is hosted by Wirral Council and commenced on the 1st April 2015.

The Better Care Fund creates a local single pooled budget to incentivise the NHS and local government to work more closely together around people, placing their well-being as the focus of health and care services.

Locally, the primary aims of the fund are:

- *Supporting independence in the community by placed-based activity*
- *Reducing non-elective admissions and reducing residential admissions by providing the right care and support within the community*
- *Facilitating earlier hospital discharge*

Revenue	**2017/18**	**2016/17**
	£'000	**£'000**
Funding provided to the pooled budget		
Wirral Council	18,913	2,000
Wirral Clinical Commissioning Group	25,369	27,172
	44,282	**29,172**
Expenditure met from the pooled budget		
Wirral Council	36,650	20,162
Wirral Clinical Commissioning Group	6,781	9,010
	43,431	**29,172**
Net surplus arising on the pooled budget during the year	**851**	**-**
Cost of the Council's share of the deficit on the pooled budget for the year	**426**	**-**

Capital (Disabled facilities grant)	**2017/18**	**2016/17**
	£'000	**£'000**
Funding provided to the pooled budget		
Wirral Council	3,592	3,325
Wirral Clinical Commissioning Group	-	-
	3,592	**3,325**
Expenditure met from the pooled budget		
Wirral Council	1,662	2,322
Wirral Clinical Commissioning Group	-	-
	1,662	**2,322**
Net surplus arising on the pooled budget during the year	**(1,930)**	**(1,003)**
Cost of the Council's share of the surplus on the pooled budget for the year	**(1,930)**	**(1,003)**

32. MEMBERS' ALLOWANCES

During the year Members allowances, including Employer's costs totalled £790 (2016/17 £752) and are as follows. The increase in Members Allowances between 2016/17 and 2017/18 is due to the Authority no longer being able to claim reimbursements from Merseytravel for Special Responsibility Allowances.

	2017/18	**2016/17**
	£'000	**£'000**
Mayor/Deputy allowance	12	11
Allowances	773	733
Expenses	5	8
Total	**790**	**752**

33. OFFICERS' REMUNERATION

The remuneration paid to the Council's senior employees is as follows:

	Employment Period	Notes	Salary	Allowances	Compensation for Loss of Office	Pension Contribution	Total inc Pension Contribution
			£	£		£	£
Financial Year 2017/18							
Chief Executive (Eric Robinson)	01/04/17-31/03/18		175,905	150	-	23,907	199,962
Director for Strategy and Partnerships	01/04/17-31/07/17	a)	41,517	-	-	120,509	162,026
Director for Strategy and Partnerships	01/08/17-31/03/18		69,071	-	-	9,877	78,948
Managing Director for Delivery	01/04/17-31/03/18		118,753	34	93,413	357,223	569,423
Director of Transformation	01/04/17-31/03/18		121,370	-	-	16,501	137,871
Director for Health and Wellbeing	01/04/17-31/07/17	b)	30,951	-	-	4,426	35,377
Director for Health and Wellbeing	01/08/17-31/03/18		72,751	-	-	6,373	79,125
Assistant Director of Finance (S151)	01/04/17-31/12/17	c)	99,947	-	-	8,579	108,526
Director of Finance and Investment	11/12/17-31/03/18		30,558	-	-	4,156	34,714
Director for Care and Health	01/04/17-31/03/18		113,532	1,073	-	15,416	130,021
Director for Children	01/04/17-22/05/17	d)	59,045	-	-	2,231	61,276
Director for Children	23/05/17-03/12/17	e)	54,330	24	-	7,389	61,743
Director for Children	04/12/17-31/03/18		43,927	-	-	5,974	49,901
Director for Business Services (Assistant Chief Executive)	01/04/17-31/03/18		113,406	38	-	15,416	128,861
Assistant Director Law (Monitoring Officer)	01/04/17-03/09/17	f) & g)	39,675	36	-	-	39,711
Total			**1,184,737**	**1,355**	**93,413**	**597,978**	**1,877,482**

a) - Left organisation 31/07/17
b) - Left post 31/07/17
c) - Left organisation 31/12/17
d) - Left organisation 22/05/17
e) - Left post 03/12/17
f) - Left organisation 03/09/17
g) Director of Law & Governance Post covered by interim from 04/09/17-31/03/18

	Employment Period	Notes	Salary	Allowances	Pension Contributions	Total inc Pension Contributions
			£	£	£	£
Financial Year 2016/17						
Chief Executive (Eric Robinson)	01/04/16-31/03/17		169,073	189	22,994	192,256
Executive Director for Strategy	01/04/16-31/03/17		121,143	26	16,475	137,644
Managing Director for Delivery	01/04/16-31/03/17		121,143	105	16,475	137,723
Transformation Director	01/02/17-31/03/17		19,992	5	2,719	22,716
Director for Health and Wellbeing	01/04/16-31/03/17		91,935	-	13,147	105,082
Assistant Director: Finance (S151)	01/04/16-31/03/17		81,567	-	11,093	92,660
Director for Health and Care	01/04/16-31/03/17		112,233	704	15,264	128,201
Director for Children	01/04/16-31/03/17		112,233	-	15,264	127,497
Director for Business Services (Assistant Chief Executive)	01/04/16-31/03/17		107,089	-	14,564	121,653
Assistant Director: Law & Governance (Monitoring Officer)	01/04/16-31/03/17		82,167	-	-	82,167
Total			**1,018,575**	**1,029**	**127,995**	**1,147,599**

The following table shows remuneration over £50,000 to employees in bands of £5,000, including senior officers shown in the previous tables. Remuneration does, however, include severance and pension strain costs where the Council has made decisions to release staff from the employment of the Council through redundancy and early retirement. The numbers of employees by band are therefore inflated by these one-off costs and do not represent ongoing staff numbers being paid salaries within the remuneration bands shown.

The costs of providing additional retirement benefits are calculated by the Pension Fund and recharged to the Council, who reimburse the Fund over 5 years.

Remuneration band	2017/18 Number of employees	2016/17 Number of employees
£50,001 - £55,000	65	71
£55,001 - £60,000	48	44
£60,001 - £65,000	46	36
£65,001 - £70,000	20	21
£70,001 - £75,000	14	14
£75,001 - £80,000	7	5
£80,001 - £85,000	7	8
£85,001 - £90,000	4	2
£90,001 - £95,000	1	2
£95,001 - £100,000	2	-
£100,001 - £105,000	1	1
£105,001 - £110,000	1	1
£110,001 - £115,000	2	2
£120,001 - £125,000	1	2
£165,000 - £169,999	-	1
£175,001 - £180,000	1	-
£215,000 to £219,999	1	-
	221	**210**

The numbers of exit packages with total cost per band of compulsory and other redundancies are set out in the table below:

(a) Exit Package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band		(e) Total cost of exit packages in each band	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
£ 0 - £ 20,000	1	13	62	200	63	213	385	1,455
£ 20,001 - £ 40,000	-	1	21	17	21	18	568	460
£ 40,001 - £ 60,000	-	-	-	1	-	1	-	56
£ 60,001 - £ 80,000	-	-	1	-	1	-	71	-
£ 80,001 - £ 100,000	-	-	1	-	1	-	93	-
	1	**14**	**85**	**218**	**86**	**232**	**1,117**	**1,971**

34. EXTERNAL AUDIT COSTS

In 2017/18 the following fees were paid relating to external audit and inspection:

	2017/18 £'000	2016/17 £'000
Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor	160	160
Fees payable to Grant Thornton for the certification of grant claims and returns	24	24
Fees payable to Grant Thornton in respect of other services provided by the appointed auditor	8	8
Total	**192**	**192**

35. DEDICATED SCHOOLS GRANT

The Authority's expenditure on schools is funded primarily by grant monies provided by the Education & Skills Funding Agency, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2017.

The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2017/18 are as follows:

	Central Expenditure	Individual Schools Budget	Total
		£'000	£'000
Final DSG for 2017/18 before Academies recoupment			245,917
Academy figure recouped for 2017/18			(79,825)
Total DSG after academy recoupment for 2017/18			166,092
Plus: Brought forward from 2016/17			1,903
Less: Carry forward to 2018/19 (agreed in advance)			(794)
Agreed initial budgeted distribution in 2017/18	26,098	141,103	167,201
In year adjustments	-	187	187
Final budget distribution for 2017/18	26,098	141,290	167,388
Less: Actual central expenditure	(25,227)		(25,227)
Less: Actual ISB deployed to schools		(141,290)	(141,290)
Plus: Local Authority contribution for 2017/18	621	-	621
To cary forward to 2018/19 agreed in advance	-	-	794
Total carried forward to 2018/19	**1,492**	**-**	**2,286**

Comparative figures for 2016/17 are as follows:

	Central Expenditure	Individual Schools Budget	Total
	£'000	£'000	£'000
Final DSG for 2016/17 before Academies recoupment			238,479
Academy figure recouped for 2016/17			(69,407)
Total DSG after academy recoupment for 2016/17			169,072
Plus: Brought forward from 2015/16			2,517
Less: Carry forward to 2017/18 (agreed in advance)			(831)
Agreed initial budgeted distribution in 2016/17	26,799	143,959	170,758
In year adjustments		(152)	(152)
Final budget distribution for 2016/17	26,799	143,807	170,606
Less: Actual central expenditure	(26,213)		(26,213)
Less: Actual ISB deployed to schools		(143,807)	(143,807)
Plus: Local Authority contribution for 2016/17	486	-	486
To cary forward to 2017/18 agreed in advance			831
Total carried forward to 2017/18	**1,072**	**-**	**1,903**

36. GRANT INCOME

The Council credited the following grants and contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/18:

Credited to Taxation and Non Specific Grant Income:	2017/18		2016/17	
	£'000	£'000	£'000	£'000
Revenue Grants :				
Revenue Support Grant	-		50,712	
Schools Private Finance Initiative	5,471		5,471	
Education Services Grant	918		3,413	
Grant to Compensate for Changes to Business Rates	8,764		2,822	
New Homes Bonus Grant	2,444		3,348	
Adult Social Care Support Grant	1,808			
Independent Living Fund Grant	1,622		1,678	
Troubled Families Grant	-		1,042	
Local Council Tax Support Admin Grant	569		594	
Local Reform and Community Voices	250		246	
SEND Implementation	217		195	
Other Revenue Grants	572		-	
Total Revenue Grants		**22,635**		**69,521**
Capital Grants :				
Local Transport Grant	4,645		6,856	
DFT Challenge Fund	752		-	
School Condition	2,535		2,795	
Sustainable Transport Enhance Prog	735		439	
Disabled Facilities Grants	3,898		2,047	
Basic Needs Grant	620		1,625	
Formula Capital	281		276	
Other Capital Grants (less than £250k)	238		415	
Total Capital Grants		**13,704**		**14,453**
Total Credited to Taxation and Non Specific Grant Income		**36,339**		**83,974**

The difference in income received in 2017/18 for Non-Domestic rates income and government grants is due to the Council's participation in the Liverpool City Region 100% Business Rates Retention Pilot. This involved the Council retaining 99% of the business rates collected (1% continuing to be paid to the Merseyside Fire and Rescue Service) in the area rather than 49% in 2016/17. Under the arrangement, to main the Councils funding level, the government payment of Revenue Support Grant (RSG) and other specific grants ceased.

	2017/18	2016/17
	£'000	£'000
Credited to Services:		
Dedicated Schools Grant	166,256	169,065
Housing Benefits	119,287	125,410
Public Health Grant	29,898	30,601
Pupil Premium	13,179	13,879
Improved Better Care Fund Grant	8,307	-
16-19 Further Education YPLA	3,446	4,394
Housing Benefits Admin. Grant	1,399	1,564
Universal Infant Free School Meals (UIFSM)	3,440	3,470
Discretionary Housing Payments	872	857
PE & Sports Grant	1,302	850
Adult Safeguarded Learning	839	968
Youth Justice Board	552	577
Wirral Ways to Work	2,221	835
Rates Relief	-	338
Total Credited to Services	**350,998**	**352,808**

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them. These will require the monies to be returned to the giver, if not spent in accordance with the conditions. The balances at the year-end totalled £0.373 million. Revenue grants with conditions totalling less than £1 million are included in short term creditors.

	31 March 2018	31 March 2017
	£'000	£'000
Grants Receipts in Advance		
Cluster of Empty Homes	303	653
Mulberry Properties	67	67
Other	3	3
Total Grant Receipts in Advance	**373**	**723**

37. RELATED PARTY TRANSACTIONS

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the analysis in Note 35.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2017/18 is shown in Note 32. During 2017/18, works and services to the value of £17.2 million were commissioned from companies in which Members had an interest, including payments to Wirral Evolutions (£5.67 million in 2017/18, £4.8 million in 2016/17), Edsentials (£4.6 million in 2017/18, £5.4 million in 2016/17), Merseyside pension fund (£4.7 million in 2017/18) and to various other organisations (£2.2 million in 2017/18). In all instances, the payments were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the payments. Details of all these transactions are recorded in the Register of Members' Interest, open to public inspection at the Town Hall during office hours.

Officers

During 2017/18, the Assistant Chief Executive declared interests as a director of two companies significantly influenced by the council - Edsential CIC and the Wirral Growth Company. The Head of Delivery, Families and Wellbeing, declared an interest as acting managing director of Wirral Evolutions, a company significantly influenced by the council. Neither officer took part in any discussion or decision relating to the awarding of contracts or making payments to the companies that they have declared an interest in.

Entities Controlled or Significantly Influenced by the Authority

The Council has significant influence over Wirral Evolutions Limited through its ownership of 100% of the shares in the company. The Council purchased adult social care services to the value of £5.67 million from the company in 2016/17 (£4.8 million in 2016/17) and has provided payroll services for Wirral Evolutions. Wirral Evolutions has a net pension deficit of £3.5m as at 31st March 2018 (£4.1m as at 31st March 2017)

The Council has significant influence over Edsential Community Interest Company through its ownership of 50% of the shares in the company and having a senior officer on the Board. The Council purchased Catering and Educational services to the value of £4.6 million from the company in 2017/18 (£5.4 million in 2016/17) and provided payroll services to Edsential CIC. The Council also guarantees the Merseyside Pension Fund element of Edsentials' pension liability, which equates to £2.5m (£2.7m in 2016/17).

The Council acts as guarantor for a number of staff who work in various external bodies that have been admitted to the Merseyside Pension Fund. On cessation of the body's participation in the fund, any shortfalls are initially claimed from the admitted body. If they cannot be recovered from that source, the pension fund would look at the guarantee arrangements and draw down from bonds that are in place and, if still insufficient, from the guarantor. The Council acts as guarantor for a number of bodies. The estimated unrecorded liability is not material at 31 March 2018 and has not be been reflected in the 2017/18 Accounts.

Other Public Bodies

The Council has member representation on committees of the following organisations to which the Council pays a levy or precept.

	Number of Represent-atives	Precept/ Levy 2017/18	Precept/ Levy 2016/17
		£'000	£'000
Merseyside Police and Crime Commissioner	2	15,155	14,730
Merseyside Fire and Rescue Service	4	6,788	6,595
Merseyside Recycling and Waste Authority	2	15,373	15,402
Merseyside Port Health Authority/ North Western IFCA	6	68	66
Liverpool City Region Combined Authority	4	21,898	24,315

The Authority has a pooled budget arrangement with Wirral Community NHS Trust for the provision of integrated community equipment services. Further details are contained in note 30.

The Council acts as the administering authority to Merseyside Pension Fund and charged the Fund £3.3 million (2016/17 £3.4 million) for administration and investment management costs.

38. CAPITAL EXPENDITURE AND CAPITAL FINANCING

Summary of Capital Expenditure and Financing	**2017/18**	**2016/17**
	£'000	**£'000**
Opening Capital Financing Requirement	**332,377**	**335,401**
Capital Investment		
Property, Plant & Equipment	19,176	17,603
Investment Properties	8,950	21
Revenue Expenditure Funded from Capital under Statute	9,601	7,348
Flexible use of Capital Receipts	9,026	-
Long Term Debtors	103	278
	46,856	**25,250**
Sources of Finance		
Capital Receipts	(10,419)	(5,951)
Government Grants transferred from Capital Grants Unapplied	(9,608)	(4,776)
Government Grants and Other Contributions received and applied in year	(8,155)	(6,976)
Sums Set Aside from Revenue		
Minimum Revenue Provision	(11,776)	(10,261)
Revenue Contributions	(189)	(310)
	(40,147)	**(28,274)**
Closing Capital Financing Requirement	**339,086**	**332,377**
Explanation of the Movement in Year		
Increase/(Reduction) in the underlying need to borrow	**6,709**	**(3,024)**

39. LEASES

Council as Lessor
The Council has leased out the following properties on finance leases with the remaining terms shown:

Property	Lessor	Remaining Term
Birkenhead Market	Birkenhead Market Ltd	110 years
Wirral Country Park Caravan Site (Touring)	The Caravan Club Ltd	11 years
Wirral Country Park Caravan Site (Static)	The Caravan Club Ltd	31 years
New Brighton Marine Point	Neptune Developments	244 years

The Council has gross investments in the leases, made up of the minimum lease payments expected to be received over the remaining terms and the residual value anticipated for the properties when the leases come to an end. The minimum lease payments comprise settlement of the long-term debtors for the interest in the properties acquired by the lessees and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

	31 March 2018	31 March 2017
	£'000	£'000
Finance lease debtor (net present value of minimum lease payments):		
• current	4	4
• non-current	2,656	2,660
Unearned finance income	25,256	25,539
Gross investment in the lease	**27,916**	**28,203**

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Gross Investment in the Lease 31 March 2018	Minimum Lease Payments 31 March 2018	Gross Investment in the Lease 31 March 2017	Minimum Lease Payments 31 March 2017
	£'000	£'000	£'000	£'000
Not later than one year	287	129	287	139
Later than one year and not later than five years	1,146	430	1,146	464
Later than five years	26,484	1,216	26,770	1,316
	27,917	**1,775**	**28,203**	**1,919**

40. PRIVATE FINANCE INITIATIVE (PFI) AND SIMILAR CONTRACTS

The Wirral Schools' PFI Scheme Project Agreement was originally signed in March 2001 and involved the rebuilding and/or refurbishment of one primary and eight secondary schools in Wirral. A Deed of Amendment was entered into on 9 September 2004 to extend the contract until July 2031.

The first phase of the Project (Construction Works) was completed on the final schools in August 2006 and the Council now receive support services in accordance with a detailed set of Output Specifications. These include building and services maintenance, grounds maintenance, catering, cleaning, caretaking, security, utilities and telecommunications.

The specifications for Support Services are not prescriptive and it is up to our PFI Partner, Wirral Schools' Services Ltd (WSSL) to devise a programme of service delivery which achieves the Council's Output Specifications. The success of this is measured by way of a payment mechanism and deductions system.

It is only in pre-agreed circumstances that WSSL is excused from performance. These situations are known as Relief Events and they include the declaration of any emergency by the Council, failure by any utility company, loss or damage to a road servicing a school or any strike affecting the relevant industry.

Other than under these clearly defined circumstances, risk on the above services is transferred to WSSL. There are examples of “Shared Risk” such as that on Utility Consumption, “Limited Risk” such as that on the maintenance of loose furniture, fittings and equipment and “No Risk” to WSSL whereby the costs of damage caused by an Act of Vandalism under specific conditions, rest with the Council.

The price for the provision of the services (i.e. the provision of the School accommodation and the Support Services) is essentially a fixed price for the duration of the term.

There are several provisos to this e.g. annual indexation in accordance with the Retail Prices Index and Value for Money Testing. The latter is carried out at five year intervals and basically involves a comparison between the current price paid for a particular service (such as cleaning or catering) with equivalent prevailing market costs. If the market average is higher or lower than the current cost by a certain amount, then any excess outside of that range leads to a price adjustment.

The Project Agreement will come to an end on its agreed expiry date of 31 July 2031. Thirty months prior to the Expiry Date, a Handback Survey will be carried out. This will detail each asset and component of each school and will report on the residual life of those assets. On the Expiry Date, the facilities will be handed back to the Council, at nil consideration, in a condition which complies with specific standards / life expectancies for individual components within each school.

The Council only has the right to terminate the contract if it compensates the contractor. Guidelines are clearly set out for rules governing Compensation on Termination, as classified under events of Project Co. Default or Council Default.

The contract was originally treated as an operating lease but with the introduction of IFRIC 12 ‘Service Concession Arrangements’, it has now been accounted for as a finance lease. The value of assets held under the Schools PFI scheme is shown below:

Valuation information for PFI assets recognised in the Balance Sheet:

Leasowe Primary	
	£'000
Movement in 2017/18	
Valuation	
Valuation at 1 April 2017	2,749
Expenditure	10
Revaluations	59
Accumulated Depreciation at 1 April 2017	(27)
Depreciation 2017/18	4
Accumulated Depreciation at 31 March 2018	(23)
Net Book Value	
at 31 March 2018	2,795
at 31 March 2017	2,722
Comparative Movement in 2016/17	
Valuation at 1 April 2016	2,727
Revaluations	22
Accumulated Depreciation at 1 April 2016	(9)
Depreciation 2016/17	(18)
Accumulated Depreciation at 31 March 2017	(27)

Payments
Estimated future payments remaining to be made under PFI contracts are as follows:

	Services	Lease Liability	Interest	Life cycle costs	Total
	£'000	£'000	£'000	£'000	£'000
Payable in 2018/19	4,450	2,947	3,994	772	12,163
Payable within 2 - 5 years	19,280	11,208	16,077	5,779	52,344
Payable within 6 - 10 years	27,854	17,639	23,629	5,590	74,712
Payable within 11 - 15 years	21,426	13,571	17,221	1,709	53,927
Total	**73,010**	**45,365**	**60,921**	**13,850**	**193,146**

The unitary payment in 2017/18 is £11.73 million (2016/17 £11.47 million), allocated as follows

	2017/18	2016/17
	£'000	£'000
Service costs	4,279	4,174
Interest and similar charges	3,731	3,624
Lease liability	2,624	2,420
Life cycle costs	1,094	1,252
	11,728	**11,470**

The value of the outstanding lease liability which reflects both the short and long term is:

	2017/18	2016/17
	£'000	**£'000**
Balance outstanding at 1 April	47,985	50,403
Lease payments during the year	(2,624)	(2,420)
Other movements	4	2
Balance at 31 March	**45,365**	**47,985**

In calculating the future unitary payments to the end of the contract from 2016-17 onward the most up to date information available has been used. This gives a more accurate estimate of the total outstanding liability. However, substituting this information effectively reduced the calculation of the liability at 31 March 2018 by £3,738. The annual unitary payment is increased by the Retail Price Index less 10%. RPI is based on the most up to date information as opposed to the estimates in the operator's financial model.

41. LONG TERM DEBTORS

	Repay-ment of former MCC Debt	Regen-eration Property Loans	Repay-ment of Council Mortgages	Leases	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 April 2016	**40,217**	**3,822**	**12**	**2,664**	**46,715**
Advances	-	183			183
Repaid/reclassified	(4,471)	194	(4)	(4)	(4,285)
Balance 31 March 2017	**35,746**	**4,199**	**8**	**2,660**	**42,613**
Balance at 1 April 2017	**35,746**	**4,199**	**8**	**2,660**	**42,613**
Repaid/reclassified	(4,468)	(110)	(3)	(4)	(4,585)
Balance 31 March 2018	**31,278**	**4,089**	**5**	**2,656**	**38,028**

42. OTHER LONG TERM LIABILITIES

	PFI Long term liability	Other lease liability	Pensions liability	Total
	£'000	**£'000**	**£'000**	**£'000**
Balance at 1 April 2016	**47,983**	**- 1**	**461,595**	509,577
Repayments	(2,622)	1	-	(2,621)
Pension Deficit funding	-	-	73,813	73,813
Balance at 31 March 2017	**45,361**	-	**535,408**	**580,769**
Balance at 1 April 2017	**45,361**	-	**535,408**	**580,769**
Repayments	(2,943)	-	-	(2,943)
Pension Deficit funding	-	-	(78,076)	(78,076)
Balance at 31 March 2018	**42,418**	-	**457,332**	**499,750**

The 2017/18 decrease in Other Long Term Liabilities is mainly due to a decrease in the Pension Liability, and the requirement to fund this deficit in future years. The decreased liability is the Actuary's revised assessment of the value of the assets and liabilities of the Merseyside pension scheme. More details are shown in note 44.

43. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

Teachers

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE). The Scheme provides teachers with specified benefits upon their retirement, and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is a multi-employer defined benefit scheme. The Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The Scheme has 3,700 participating employers and consequently the Authority is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. As a proportion of the total contributions into the Teachers' Pension Scheme during the year ending 31 March 2018, the Authority's own contributions are negligible.

In 2017/18, the council paid £9.826m to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.26% of pensionable pay. The figures for 2016/17 were £10.582m and 16.48%. There were no contributions remaining payable at the year-end. The contributions due to be paid in the next financial year are estimated to be £9.75m.

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 44. The Authority is not liable to the Scheme for any other entities' obligations under the plan.

Public Health

When Public Health staff transferred from Wirral primary care trust (PCT) in April 2013 on the abolition of the PCTs nationally they retained access to the NHS Pension Scheme. The Scheme provides specified benefits upon retirement towards which the Council makes contributions based on a percentage of members' salaries. The Scheme is administered by the NHS Business Services Authority on behalf of the Department of Health in England and Wales.

The Scheme is a multi-employer defined benefit scheme. The Scheme is unfunded and the Department of Health uses a notional fund as the basis for setting employer contribution rates. Valuations of the fund are undertaken every four years.

The Scheme has over 1.3m active members employed in a wide variety of organisations. A small number of staff (41) transferred from the Wirral PCT and consequently the Council is unable to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. As a proportion of the total contributions into the NHS Pension Scheme during the year ending 31 March 2018, the Authority's own contributions are negligible.

In 2017/18 the Authority paid £0.164m to the NHS Pension Scheme in respect of the retirement benefits of public health staff. The figure for 2016/17 was £0.159m. There were no contributions remaining payable at the year-end. Contributions due to be paid in the next financial year are estimated to be £0.171m.

The Authority is not liable to the Scheme for any other entities' obligations under the plan.

44. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes
As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post-employment benefits within the Local Government Pension Scheme. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Council participates in two post-employment schemes:

i) The Local Government Pension Scheme, administered locally by Wirral Borough Council - this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension’s liabilities with investment assets.
ii) Arrangements for the award of discretionary post-retirement benefits upon early retirement - this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However there are no investment assets built up to meet these liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

The Merseyside Pension Fund is a multi-employer scheme operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Fund Pensions Committee, which comprises Councillors and representatives from other employers. Policy is determined in accordance with the Public Service Pensions Act 2013.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (ie large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme.

Discretionary Post-retirement Benefits
Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

Transactions Relating to Post-employment Benefits

The Authority recognises the cost of retirement benefits in the reported cost of service when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Authority is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement on Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme		Discretionary Benefits Arrangements		Unfunded Teachers Scheme	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
	£'000	£'000	£'000	£'000	£'000	£'000
Comprehensive Income and Expenditure Statement						
Cost of Services:						
• current service costs	35,449	24,911	-	-	-	-
• past service costs	(9,038)	-	-	-	-	-
• settlements and curtailments	456	1,154	-	-	59	59
Other Operating Expenditure:						
• Administration costs	522	544				
Financing and Investment Income and Expenditure:						
• Net interest cost	10,259	13,490	1,038	1,389	731	1,059
Total Post Employment Benefits charged to the Surplus or Deficit on the Provision of Services	**37,648**	**40,099**	**1,038**	**1,389**	**790**	**1,118**

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	Local Government		Discretionary		Unfunded	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
	£'000	£'000	£'000	£'000	£'000	£'000
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement						
● remeasurement of the net defined benefit liability						
- return on plan assets	(69)	(182,974)	-	-	-	(1,847)
- actuarial gains and losses arising from changes to demographic assumptions	-	(18,988)	-	(752)	-	(1,579)
- actuarial gains and losses arising from changes to financial assumptions	(59,637)	310,012	(924)	6,511	(483)	3,119
- acturial gains and losses experienced 2013-2016 revaluation period	-	(46,414)	-	(1,560)	-	-
- settlements and curtailments					-	59
● Total remeasurement of the net defined benefit liability	(59,706)	61,636	(924)	4,199	(483)	(248)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	97,354	(21,537)	1,962	2,810	1,214	870
Movement in Reserves Statement						
● reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(37,648)	(40,099)	(1,038)	(1,389)	(731)	(1,118)
Actual amount charged against the General Fund Balance for pensions in the year:						
· employers' contributions payable to scheme	51,072	28,890	-	-	2,668	2,744
· retirement benefits payable to pensioners	-	-	2,640	2,687		

Pensions Assets and Liabilities recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows:

	2017/18	2016/17
	£'000	£'000
Present value of liabilities:		
Local Government Pension Scheme	1,510,562	1,556,386
Discretionary Benefits	40,292	42,818
Teachers pension scheme	28,161	30,581
	1,579,015	**1,629,785**
Fair value of assets:		
Local Government Pension Scheme	1,121,683	1,094,377
Net Liability arising from defined benefit obligation		
Local Government Pension Scheme	(388,879)	(462,009)
Discretionary Benefits	(40,292)	(42,818)
Teachers pension scheme	(28,161)	(30,581)
Total	**(457,332)**	**(535,408)**

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets:

	Funded liabilities: Local Government Pension Scheme		Unfunded liabilities: Discretionary Benefits		Unfunded Teachers Scheme	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance at 1 April	1,094,377	883,182	-	-	-	-
Interest on plan assets	27,602	31,741	-	-	-	-
Remeasurements (Assets)	(15,999)	182,974	-	-	-	-
Employer contributions	51,072	28,890	2,640	2,687	2,668	2,744
Contributions by scheme participants	6,572	6,852				
Benefits paid	(41,419)	(38,718)	(2,640)	(2,687)	(2,668)	(2,744)
Administration costs	(522)	(544)	-	-	-	-
Settlements	-	-	-	-	-	-
Closing balance at 31 March	**1,121,683**	**1,094,377**	**-**	**-**	**-**	**-**

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation):

	Funded liabilities: Local Government Pension Scheme		Unfunded liabilities: Discretionary Benefits		Unfunded Teachers Scheme	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance at 1 April	1,556,386	1,272,346	42,818	39,917	30,581	32,514
Current service cost	35,449	24,911	-	-	-	-
Interest cost on liabilities	37,861	45,231	1,038	1,389	731	1,059
Contributions by scheme participants	6,572	6,852	-	-	-	-
Remeasurements (Liabilities)	(59,637)	244,610	(924)	4,199	(483)	(248)
Benefits paid	(41,419)	(38,718)	(2,640)	(2,687)	(2,668)	(2,744)
(gain)	142	-	-	-	-	-
Curtailments	314	1,154	-	-	-	-
Settlements	(25,106)	-	-	-	-	-
Closing balance at 31 March	**1,510,562**	**1,556,386**	**40,292**	**42,818**	**28,161**	**30,581**

Local Government Pension Scheme Assets comprised:

	Fair Value of Scheme Assets	
	2017/18	2016/17
	£'000	£'000
Equities		
UK quoted	236,337	227,795
Global quoted	355,013	359,120
	591,350	**586,915**
Bonds		
UK Government	40,268	43,775
UK Corporate	48,569	27,359
UK Index-Linked	90,968	97,400
	179,805	**168,534**
Property		
UK Direct Property	65,170	51,436
UK Quoted Managed Property	2,131	3,283
UK Unquoted Managed Property	16,937	13,133
Global Managed Properties	15,704	17,510
	99,942	**85,362**

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	Fair Value of Scheme Assets	
	2017/18	**2016/17**
	£'000	**£'000**
Private Equity		
UK quoted	112	109
UK unquoted	36,903	37,209
Global unquoted	35,109	38,303
	72,124	**75,621**
Hedge Funds		
UK unquoted	5,721	7,989
Global unquoted	29,388	26,703
	35,109	**34,692**
Infrastructure		
UK quoted	1,234	1,094
UK unquoted	26,472	21,559
Global quoted	-	328
Global unquoted	22,097	21,778
	49,803	**44,759**
Opportunities		
UK quoted	15,031	17,401
UK unquoted	28,491	27,031
Global quoted	6,394	3,830
Global unquoted	13,685	13,023
	63,601	**61,285**
Cash Instruments	**29,949**	**37,209**
Total	**1,121,683**	**1,094,377**

Asset Breakdown
The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	2017/18	**2016/17**
	%	**%**
Equities	52.7	53.6
Government Bonds	3.6	4.0
Other Bonds	12.4	11.4
Property	8.9	7.8
Alternatives	19.7	19.8
Cash Instruments	2.7	3.4
	100.0	100.0

Discretionary benefits arrangements have no assets to cover its liabilities.

Basis for Estimating Assets and Liabilities

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme liabilities have been assessed by Mercers, an independent firm of actuaries, estimates for the Merseyside Pension Fund being based on the latest full valuation of the scheme as at 1 April 2016.

The significant assumptions used by the actuary are set out below:

	Local Government Pension Scheme	
	2017/18	**2016/17**
Long-term expected rate of return on assets in the scheme:		
• Equity investments	6.5%	6.5%
• Government Bonds	2.2%	2.2%
• Other Bonds	2.9%	2.9%
• Property	5.9%	5.9%
• Cash/Liquidity	0.5%	0.5%
• Other	Variable	Variable
Mortality Assumptions:		
Longevity at 65 for current pensioners in years		
• Men	22.0	21.9
• Women	24.8	24.7
Longevity at 65 for future pensioners in years		
• Men	25.0	24.9
• Women	27.8	27.7
Rate of CPI inflation	2.1%	2.3%
Rate of increase in salaries	3.6%	3.8%
Rate of increase in pensions	2.2%	2.3%
Rate for discounting scheme liabilities	2.6%	2.5%
Rate for discounting scheme liabilities (Teachers unfunded)	2.6%	2.5%

The estimation of the defined benefit obligation is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes to the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The longevity assumptions, for example, assume that life expectancy increases or decreases for men and women. In practice this is unlikely to occur, and changes in some of the assumptions may be interrelated.

The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Sensitivity Analysis

	Impact on the Defined Benefit		Teachers Additional Unfunded Pensions	
	Increase in assumption	decrease in assumption	Increase in assumption	decrease in assumption
	£'000	£'000	£'000	£'000
Longevity (increase or decrease in one year)	(31,247)	31,247	(1,165)	1,165
Rate of Inflation (increase or decrease by 0.1%)	(26,762)	26,762	(241)	241
Rate of increase in salaries (increase or decrease by 0.1%)	(4,191)	4,191	-	-
Rate for discounting liabilities (increase or decrease by 0.1%)	26,308	(26,308)	239	(239)

Asset and Liability Matching Strategy

The Pensions Committee of the Merseyside Pension Fund has agreed to an asset and liability matching strategy (ALM) that matches, to the extent possible, the types of assets invested to the liabilities in the defined benefit obligation. The fund has matched assets to the pensions' obligations by investing in long-term fixed interest securities and index linked gilt edged investment with maturities that match the benefits payments as they fall due. This is balanced with a need to maintain the liquidity of the fund to ensure that it is able to make current payments. As is required by the pensions and (where relevant) investment regulations the suitability of various types of investment have been considered, as has the need to diversify investments to reduce the risk of being invested in too narrow a range. A large proportion of the assets relate to equities (53% of scheme assets) and bonds (16%).

These percentages are materially the same as the comparative year. The scheme also invests in properties as a part of the diversification of the scheme's investments.

There is a limited use of derivatives to manage bond risk for the shorter-term instruments. The ALM strategy is monitored annually or more frequently if necessary.

Impact on the Authority's cashflows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Fund has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 22 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2019.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

As part of the funding strategy agreed with Merseyside Pension Fund, the Council pays an annual sum in respect of recovery of the historic pension deficit. In April 2017 the Council agreed to pay upfront the total amount due for the three year period 2017/18-2019/20. This secured a significant discount on paying the money in instalments over the three years. The total amount paid was £35.068m of which £12.174m is chargeable to the General Fund in 2017/18, £11.683m chargeable in 2018/19 and £11.211 chargeable in 2019/20, in accordance with statutory provisions. The £35.068m prepayment at 31 March 2018 is shown above as a reduction in the net pension liability.

The Council anticipates to pay £17.9m expected contributions to the scheme in 2018/19. Expected contributions to the Discretionary Benefits scheme in 2018/19 are £2.7m. The weighted average duration of the defined benefit obligation for scheme members is 17 years for 2017/18 (17 years 2016/17).

Qualitative Disclosures required under IAS19

Under the revised IAS19, the Council is required to disclose additional information in relation to the Merseyside Pension Fund. This information has been provided by Mercers, the firm of actuaries responsible for valuing the Fund.

Retirement benefit obligations

At 31 March 2018 the Council’s principal pension arrangement for its employees was the Merseyside Pension Fund, which is part of the Local Government Pension Scheme (LGPS). The LGPS is a funded defined benefit pension arrangement for local authorities and related employers, and is governed by statute (principally now the Local Government Pension Scheme Regulations 2013).

The Merseyside Pension Fund is a multi-employer arrangement, under which each employer is responsible for the pension costs, liabilities and funding risks relating to its own employees and former employees. Each employer’s contributions to the Fund are calculated in accordance with the LGPS Regulations, which require an actuarial valuation to be carried out every three years. The latest actuarial valuation of the Fund was carried out at 31 March 2016, and at that date showed a funding level of 85% (assets of £6.85bn against accrued liabilities of £8.81bn). The weighted average duration of the liabilities of the Fund as a whole is 19 years, measured on the IAS19 actuarial assumptions. The duration of the liabilities for the individual employers which participate in the scheme can be significantly different from this, reflecting the profile of its employees and former employees.

In addition, the authority also participates in some other defined benefit pension arrangements, also governed under statute, but these other schemes are unfunded. These other arrangements relate to:

- Teachers. The authority's costs in relation to this arrangement are set by central government as a percentage of contributing members' pay. The related funding risks are borne by central government. The authority is, however, responsible for paying some additional pensions to retired teachers which were awarded at the point of retirement.
- Health workers. The authority's costs in relation to this scheme are set by central government as a percentage of contributing members' pay. The related funding risks are borne by central government.

Governance and Risk Management

The liability associated with the authority's pension arrangements is material to the council, as is the cash funding required.

Nature of Fund

The Fund targets a pension paid throughout life. The amount of pension depends on how long employees are active members of the scheme and their salary when they leave the scheme (a "final salary" scheme) for service up to 31 March 2014 and on revalued average salary (a "career average" scheme) for service from 1 April 2014 onwards.

Governance

Wirral Metropolitan Borough Council is the Administering Authority of the Fund. The overall responsibility for the management of the Fund rests with the Pensions Committee. The committee comprises Councillors and representatives from other employers.

The Pensions Committee reviews the Fund's investments, administration, strategies and policies at regular intervals, with the help of its various professional advisers, to ensure that they remain appropriate. The more detailed consideration of investment strategy and asset allocation of the Fund's portfolios is considered by an Investment Monitoring Working Party, which includes representatives from the Pensions Committee and external advisors.

Funding the liabilities

Regulations governing the Fund require actuarial valuations to be carried out every three years. Contributions for each employer are set having regard to their individual circumstances. The Regulations require the contributions to be set with a view to targeting the Fund's solvency, and the detailed provisions are set out in the Fund's Funding Strategy Statement. The most recent valuation was carried out as at 31 March 2016, which showed a shortfall of assets against liabilities of £1.231bn as at that date, equivalent to a funding level of 85%. The fund's employers are paying additional contributions over a period of up to 22 years in order to meet the shortfall.

The weighted average duration of the authority's defined benefit obligation is 19 years, measured on the actuarial assumptions used for IAS19 purposes.

Risks and Investment strategy

The Fund's objective is to achieve a funding level position of 100% whilst minimising the level and volatility of employer contributions. Investment strategy is decided with clear reference to this objective.

The Fund is cognisant of the risk that the shorter term returns may vary significantly from one period to another and between the benchmark and actual returns.

Diversification of assets is seen as key to managing this risk and the risk/return characteristics of each asset and their relative correlations are reflected in the make-up of the strategic benchmark.

A mix of short term assets such as bonds and cash is maintained to cover short term liabilities while equities, private equity and direct property are held to benefit from the potential rewards arising from volatility and illiquidity risks. The Fund recognises that risk is inherent in investment activity and seeks to manage these risks.

Market Price / Interest rate / Currency risk
Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is aware that its key risk is market risk i.e. the unpredictability of market performance in the future. The Fund manages investment risks through having a broad diversification of types of investment and investment managers and has comprehensive monitoring procedures for investment managers.

Credit risk
Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur financial loss. The Fund does not hold any fixed interest securities directly and the managers of the pooled fixed income vehicles are responsible for managing credit risk. The short term cash deposits and other investment balances are diversified with investment grade financial institutions. The Fund has a treasury management policy that is compliant with current best practice.

Liquidity risk
Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's key priority is to pay pensions in the long term and in the short term and the asset allocation is the key strategy in ensuring this. To ensure liquidity for payment of pensions the Fund has a cash allocation, and further amounts which could be realised in under 7 days' notice. The Fund has no borrowing or borrowing facilities. The management of the Fund also prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows.

Other risks
Actions taken by the government, or changes to European legislation, could result in stronger local funding standards, which could materially affect the authority's cash flow.

There is a risk that changes in the assumptions (e.g. life expectancy, price inflation, discount rate) could increase the defined benefit obligation and/or the liabilities for actuarial valuation purposes. Other assumptions used to value the defined benefit obligation are also uncertain, although their effect is less material. The sensitivity analysis above indicates the change in the defined benefit obligation for changes in the key assumptions.

Amendments, curtailments and settlements
The provisions of the Fund were amended with effect from 1 April 2014. As explained above for service up to 31 March 2014 benefits were based on salaries when members leave the scheme, whereas for service after that date benefits are based on career average salary. Further details of the changes are available from the authority.

Curtailments shown in the accounting figures relate to the cost of providing retirement benefits for members who retire early, to the extent that provision has not already been made for the relevant defined benefit obligations.

Settlements shown in the accounting figures relate to the admission of new employers into the Fund, and who take on part of the authority's assets and liabilities as a result of employing members who have accrued benefits with the authority.

Schemes for Teachers and Health Workers

Nature of Funds
The Funds target a pension paid throughout life. The amount of pension depends on how long employees are active members of the scheme and their salary when they leave the scheme (a "final salary" scheme) for service up to 31 March 2015 and on revalued average salary (a "career average" scheme) for service from 1 April 2015 onwards.

Governance
These arrangements are managed centrally by government departments/agencies, and there is no material involvement for the authority.

Funding the liabilities
Contributions to the arrangements are set by the government, having taken advice from the government actuary. Again, the authority has no material involvement in this process. The exception to this is the additional pensions to retired teachers which were awarded at the point of retirement, and for which the authority is responsible. The weighted average duration of these particular liabilities is 8 years, measured on the actuarial assumptions used for IAS19 purposes.

Investment Risks
There are no investment risks in relation to these arrangements, given their unfunded nature. The greatest single risk is that the government could change the funding standards relating to them, which could increase the authority's contributions to them.

Other risks
There is a risk that changes in the assumptions (e.g. life expectancy, price inflation, discount rate) could increase the defined benefit obligation. Other assumptions used to value the defined benefit obligation are also uncertain, although their effect is less material. The sensitivity analysis above indicates the change in the defined benefit obligation for changes in the key assumptions.

The methods used to carry out the sensitivity analyses presented above for the material assumptions are the same as those the authority has used previously. The calculations alter the relevant assumption by the amount specified, whilst assuming that all other variables remain the same. This approach is not necessarily realistic, since some assumptions are related: for example, if the scenario is to show the effect if inflation is higher than expected, it might be reasonable to expect that nominal yields on corporate bonds will increase also. However, it enables the reader to isolate one effect from another.

45. TRUST FUNDS

The Council acts as a trustee for a number of trust funds. These do not represent assets of the Council and have not been included in the Balance Sheet.

The E.F. Callister trust promotes youth development. The Stitt and Russell trusts exist to promote educational achievement.

	Income	Expenditure	Assets	Liabilities
	£'000	£'000	£'000	£'000
EF Callister	-	-	373	-
Stitt Scholarship	-	-	38	-
Criminal Injuries	-	-	6	-
Other	-	-	80	-
	-	-	497	-

46. CONTINGENT ASSETS AND LIABILITIES

National Non-Domestic Rates Appeals
The Council has made a provision for National Non-Domestic Rates appeals based upon its best estimate of the actual liability in known appeals at 31 March 2018. However, as appeals can be backdated for several years it is possible that additional costs could be incurred by the Council if any subsequent appeals are successful.

47. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council has adopted CIPFA's Code of Practice on Treasury Management and complies with The Prudential Code of Capital Finance for Local Authorities.

As part of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Department for Communities and Local Government Investment Guidance for Local Authorities. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Strategy, together with its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The main risks covered are:

- Credit Risk: The possibility that one party to a financial instrument will fail to meet their contractual obligations, causing a loss to the other party;
- Liquidity Risk: The possibility that a party will be unable to raise funds to meet the commitments associated with Financial Instruments;
- Market Risk: The possibility that the value of an instrument will fluctuate because of changes in interest rates, market prices etc.

Credit Risk

The Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of BBB+, and other local authorities without credit ratings. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial organisations for investment.

A limit is placed on the amount of money that can be invested with a single counterparty. The Council also sets a total group investment limit for institutions that are part of the same banking group. No more than £30 million in total can be invested for a period longer than one year.

The Council's maximum exposure to credit risk in relation to its investments cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk applies to all of the Council's deposits, whereby they may become irrecoverable but there was no evidence at the 31 March 2018 that this was likely to crystallise.

The table below summarises the nominal value of the Council's investment portfolio as at 31 March 2018 by the counterparty's country of origin and its credit rating. The table confirms that all investments were made in line with the Council's approved credit rating criteria at the time of placing the investment:

Financial Institution / Instrument and Country	Credit Rating *	Maturity of Investment					Balance Invested as at 31 March 2018
	Long Term Rating	Cash Equivalent	0-3 Months	3-6 Months	6-12 Months	Over 12 Months	
		£'000	£'000	£'000	£'000	£'000	£'000
Loans & Receivables							
Banks							
UK	A	-	6,000	-	-	-	6,000
Non-UK	AA-	-	2,000	-	4,000	-	6,000
Building Societies							
UK	Unrated	-	2,000	1,000	-	-	3,000
Corporate	Unrated		400			1,250	1,650
Other Local Authorities	n/a	-	5,000		-	-	5,000
Total Loans & Receivables		**-**	**15,400**	**1,000**	**4,000**	**1,250**	**21,650**
Available for sale financial assets							
Money Market Fund	AAA	22,650	-	-	-	-	22,650
Other Externally Managed Funds	AAA	-	6,000	-	-	-	6,000
Total Available for sale financial assets		**22,650**	**6,000**	**-**	**-**	**-**	**28,650**
Total Financial Instruments		**22,650**	**21,400**	**1,000**	**4,000**	**1,250**	**50,300**

*Credit rating is lowest common denominator equivalent derived from the rating allocated by the Agencies Fitch, Standard & Poors and Moody's

Trade Receivables

Trade receivables are also subject to non-payment, a bad debt provision is calculated for these based on the historic experience of levels of default. By including these provisions within the accounts the credit risk is recognised in the accounts.

Trade Receivables	**2017/18**	**2016/17**
	£'000	**£'000**
Gross Receivables	25,595	15,082
Bad Debt Provision	(8,137)	(9,330)
Net Trade Receivables	**17,458**	**5,752**

Liquidity Risk

The Council has access to borrowing facilities from the Public Works Loan Board. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates by aiming to have an even spread of maturities in each year.

The maturity analysis of the nominal value of the Council's debt at 31 March 2018 was as follows:

	31 March 2018	
Maturity of Borrowing (Years)	**£'000**	**%**
Short Term Borrowing		
Less than 1 year	95,296	35.72
Total Short Term Borrowing	**95,296**	**35.72**
Long Term Borrowing:-		
Over 1 year under 2 years	2,682	1.00
Over 2 years under 3 years	3,456	1.29
Over 3 years under 4 years	13,080	4.90
Over 4 years under 5 years	4,755	1.78
Over 5 years under 10 years	18,454	6.92
Over 10 years under 20 years	2,463	0.92
Over 20 years under 40 years	91,141	34.17
Over 40 years under 60 years	35,471	13.30
Total Long Term Borrowing	**171,502**	**64.28**
Total Borrowing	**266,798**	**100.00**

Market Risk

(a) Interest Rate Risk:
The Council is exposed to risks arising from movements in interest rates. To give the Authority maximum flexibility during the year's unsettled market conditions the Treasury Management Strategy did not place limits on the amount of debt that can be exposed to fixed or variable interest rates. At 31 March 2018 100% of the debt portfolio was held in fixed rate instruments.

Investments are also subject to movements in interest rates. As investments are made at fixed rates, but for shorter periods of time, there is greater exposure to interest rate movements. This risk has to be balanced against actions taken to mitigate credit risk.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect on investment income would have been an increase of approximately £0.42million. There would be no effect on interest payable on pre-existing borrowings as these borrowings held are at fixed rates of interest. The cost of taking out short-term cash flow loans would have increased by £0.46million, had rates been 1% higher.

The appropriate impact of a 1% fall in interest rates would be the same as above but with the movements being reversed.

Price risk:
The Council only invests in AAA rated money market funds with a Constant Net Asset Value (CNAV) and, therefore, is only subject to very minimal price risk (i.e. the risk that the Council will suffer loss as a result of adverse movements in the price of financial instruments).

Foreign exchange risk
The Council has no financial assets or liabilities denominated in a foreign currency. It, therefore, has no exposure to loss arising as a result of adverse movements in exchange rates.

Additional Financial Statements

COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT

	2017/18		2016/17	
	£'000	£'000	£'000	£'000
Council Tax				
Income				
Council Tax due for the Year		153,761		146,344
		153,761		146,344
Expenditure				
Precepts (Note 2):				
- Wirral Council	127,430		120,274	
- Police & Crime Commissioner for Merseyside	15,155		14,731	
- Merseyside Fire & Rescue Service	6,788	149,373	6,595	141,600
Provision for Bad and Doubtful Debts (Note 4)		2,148		2,140
Apportionment of previous year surplus / (deficit) (Note 5):				
- Wirral Council	3,924		3,011	
- Police & Crime Commissioner for Merseyside	480		376	
- Merseyside Fire & Rescue Service	215	4,619	168	3,555
		156,140		147,295
Council Tax - Net Expenditure / (Income) in the year		**2,379**		**951**
NNDR (Business Rates)				
Income				
NNDR due for the year (Note 3)		66,689		80,535
		66,689		80,535
Expenditure				
Cost of Collection		334		338
Transitional Arrangements		1,907		13
Payment to Central Government (Note 3)				35,537
Payments to Major Precepting Authorities (Note 3):				
- Wirral Council	67,892		34,826	
- Merseyside Fire & Rescue Service	686	68,578	711	35,537
Provision for Bad and Doubtful Debts (Note 4)		842		1,693
Provision for Appeals (Note 4)		(1,892)		6,576
Apportionment of previous year surplus / (deficit) (Note 5):				
- Central Government	737		(2,634)	
- Wirral Council	722		(2,581)	
- Merseyside Fire & Rescue Service	15	1,474	(53)	(5,268)
Other transfers to General Fund in accordance with non-domestic rates regulations:				
- Enterprise Zone Growth		-		195
		71,243		74,621
NNDR - Net Expenditure / (income) in the year		**4,554**		**(5,914)**
Total Net Expenditure / (Income) in the Collection Fund for the year		**6,933**		**(4,963)**

	2017/18 £'000	2016/17 £'000
Council Tax		
Opening balance at 1 April	(4,104)	(5,055)
Movement in Year	2,379	951
Closing balance at 31 March	(1,725)	(4,104)
NNDR (Business Rates)		
Opening balance at 1 April	(1,453)	4,461
Movement in Year	4,554	(5,914)
Closing balance at 31 March	3,101	(1,453)
Overall Collection Fund balance 31 March	**1,376**	**(5,557)**

In accordance with proper accounting practice, the Collection Fund balance has been allocated in 2017/18 to individual preceptors, which includes Wirral Council (see Note 6).

NOTES TO THE COLLECTION FUND

1. GENERAL

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local government bodies and Central Government of Council Tax and National Non-Domestic Rates (NNDR).

Collection Fund surpluses and deficits declared by the billing authority relating to Council Tax are apportioned to the relevant precepting bodies in the following financial year. The precepting bodies for Council Tax for Wirral are the Police & Crime Commissioner for Merseyside, and Merseyside Fire & Rescue Service.

A national 50% Business Rates Retention Scheme was introduced by the Government on 1 April 2013. The Council along with fellow Liverpool City Region authorities agreed from 1st April 2017 to participate in a 100% Business Rates Retention Scheme Pilot. The result of this pilot scheme being that business rates income is collected and apportioned only between Wirral Council (99%) and Merseyside Fire and Rescue Service (1%), with no apportionment to Central Government.

Government believes the 100% scheme will give councils more incentive to grow the economy in their Boroughs. The pilot is to be without detriment to the resources that would have been available to individual Liverpool City Region authorities under the previous local government finance regime, over the four year Settlement period. However financial risk is increased due to the volatile nature of the NNDR tax base and non-collection. Under the no detriment clause there is the possibility that authorities in a 'surplus' position versus the previous 50% scheme methodology would have to release some of the surplus if another authority in the pilot scheme was in a detriment position.

As with Council Tax, Collection Fund surpluses and deficits declared by the billing authority in relation to NNDR are apportioned to the relevant precepting bodies in the subsequent financial year.

The National Code of Practice followed by Local Authorities in England stipulates that a Collection Fund Income and Expenditure Account is included in the Council's accounts. The Collection Fund Balance Sheet meanwhile is incorporated into the Council's Consolidated Balance Sheet.

2. INCOME FROM COUNCIL TAX

The Council set a Council Tax in 2017/18 for each band of dwelling as shown below:

Band	£ . p	Band	£ . p	Band	£ . p	Band	£ . p
A	1,090.61	B	1,272.37	C	1,454.14	D	1,635.90
E	1,999.43	F	2,362.96	G	2,726.51	H	3,271.80

The Council Tax was set by estimating the number of properties in each band after allowing for discounts and a 3.25% provision for non-collection. The tax in each band is set in relation to Band D, the maximum being Band H which is twice Band D, and the minimum being Band A which is 2/3 of Band D.

The 3.25% provision for non-collection remains unchanged from 2016/17. The properties making up the estimated tax base are shown below. A number of adjustments are made to reflect the estimated reductions, reliefs and exemptions that apply to properties in each band. This gives the number of effective properties in each band, which is converted to the Band D equivalent using the ratios given:

Band	No. of Properties	Less Discounts	Effective Properties	Band Ratio	Band D Equivalent
A	60,062	25,687.4	34,374.6	6/9	22,916.4
B	32,275	7,543.0	24,732.0	7/9	19,236.0
C	27,124	4,209.6	22,914.4	8/9	20,368.4
D	13,290	1,492.4	11,797.6	1	11,797.6
E	8,121	707.1	7,413.9	11/9	9,061.4
F	4,254	321.1	3,932.9	13/9	5,680.9
G	3,099	207.9	2,891.1	15/9	4,818.5
H	262	33.1	228.9	18/9	457.8
	148,487	40,201.6	108,285.5		94,337.0
Add Band A Disabled Relief Band D Equivalent					39.7
Total					94,376.7
Estimated Collection Rate					96.75%
Adjusted Council Tax Base					**91,309.5**

The Adjusted Council Tax Base is used to calculate the amount of Council Tax to be raised by a Band D equivalent to raise the value of the precepts to be paid by the Collection Fund. The calculation is as follows:

	2017/18 £'000	2016/17 £'000
Precepts		
- Wirral Council	127,430	120,274
- Police & Crime Commissioner for Merseyside	15,155	14,731
- Merseyside Fire & Rescue Service	6,788	6,595
Total Precepts	**149,373**	**141,600**
Council Tax Base	**91,309.50**	**90,481.90**
Band D Equivalent (Precepts divided by Council Tax Base)	**1,635.90**	**1,564.95**

3. INCOME FROM NATIONAL NON DOMESTIC RATES (BUSINESS RATES)

The Council collects NNDR for its area. This is based on local estimated rateable values (provided by the Valuation Office Agency) multiplied by a standardised business rate set nationally by Central Government.

As stated in note 1, the 100% Business Rates Retention Pilot Scheme commenced on 1 April 2017 and as a result 1% is paid to Merseyside Fire & Rescue Service, with the remaining 99% being retained by Wirral Council. This replaced the previous 50% scheme where Wirral Council received 49%, Merseyside Fire and Rescue Service 1% and Central Government 50%.

The estimated rateable value is split between general and small businesses. For 2017/18, the initial bills raised were based on a total rateable value of £190,142,512 (2016/17 £181,290,821). Of this figure £128,642,981 related to general business rates, which are charged at 47.9p in the £ (2016/17 49.7p). The total value of small business rates was £61,499,531, charged at 46.6p in the £ (2016/17 48.4p). This gave an opening charge for 2017/18 of £90.789 million (2016/17 £89.685 million).

During the year a national revaluation of NNDR took place (effective from 1 April 2017). There were also a number of changes to reliefs introduced by central government. The effects registered within 2017/18 with an overall reduction in the amount of NNDR income illustrated below. NNDR income due for the year in the Collection Fund statement as follows:

NNDR Income Due	**2017/18**	**2016/17**
	£'000	**£'000**
Opening charge	90,789	89,685
Adjustments	(7,813)	3,794
Small Business Rate Relief	(9,260)	(6,841)
Mandatory Relief	(5,657)	(5,386)
Discretionary Relief	(1,370)	(717)
NNDR Income Due:	**66,689**	**80,535**

The total rateable value of all hereditaments within the Council area as at 31 March 2018 was £190,141,397 (2016/17 £185,697,584).

The locally retained business rates are paid into the Council's General Fund. As a result of participating in the 100% Business Rates Retention scheme, the calculated shares of receipts for 2017/18 are as follows, with no payment due to Central Government:

	2017/18	**2016/17**
	£'000	**£'000**
Wirral Council	64,843	35,143
Central Government	-	35,860
Merseyside Fire & Rescue Service	655	717
	65,498	**71,720**

The Collection Fund paid the following precepts during the year:

	2017/18	**2016/17**
	£'000	**£'000**
Wirral Council	67,892	34,826
Central Government	-	35,537
Merseyside Fire & Rescue Service	686	711
Settlement of previous years estimated surplus/(deficit):		
Wirral Council	722	(2,581)
Central Government	737	(2,634)
Merseyside Fire & Rescue Service	15	(53)
	70,052	**65,806**

4. PROVISION FOR APPEALS AND BAD AND DOUBTFUL DEBTS

Appeals

A significant amount of appeals against the rateable value set by the Valuation Office Agency are outstanding nationally. Successful appeals will reduce income receivable and can be backdated over a number of years.

Following the introduction of the Business Rates Retention Scheme billing authorities are required to make an estimate of the impact of successful appeals covering not only 2017/18, but also the backdated amounts relating to earlier years. 2013/14 was the first year the Collection Fund provided a provision against such appeals. The provision for appeals is being closely monitored to ensure it is sufficient, whilst not excessive. £12.504m was in the provision at the end of 2016/17, which has been reduced by £1.893m to £10.611m in 2017/18 to reflect current potential business rates reductions and appeals settled within the year. The provision is split between the Collection Fund preceptors based on their precept shares.

NNDR Appeals Provision	2017/18	2016/17
	£'000	£'000
Balance at 1 April	12,504	5,928
Settled appeals	(1,247)	(195)
Movement in Provision	(646)	6,771
Balance at 31 March	**10,611**	**12,504**

Bad and doubtful debts

Council Tax

A provision for Council Tax bad debts is made each year for uncollectable amounts. The Council assumed a general collection rate of 96.75% for 2017/18. The bad debts provision is assessed annually and amounts set aside adjusted on an age profile of outstanding debt and other factors.

In 2017/18 an additional £2.148 million has been placed in the provision. This reflects increased billing arising from previously agreed decisions regarding the charging for empty properties, and potential future liabilities for non-payment as a result of the introduction of the localised Council Tax Support Scheme, and changes to discounts and exemptions.

The cost of bad and doubtful debts is split between the Collection Fund preceptors based upon their precept shares.

Council Tax Bad Debt Provision	2017/18	2016/17
	£'000	£'000
Balance at 1 April	14,267	13,800
Write-offs	(4,397)	(1,673)
Movement in Provision	2,148	2,140
Balance at 31 March	**12,018**	**14,267**

NNDR

The Collection Fund also provides for bad debts on NNDR arrears which is assessed annually and amounts set aside adjusted on an age profile of outstanding debt. In 2017/18 an additional £0.842 million has been placed in the provision to reflect potential future liabilities for non-payment. The cost of bad and doubtful debts is split between the Collection Fund preceptors based upon their precept shares.

National Non-Domestic Rates Bad Debt	2017/18	2016/17
	£'000	£'000
Balance at 1 April	3,233	3,314
Write-offs	(961)	(1,774)
Movement in Provision	842	1,693
Balance at 31 March	**3,114**	**3,233**

5. CONTRIBUTION FROM/TO THE COLLECTION FUND

Council Tax

A year-end surplus or deficit on the Council Tax element of the Collection Fund is only physically distributed to or recovered from billing and precepting authorities where an estimated surplus/deficit has already been notified to those authorities.

At 31 March 2018, there was a surplus of £1.725 million (2016/17 £4.104 million) which has been allocated amongst the precepting authorities on the basis of the 2017/18 precept proportions.

In accordance with the changes in accounting practice any outstanding amounts at year end are distributed to preceptors on an accrued basis. Wirral's Balance Sheet reflects the share of any amounts owing or owed to it. An agency arrangement is reflected in Wirral Council's accounts with a single debtor or creditor representing amounts owed or owing to the Merseyside Fire & Rescue Service and the Police & Crime Commissioner for Merseyside.

NNDR

The billing authority is also required to notify the Secretary of State and their precepting authorities of their NNDR income for the following financial year and an estimate of the surplus or deficit by 31 January, which is done by completing and returning the NNDR1 form.

As at 31 March 2018 there was a deficit of £3.101 million (2016/17 £1.453 million surplus), which has been allocated amongst the precepting authorities based on the relevant percentages set out in the Non-Domestic Rating (Rates Retention) Regulations 2013.

6. ALLOCATION OF YEAR END BALANCES

The year-end balance on the Collection Fund is in respect of Council Tax and NNDR and is shared in proportion to the precepts on the Collection Fund. The Council Tax surplus is allocated on two bases - the balance that was reported in January 2018 (for 2017/18 the estimated position was a £1.70 million surplus) is apportioned using the 2017/18 precept shares, whereas the additional surplus resulting from the final position as at 31 March 2018, is apportioned using the 2018/19 precept shares. The National Non-Domestic Rates deficit is allocated based on the relevant percentages set out in the Non-Domestic Rating (Rates Retention) Regulations 2013.

Payable to / (Received from):	Council Tax 31 Mar 18	NNDR 31 Mar 18	Total Allocation
	£'000	£'000	£'000
Wirral Council	1,471	(3,070)	(1,599)
Police & Crime Commissioner	173	-	173
Merseyside Fire and Rescue Service	81	(31)	50
	1,725	**(3,101)**	**(1,376)**

The share of any Collection Fund surplus or deficit is reflected within the precepting organisation's 2017/18 accounts. Wirral Council's element is included within the Taxation and Non-Specific Grant Income line within the Comprehensive Income and Expenditure Statement.

Merseyside Pension Fund Accounts

MERSEYSIDE PENSION FUND ACCOUNTS

FINANCIAL STATEMENTS

FUND ACCOUNT For the year ended 31 March 2018	Note	2017/18 £'000	2016/17 £'000
Dealing with members, employers and others directly involved in the fund			
Contributions receivable	7	407,068	208,513
Transfers in	8	12,174	11,568
		419,242	**220,081**
Benefits payable	9	(314,556)	(306,902)
Payments to and on account of leavers	10	(14,804)	(19,292)
		(329,360)	**(326,194)**
Net additions/(withdrawals) from dealing with members		**89,882**	**(106,113)**
Management Expenses	11	**(40,027)**	**(38,315)**
Net additions/(withdrawals) including fund management expenses		**49,855**	**(144,428)**
Return on Investments:			
Investment Income	12	197,008	167,672
Profit and losses on disposal of investments and change in market value of investments	13	141,671	1,306,428
Taxes on income	12	(3,578)	(943)
Net Return on Investments		**335,101**	**1,473,157**
Net increase/(decrease) in the Fund during the year		384,956	1,328,729
Net Assets of the Fund at the start of the year		8,178,485	6,849,756
Net Assets of the Fund at the end of the year		**8,563,441**	**8,178,485**

NET ASSETS STATEMENT For the year ended 31 March 2018	Note	2017/18 £'000	2016/17 £'000
Investment Assets	13		
Equities		2,768,408	2,728,658
Pooled Investment Vehicles		5,074,479	4,804,297
Derivative Contracts		218	224
Direct Property		519,750	431,150
Short Term Cash Deposits		53,226	75,222
Other Investment Balances		99,613	117,550
		8,515,694	**8,157,101**
Investment Liabilities	18	(13,736)	(4,490)
Total Net Assets		**8,501,958**	**8,152,611**
Long Term Assets	19	5,013	7,110
Current Assets	20	79,909	34,358
Current Liabilities	20	(23,439)	(15,594)
Net Assets of the Fund as at 31 March		**8,563,441**	**8,178,485**

NOTES TO THE ACCOUNTS

1. DESCRIPTION OF FUND

Merseyside Pension Fund (MPF/the Fund) is part of the Local Government Pension Scheme (LGPS) and Wirral Council is the administering Authority. Wirral Council is the reporting entity for this pension fund.

The overall responsibility for the management of the Fund rests with the Pensions Committee, which for 2017/18 included 10 councillors from Wirral Council, the Administering Authority, and one councillor from each of the 4 other Borough Councils. Representatives of trade unions also attend. The more detailed consideration of investment strategy and asset allocation of the Fund's portfolios is considered by the Investment Monitoring Working Party, which includes two external advisers and a consultant. The more detailed consideration of governance and risk issues is considered by the Governance and Risk Working Party.

In 2015/16 a local Pensions Board was introduced in accordance with the Public Service Pensions legislation and regulations. The Board's aim is to assist the Administrating Authority with ensuring compliance and the effective governance and administration of the Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to Merseyside Pension Fund Annual Report 2017/18 and the underlying statutory powers underpinning the Scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The scheme is governed by the Public Services Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The Fund is a contributory defined benefit pension scheme administrated by Wirral Council to provide pensions and other benefits for pensionable employees of the Merseyside Local Authorities and a range of other scheduled and admitted bodies. Teachers, Police Officers and Fire Fighters are not included as they come within other national pension schemes.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in Merseyside Pension Fund include:

- Scheduled bodies, which are Local Authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation.

There are 194 employer organisations within Merseyside Pension Fund including Wirral Council itself, the Fund also has 137,487 members as detailed below:

	31-Mar-18	31-Mar-17
Number of employers with active members	194	182
Number of employees in scheme	49,151	47,206
Number of pensioners	43,495	42,194
Number of dependants	6,665	6,571
Number of deferred pensioners	38,176	38,368
Total	137,487	134,339

c) Funding
Benefits are funded by employee and employer contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS and are matched by employers' contributions which are set based on triennial actuarial funding valuations.

d) Benefits
Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below.

	Service pre 1 April 2008	**Service post 31 March 2008**
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the scheme, for more details please refer to the Fund's website.

2. BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its position at year end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, are shown within the statement by the Actuary, which is published as an addendum to the accounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on an accruals basis, unless otherwise stated.

Contributions and Benefits
Contributions are accounted for on an accruals basis. Contributions are made by active members of the Fund in accordance with LGPS Regulations and employers contributions are based on triennial actuarial valuations.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

Benefits payable represent the benefits paid during the financial year and include an estimated accrual for lump-sum benefits outstanding as at the year end. Benefits payable includes interest on late payment. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Estimates for post year end outstanding items have been used for payments of retirement grants and death grants:

- Retirement grants due for payment, but not paid by 31 March: using actual figures as far as possible, and assuming maximum commutation to be taken where the knowledge of the individual member's choice is still outstanding.
- Death grants due for payment, but not paid by 31 March: for example awaiting Probate.

Transfers to and from Other Schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Management Expenses

The Fund discloses its management expenses analysed into three categories, administration costs, investment management costs and oversight and governance costs in accordance with CIPFA "Accounting for Local Government and Management Costs.

Administration Costs

All administration expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the Fund. Associated management and other overheads are apportioned to the Fund in accordance with Council Policy.

Investment Management Costs

All investment expenses are accounted for on an accrual basis.

Fees of the external Investment Managers and Custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market values of the investments under their management and therefore increase or reduce as the value of these investments change.

Costs in respect of the internal investment team are classified as investment expenses.

Estimates for post year end outstanding items have been used for external Investment Management fees using the Fund's valuations as at 31 March.

In accordance with CIPFA "Accounting for Local Government Management Costs" guidance, transaction costs and property related expenses are shown under investment expenses.

For certain unquoted investments including Private Equity, Hedge Funds, Opportunities and Infrastructure the Fund do not charge costs for these to the Fund Account because the Fund Manager costs are not charged directly to the Fund. They are instead deducted from the value of the Fund's holding in that investment or from investment income paid to the Fund. If the Fund has been charged directly for fund manager costs they are shown as external investment management fees.

Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with oversight and governance are charged direct to the Fund. Associated management and other overheads are apportioned to the Fund in accordance with Council Policy.

The cost of obtaining investment advice from external consultants is included in governance and oversight expenses.

Investment Income

Income from Equities is accounted for when the related investment is quoted ex dividend. Income from Pooled Investment Vehicles and interest on Short Term Deposits has been accounted for on an accruals basis. Distributions from Private Equity are treated as return of capital until the book value is nil then treated as income on an accruals basis.

Rental income from properties is taken into account by reference to the periods to which the rents relate and is shown gross of related expenses. The Fund accrues rent up to 24 March each year. Rent received on the Quarter Day, 25 March, is accounted for in full in the following year.

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Taxation

The Fund is a registered Public Service Scheme under Section 1 (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Valuation of Investments

Financial assets are included in the Net Asset Statement on a fair value basis as at the reporting date. The values of investments as shown in the Net Asset Statement are determined as follows:

- Listed securities are valued at quoted bid market prices on the final day of the accounting period. The bid price is the price which the Fund would have obtained should the securities have been sold at that date.
- For unlisted investments wherever possible valuations are obtained via the Independent Administrator. Valuations that are obtained direct from the Manager are verified against the latest available audited accounts adjusted for any cash flows up to the reporting date.
- Hedge Funds and Infrastructure are recorded at fair value based on net asset values provided by Fund Administrators or using latest financial statements published by respective Fund Managers adjusted for any cash flows.
- Private Equity valuations are in accordance with the guidelines and conventions of the British Venture Capital Association/International Private Equity guidelines or equivalent.
- Indirect Property is valued at net asset value or capital fair value basis provided by the Fund Manager. For listed Funds the net asset value per unit is obtained through data vendors.
- The freehold and leasehold interests in the properties held within the Fund were independently valued as at 31 March 2018 by Savills (UK) Limited, acting in the capacity of External Valuers as defined in the RICS Red Book (but not for the avoidance of doubt as an External Valuer of the Fund as defined by the Alternative Investment Fund Managers Regulations 2013). The valuations accord with the requirements of IFRS 13, SSAP 19 and the Royal Institution of Chartered Surveyors (RICS) Valuation – Global Standards 2017 incorporating

the IVSC International Valuation Standards issued June 2017 and effective from 1 July 2017 (the “RICS Red Book”).

- Pooled Investment Vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of Pooled Investment Vehicles that are Accumulation Funds, change in market value also includes income which is reinvested by the Manager of the vehicle in the underlying investment, net of applicable withholding tax.

Translation of Foreign Currencies
Assets and liabilities in foreign currencies are translated into sterling at rates ruling at the year end. Foreign income received during the year is translated at the rate ruling at the date of receipt. All resulting exchange adjustments are included in the revenue account.

Derivatives
The Fund uses derivative financial assets to manage exposure to specific risks arising from its investment activities.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of future contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The value of exchange traded options is determined using the exchange price for closing out the option at the reporting date.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

Short Term Deposits
Short-term deposits only cover cash balances held by the Fund. Cash held by Investment Managers awaiting investment is shown under "Other Investment Balances".

Financial Liabilities
The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

Additional Voluntary Contributions
The Committee holds assets invested separately from the main Fund. In accordance with regulation 4 (1) (b) of the Pensions Schemes (Management and Investment of Funds) Regulations 2016, these assets are excluded from the Pension Fund accounts.

The Scheme providers are Equitable Life, Standard Life and Prudential. Individual members participating in this arrangement each receive an annual statement confirming the amounts held on their account and the movements in the year.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Fund has not applied any critical judgements.

5. ESTIMATION

Unquoted Investments

The Fund has significant unquoted investments within Private Equity, Infrastructure, Property and other Alternative investments. These are valued within the financial statements using valuations from the Managers of the respective assets. There are clear accounting standards for these valuations and the Fund has in place procedures for ensuring that valuations applied by Managers comply with these standards and any other relevant best practice. The value of unquoted assets as at 31 March 2018 was £4,603 million (£4,350 million at 31 March 2017).

Private Equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

Hedge Funds are valued at the sum of the fair values provided by the Administrators of the underlying Funds plus adjustments that the Hedge Fund Directors or Independent Administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

Direct property and pooled property funds use valuation techniques to determine the carrying amount. Where possible these valuations are based on observable data, but where this is not possible management uses the best available data.

6. EVENTS AFTER REPORTING SHEET DATE

There have been no events since 31 March 2018, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

7. CONTRIBUTIONS RECEIVABLE

	2017/18	**2016/17**
	£'000	**£'000**
Employers		
Normal	119,408	111,926
Pension Strain	10,426	11,808
Deficit Funding	223,096	31,541
Total Employers	**352,930**	**155,275**
Employees		
Normal	54,138	53,238
	407,068	**208,513**
Relating to:		
Administering Authority	57,357	35,305
Statutory Bodies	319,948	145,159
Admission Bodies	29,763	28,049
	407,068	**208,513**

Contributions are made by active members of the Fund in accordance with the LGPS and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2018. Employee contributions are matched by employers' contributions which are based on triennial actuarial valuations. The 2017/18 contributions above were calculated at the valuation dated 31 March 2016. The 2016 actuarial valuation calculated the average primary employer contribution rate of 15.4% (2013 13.3%).

"Pension Strain" represents the cost to employers when their employees retire early to compensate the Fund for the reduction in contribution income and the early payment of benefits. Payments to the Fund for such costs are made over agreed periods. An accrual has been made for agreed future payments to the Fund.

"Deficit Funding" includes payments by employers for past service deficit and additional payments by employers to reduce a deficit. During 2017/18 the fund has received additional and upfront payments covering a three year period until the next actuarial valuation in 2019, totalling £141.2 million, (2016/17 £1.6 million).

The Fund does reserve the right to levy interest charges on late receipt of contributions from employers. In 2017/18 no such charges were levied.

8. TRANSFERS IN

	2017/18	2016/17
	£'000	£'000
Individual transfers	12,174	11,568
	12,174	**11,568**

There were no group transfers to the Fund during 2017/18.

9. BENEFITS PAYABLE

	2017/18 £'000	2016/17 £'000
Pensions	252,874	247,865
Lump sum retiring allowances	56,141	52,632
Lump sum death benefits	5,541	6,405
	314,556	**306,902**
Relating to:		
Administering Authority	43,387	41,873
Statutory Bodies	222,117	217,741
Admission Bodies	49,052	47,288
	314,556	**306,902**

10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2017/18 £'000	2016/17 £'000
Refunds to members leaving service	447	465
Payment for members joining State scheme	37	289
Income for members from State scheme	1	(32)
Group transfers to other schemes	-	1,226
Individual transfers to other schemes	14,319	17,344
	14,804	**19,292**

There were no group transfers out of the Fund during 2017/18.

11. MANAGEMENT EXPENSES

	2017/18 £'000	2016/17 £'000
Administration costs	2,587	2,673
Investment management costs	35,922	33,887
Oversight and governance costs	1,727	1,978
Other Income	(209)	(223)
	40,027	**38,315**

11a. ADMINISTRATION COSTS

	2017/18 £'000	2016/17 £'000
Employee costs	1,665	1,686
IT costs	611	639
General costs	276	329
Other costs	35	19
	2,587	**2,673**

11b. INVESTMENT MANAGEMENT COSTS

	2017/18 £'000	2016/17 £'000
External Investment Management Fees	22,707	20,607
External Investment Management Performance Fees	1,546	3,076
External Services	565	545
Internal Investment Management Fees	614	609
Property Related Expenses	6,377	4,889
Transaction Costs	4,113	4,161
	35,922	**33,887**

11c. OVERSIGHT AND GOVERNANCE COSTS

	2017/18 £'000	2016/17 £'000
Employee Costs	475	468
External Services	767	838
Internal Audit	34	32
External Audit	39	37
Other Costs	412	603
	1,727	**1,978**

Actuarial fees included within External Services above (note 11c) are shown gross of any fees that have been recharged to employers. Included within Other Income for 2017/18 is £195,994 relating to recharged Actuarial fees (2016/17 £173,224).

External Audit fees for 2017/18 also include £2,180 relating to additional services in respect of IAS19 assurances for admitted body auditors, which are recharged to those admitted bodies.

12. INVESTMENT INCOME

	2017/18 £'000	2016/17 £'000
Dividends from Equities	84,247	69,880
Income from Pooled Investment Vehicles	52,333	49,885
Rents from Properties	26,754	23,498
Interest on Short Term Cash Deposits	267	306
Income from Private Equity	32,422	22,856
Other	985	1,247
	197,008	**167,672**
Irrecoverable Withholding Tax	(3,578)	(943)
	193,430	**166,729**

Rental income is shown gross of any property related expenses, with related expenses shown under investment expenses (note 11b).

Investment income figures are shown gross of tax. Included in these figures is recoverable taxation of £4.8 million (2016/17 £4.1 million).

The Fund is seeking to recover tax withheld by UK and overseas tax regimes under the EU principle of free movement of capital within its borders, there were no repayments received in 2017/18 (2016/17 £nil).

12a. PROPERTY INCOME

	2017/18 £'000	2016/17 £'000
Rental income	26,754	23,498
Direct operating expenses	(6,377)	(4,889)
Net rent from properties	**20,377**	**18,609**

No contingent rents have been recognised as income during the period.

12b. PROPERTY OPERATING LEASES

The Fund's property portfolio comprises a variety of units which are leased to organisations with the objective of generating appropriate investment returns.

These leases are all categorised as operating leases due to the relatively short length of the agreements i.e. relative to the overall life of the asset and proportion of the assets overall value. The leases do not meet the assessment criteria for finance leases, and the risks and rewards of ownership of the leased assets are retained by the Fund and reflected in the Net Assets Statement.

The properties comprise a mix of office, retail and industrial buildings. These leases vary in length from short term to over 25 years.

The future minimum lease payments receivable under non-cancellable leases in future years are:

Age profile of lease income	2017/18 £'000	2016/17 £'000
No later than one year	1,302	1,277
Between one and five years	8,114	6,774
Later than five years	17,540	13,834
Total	**26,956**	**21,885**

With regards to the properties owned and leased by the Fund, all are leased to the tenants under contracts that have been assessed as operating leases and which may include periodic rent reviews etc. The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease entered into, such as adjustments following rent reviews.

13. INVESTMENTS

2017/18	Market Value 31.3.2017 £'000	Purchases at cost & Derivative Payments £'000	Sale Proceeds & Derivative Receipts £'000	Change in Market Value * £'000	Market Value 31.3.2018 £'000
Equities	2,728,658	1,272,950	(1,225,858)	(7,342)	2,768,408
Pooled Investment Vehicles	4,804,297	550,657	(414,391)	133,916	5,074,479
Derivative Contracts	224	979,418	(982,541)	3,117	218
Direct Property	431,150	71,899		16,701	519,750
	7,964,329	**2,874,924**	**(2,622,790)**	**146,392**	**8,362,855**
Short term cash deposits	75,222	-	-	-	53,226
Other investment balances	117,550	-	-	(4,721)	99,613
	8,157,101			**141,671**	**8,515,694**

2016/17	Market Value 31.3.2016 £'000	Purchases at cost & Derivative Payments £'000	Sale Proceeds & Derivative Receipts £'000	Change in Market Value * £'000	Market Value 31.3.2017 £'000
Equities	2,020,418	1,232,039	(1,016,978)	493,179	2,728,658
Pooled Investment Vehicles	4,264,626	323,279	(608,771)	825,163	4,804,297
Derivative Contracts	254	279,162	(272,286)	(6,906)	224
Direct Property	377,000	79,885	(18,638)	(7,097)	431,150
	6,662,298	**1,914,365**	**(1,916,673)**	**1,304,339**	**7,964,329**
Short term cash deposits	40,031	-	-	-	75,222
Other investment balances	114,660	-	-	2,089	117,550
	6,816,989			**1,306,428**	**8,157,101**

*Note: The change in market value of investments during the year comprises all realised and unrealised appreciation and depreciation.

Transaction costs had previously been added to purchases and netted against sales proceeds; however, they are no longer shown in the above tables and instead are shown under investment management costs in note 11b in accordance with CIPFA guidance.

Indirect costs are incurred through the bid-offer spread on investments in pooled vehicles. The amount of indirect costs is not provided directly to the Fund.

13a Analysis of investments

	2017/18 £'000	2016/17 £'000
Equities (segregated holdings)		
UK Quoted	1,261,630	1,193,697
Overseas Quoted	1,506,778	1,534,961
	2,768,408	**2,728,658**
Pooled Investment Vehicles		
UK Managed Funds:		
Property	43,961	17,569
Equities	130,528	107,630
Private Equity	311,657	294,048
Hedge Funds	44,079	53,491
Corporate Bonds	343,277	267,082
Infrastructure	252,983	159,687
Opportunities	324,309	301,012
Overseas Managed Funds:		
Equities	486,772	456,946
Private Equity	251,754	251,013
Hedge Funds	226,624	218,664
Infrastructure	175,233	163,601
Opportunities	136,854	131,052
UK Unit Trusts:		
Property	107,949	99,026
Overseas Unit Trusts:		
Property	96,448	87,157
Other Unitised Funds	2,142,051	2,196,319
	5,074,479	**4,804,297**
Derivative Contracts	**218**	**224**
UK Properties		
Freehold	394,100	322,800
Leasehold	125,650	108,350
	519,750	**431,150**
Balance at 1 April	431,150	377,000
Additions	71,899	79,885
Disposals	-	(18,638)
Net gain/(loss) on fair value	-	(11,945)
Other changes in fair value	16,701	4,848
Balance at 31 March	**519,750**	**431,150**

As at 31 March 2018 there were no amounts of restrictions on the realisability of investment property or of income and proceeds of disposal.

There were no obligations to purchase new properties.

	2017/18 £'000	2016/17 £'000
Short term cash deposits		
Sterling	53,226	75,222
	53,226	**75,222**

	2017/18 £'000	2016/17 £'000
Other investment balances		
Outstanding trades	9,486	4,509
Outstanding dividends entitlements and recoverable withholding tax	17,566	17,304
Cash deposits	72,561	95,737
	99,613	**117,550**

13b Analysis of derivatives

Forward currency contracts

The Fund's forward currency contracts are exchange traded and are used by a number of our external Investment Managers to hedge exposures to foreign currency back into sterling.

Settlement date	Currency bought 000	Currency sold 000	Asset £'000	Liability £'000
Up to one month	GBP 19,363	EUR 21,282	218	-
			218	-
Net forward currency contracts at 31 March 2018				**218**
Prior year comparative				
Open forward currency contracts at 31 March 2017			174	(13)
Net forward currency contracts at 31 March 2017				**161**

Derivatives as at 31 March 2018		**£'000**	**£'000**
Futures			
Type of Contract	**Expires**	**Economic Exposure**	**Market Value**
Assets			
Total Assets			**-**
Liabilities			-
Total Liabilities			**-**
Net futures			**-**
Derivatives as at 31 March 2017		**£'000**	**£'000**
Futures			
Type of Contract	**Expires**	**Economic Exposure**	**Market Value**
Assets			
EURO STOXX 50 Index Futures	Jun-17	500	50
Total Assets			**50**
Liabilities			-
Total Liabilities			**-**
Net futures			**50**

A Futures contract is the obligation under a legal agreement to make or take delivery of a specified instrument at a fixed future date, at a price determined at the time of dealing. Merseyside Pension Fund's Index Futures Contracts are externally managed and their objective is to hedge overseas investment positions against adverse index movements. Futures dealing requires the posting of margin. Initial margin which must be posted before you can trade and variation margin, the mark-to-market value of the futures contracts you hold. Variation margin is exchanged daily and exists to reduce counterparty credit exposure.

13c Summary of Managers' Portfolio Values at 31 March 2018

	2017/18		2016/17	
Externally Managed	**£million**	**%**	**£million**	**%**
JP Morgan (European equities)	252	3.0	258	3.2
Nomura (Japan)	461	5.4	433	5.3
Schroders (fixed income)	343	4.0	267	3.3
Legal & General (fixed income)	369	4.3	298	3.7
Unigestion (European equities and pooled Emerging Markets)	319	3.8	318	3.9
M&G (global emerging markets)	183	2.1	177	2.2
TT International (UK equities)	249	2.9	237	2.9
Blackrock (UK equities)	252	3.0	249	3.1
Blackrock (Pacific Rim)	152	1.8	157	1.9
Blackrock (QIF)	87	1.0	70	0.9
Newton (UK equities)	263	3.1	260	3.2
Amundi (global emerging markets)	186	2.2	168	2.1
Maple-Brown Abbot (Pacific Rim equities)	166	1.9	173	2.1
State Street Global Advisor (Passive	1,773	20.9	1,900	23.0
State Street Transition Manager	-	-	194	2.4
Blackrock Transition Manager	195	2.3	-	-
	5,250	**61.7**	**5,159**	**63.2**
Internally Managed				
UK equities	401	4.7	404	4.9
European equities	246	2.9	238	2.9
Property (direct)	520	6.1	431	5.3
Property (indirect)	270	3.2	226	2.8
Private equity	563	6.6	545	6.7
Hedge funds	271	3.2	272	3.3
Infrastructure	428	5.0	323	4.0
Opportunities	486	5.7	462	5.7
Short term deposits & other investments	80	0.9	97	1.2
	3,265	**38.3**	**2,998**	**36.8**
	8,515	**100.0**	**8,157**	**100.0**

The following holdings each represent more than 5% of the net assets of the Fund:

	2017/18		2016/17	
	£'million	**%**	**£'million**	**%**
SSGA Pooled UK Index Linked Gilts	682	8.0	708	8.7
SSGA USA Equity Tracker	613	7.2	729	8.9

13d Stock lending

As at 31 March 2018, £352.4 million of stock was on loan to market makers, which was covered by cash and non-cash collateral, totalling £381.1 million. Collateral is marked to market, and adjusted daily. Income from Stock Lending amounted to £978,508 and is included within "Other" Investment Income. As the Fund retains its economic interest in stock on loan, their value remains within the Fund valuation. As the Fund has an obligation to return collateral to the borrowers, collateral is excluded from the Fund valuation. The Fund used its Custodian as agent lender, lending only to an agreed list of approved borrowers. An indemnity is in place which gives the Fund further protection against losses.

14 FAIR VALUE – BASIS OF VALUATION

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Derivatives - futures and options	Level 1	Published exchange prices at year end	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Derivatives - forward currency contracts	Level 2	Market forward exchange rates at the year end	Not required	Not required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled investments - overseas unit trusts and property funds	Level 2	Closed bid price where bid and offer prices are published - closing single price where single price is published. Valuation for property funds are provided by fund managers and where available closing bid prices are used.	NAV - based pricing set on a forward pricing basis	Not required
Direct property	Level 3	Valued at fair value at the year-end using independent external Valuers in accordance with FRS 13, SSAP 19 and the Royal Institution of Chartered Surveyors (RICS) Valuation - Global Standards (the "RICS Red Book”).	Existing lease terms and rentals, independent market research, nature of tenancies, covenant strength of existing tenants, assumed vacancy levels, estimated rental growth, discount rate.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines or equivalent	EBITDA multiple, revenue multiple, discount for lack of marketability, control premium	Material events occurring between the date of the financial statements provided and MPF's own reporting date, changes to expected cashflows, differences between audited and unaudited accounts.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled investments - hedge funds and infrastructure	Level 3	The funds are valued in accordance with International Financial Reporting Standards (IFRS). The valuation basis, determined by the relevant Fund Manager, may be any of quoted market prices, broker or dealer quotations, transaction price, third party transaction price, industry multiples and public comparables, transitions in similar techniques, third party independent appraisals or pricing models.	NAV - based pricing set on a forward pricing basis	Material events occurring between the date of the financial statements provided and MPF's own reporting date, changes to expected cashflows, differences between audited and unaudited accounts.

Sensitivity of assets valued at level 3

The table below sets out the assets classified as level 3 assets. The Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges (as provided by the Fund's investment consultants), and has set out below the consequent potential impact on the closing value of investments held at 31 March 2018. There are various factors that affect the complexity of valuation and the realisable value of assets and certain asset specific issues may lead to realisable valuations falling outside the stated range.

	Value 31 March 2018	Potential variance	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Property	773,163	10.0	850,479	695,847
Unquoted UK equity	74,171	15.0	85,297	63,045
Unquoted overseas equity	58,599	15.0	67,389	49,809
Hedge funds	223,240	10.0	245,564	200,916
Infrastructure	353,266	15.0	406,256	300,276
Private equity	645,474	15.0	742,295	548,653
Total	**2,127,913**			

14a FAIR VALUE HIERARCHY

Assets valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Assets at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the market quotation of the relevant stock exchange.

Level 2

Assets at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Assets at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such investments would include unquoted equity investments and Hedge Fund of Funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in Private Equity are based on valuations provided by the general partners to the Private Equity funds in which Merseyside Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in Hedge Funds are based on the net asset value provided by the Fund Manager. Assurances over the valuation are gained from the independent audit of the value.

The following table provides an analysis of the financial assets of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	3,760,289	2,474,653	1,608,163	7,843,105
Non-financial assets at fair value through profit and loss			519,750	519,750
Total financial assets	**3,760,289**	**2,474,653**	**2,127,913**	**8,362,855**

Values at 31 March 2017*	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	3,614,529	2,465,771	1,452,879	7,533,179
Non-financial assets at fair value through profit and loss			431,150	431,150
Total financial assets	**3,614,529**	**2,465,771**	**1,884,029**	**7,964,329**

* Following a further review of levels 1, 2 and 3 categories against PRAG guidance, the values at 31 March 2017 have been restated, £121.7 million has moved from level 1 to level 2, £2.1 million from level 1 to 3 and £20.3 million has moved from level 3 to level 1.

A reconciliation of fair value measurements in Level 3 is set out below:

	2017/18 £'000	2016/17* £'000
Opening balance	1,884,029	1,627,606
Acquisitions	340,755	240,240
Disposal proceeds	(179,809)	(123,699)
Transfer into Level 3	2,574	-
Total gain/(losses) included in the fund account:		
On assets sold	2,487	(11,071)
On assets held at year end	77,877	150,953
Closing balance	**2,127,913**	**1,884,029**

* The information for 2016/17 has been restated

15. FINANCIAL INSTRUMENTS

15a Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net asset statement heading.

	31 March 2018		
	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss
	£'000	£'000	£'000
Financial Assets			
Equities			2,768,408
Pooled Investment Vehicles			5,074,479
Derivatives			218
Cash deposits	53,226		
Other investment balances	99,613		
Long term and current assets	84,922		
Total financial assets	**237,761**	**-**	**7,843,105**
Grand total	**8,080,866**		
Financial Liabilities			
Other investment balances		(13,736)	
Current Liabilities		(23,439)	
Total financial liabilities	**-**	**(37,175)**	**-**
Grand total	**(37,175)**		
Grand net total	**8,043,691**		

	31 March 2017		
	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss
	£'000	£'000	£'000
Financial Assets			
Equities			2,728,658
Pooled Investment Vehicles			4,804,297
Derivatives			224
Cash deposits	75,222		
Other investment balances	117,550		
Long term and current assets	41,468		
Total financial assets	**234,240**	**-**	**7,533,179**
Grand total	**7,767,419**		
Financial Liabilities			
Other investment balances		(4,490)	
Current Liabilities		(15,594)	
Total financial liabilities	**-**	**(20,084)**	**-**
Grand total	**(20,084)**		
Grand net total	**7,747,335**		

To allow reconciliation to the Net Asset Statement and for ease to the reader all long term & current assets and current liabilities have been included in the above note, although not all are classified as financial instruments, the amounts that are not financial instruments are considered immaterial.

15b Net gains and losses on financial instruments

	2017/18 £'000	2016/17 £'000
Financial Assets		
Fair Value through profit and loss	129,691	1,311,436
Total financial assets	**129,691**	**1,311,436**
Financial Liabilities		
Financial liabilities at amortised cost	(4,721)	2,089
Total financial liabilities	**(4,721)**	**2,089**
Net	**124,970**	**1,313,525**

15c Fair value of financial instruments

There is no material difference between the carrying value and fair value of financial instruments. The majority of financial instruments are held at fair value and for those which aren't their amortised cost is considered to be equivalent to an approximation of fair value.

16. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The Fund's objective is to achieve a funding level position of 100% whilst minimising the level and volatility of employer contributions. Investment strategy is decided with clear reference to this objective.

Over the long term, the Fund's objective is to set policies that will seek to ensure that investment returns achieved will at least match the assumptions underlying the actuarial valuation and therefore be appropriate to the liabilities of the Fund.

Having regard to its liability profile, the Fund has determined that adopting a bespoke benchmark should best enable it to implement an effective investment strategy. This strategic benchmark is reviewed every three years, at a minimum, at the time of the actuarial valuation but will be reviewed as required particularly if there have been significant changes in the underlying liability profile or the investment environment.

The Fund has carefully considered the expected returns from the various permitted asset classes and has concluded that in the longer term the return on equities will be greater than from other conventional assets. Consequently, the benchmark is biased towards equities and skewed towards active management, particularly in less developed markets.

The Fund is also cognisant of the risk that the shorter term returns may vary significantly from one period to another and between the benchmark and actual returns. Diversification of assets is seen as key to managing this risk and the risk/return characteristics of each asset and their relative correlations are reflected in the make up of the strategic benchmark.

The Fund believes that, over the long term, a willingness to take on volatility and illiquidity is likely to be rewarded with outperformance. The Fund considers that its strong employer covenant, maturity profile and cash flows enable it to adopt a long term investment perspective. A mix of short term assets such as bonds and cash is maintained to cover short term liabilities while equities (both passive and active), private equity and direct property are held to benefit from the potential rewards arising from volatility and illiquidity risks. The Fund recognises that risk is inherent in investment activity and seeks to manage the level of risk that it takes in an appropriate manner. The Fund manages investment risks through the following measures:

- Broad diversification of types of investment and Investment Managers.
- Explicit mandates governing the activity of Investment Managers.
- The use of a specific benchmark, related to liabilities of the Fund for investment asset allocation.
- The appointment of Independent Investment Advisors to the Investment Monitoring Working Party.
- Comprehensive monitoring procedures for Investment Managers including internal officers and scrutiny by elected Members.

16a Market Risk

The Fund is aware that its key risk is market risk i.e. the unpredictability of market performance in the future. The general practice to quantify these risks is to measure the volatility of historical performance. The tables below show the Fund's exposure to asset classes and their reasonable predicted variance (as provided by the Fund's investment consultants) and the resulting potential changes in net assets available to pay pensions. The figures provided are a forward looking assumption of future volatility based on analysis of previous performance and probability.

	Value March 2018 £million	Potential Variance	Value on increase £million	Value on decrease £million
UK Equities (all equities including pooled vehicles)	1,801	19.0%	2,143	1,459
US Equities	652	21.0%	789	515
European Equities	777	22.5%	952	603
Japan Equities	461	20.5%	556	367
Emerging Markets Equities inc Pac Rim	819	28.0%	1,049	590
UK Fixed Income Pooled Vehicles	712	11.0%	790	634
UK Index Linked Pooled Vehicles	682	9.0%	743	620
Pooled Property	248	12.5%	279	217
Private Equity	563	27.5%	718	408
Hedge Funds	271	9.5%	296	245
Infrastructure	428	18.5%	507	349
Other Alternative Assets	429	14.0%	489	369
Short term deposits & other investment balances	201	0.0%	201	201
	8,044			

	Value March 2017 £million	Potential Variance	Value on increase £million	Value on decrease £million
UK Equities (all equities including pooled vehicles)	1,692	19.0%	2,013	1,370
US Equities	787	21.0%	952	622
European Equities	790	22.5%	968	612
Japan Equities	438	20.5%	527	348
Emerging Markets Equities inc Pac Rim	812	31.0%	1,064	561
UK Fixed Income Pooled Vehicles	566	11.0%	628	503
UK Index Linked Pooled Vehicles	708	9.0%	772	644
Pooled Property	204	12.5%	229	178
Private Equity	545	27.5%	695	395
Hedge Funds	272	9.0%	297	248
Infrastructure	323	18.5%	383	263
Other Alternative Assets	396	14.2%	452	340
Short term deposits & other investment balances	214	0.0%	214	214
	7,747			

16b Credit Risk

The Fund does not hold any Fixed Interest Securities directly and the Managers of the Pooled Fixed Income Vehicles are responsible for managing credit risk, section 16a of this note covers the market risks of these holdings.

The Fund's arrangements for derivatives, securities lending and impaired items are dealt with in other notes to the accounts.

The short term cash deposits and other investment balances are diversified with investment grade financial institutions. The Fund has a treasury management policy that is compliant with current best practice.

The Fund's cash holding under its treasury management arrangements as at 31 March 2018 was £53.2 million (31 March 2017 £75.2 million). This was held in instant access accounts with the following institutions:

	Rating (S&P)	Balances as at 31 March 2018	Balances as at 31 March 2017
		£'000	£'000
Lloyds Bank	Long A Short A-1	33,226	40,222
Invesco	AAAm	10,000	20,000
Santander	Long A Short A-1	10,000	-
Svenska Handelsbanken	Long AA- Short A-1+	-	15,000
Total		**53,226**	**75,222**

16c Liquidity risk

The Fund's key priority is to pay pensions in the long term and in the short term and the asset allocation is the key strategy in ensuring this. The earlier sections have dealt with the longer term risks associated with market volatility.

The Fund has a cash balance at 31 March of £53.2 million. The Fund has £6,157 million in assets which could be realised in under 7 days' notice, £913 million in assets which could be realised in under 90 days' notice and £974 million in assets which could not be realised within a 90 day period.

The Fund has no borrowing or borrowing facilities.

The management of the Fund also prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The Fund has a net addition for 2017/18 in its dealing with members of £89 million, management expenses of £40 million, and investment income of £197 million.

16d Outlook for real investment returns

The expectation of future real investment returns can affect the Fund's liabilities as they may impact on the discount rate used by the actuary to discount the liabilities; the Fund's actuary has calculated that the Fund has sensitivity to this discount rate of 20% per 1% change in real investment returns. The Fund considers both the liabilities and assets together and assesses the funding ratio and the implications for investment strategy on a quarterly basis at the IMWP.

17. FUNDING ARRANGEMENTS

In line with The Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016. The next valuation will take place as at 31 March 2019.

The most recent Triennial Valuation by the actuary was as at 31 March 2016, when the funding level was 85% of projected actuarial liabilities (2013 76%). The funding objective is to achieve and then maintain assets equal to the funding target. The funding target is the present value of 100% of projected accrued liabilities, including allowance for projected final pay. The FSS specifies a maximum period for achieving full funding of 19 years.

The funding method adopted is the projected unit method, which implicitly allows for new entrants replacing leavers.

The key elements of the funding policy are to:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, designating and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

Summary of key whole Fund assumptions used for calculating funding target

	31 March 2016
Long Term Yields	**% p.a.**
Market Implied RPI Inflation	3.20
Solvency Funding Target Financial Assumptions	
Investment Return	4.20
CPI Price Inflation	2.20
Salary Increases	3.70
Pension Increases	2.20
Future Service Accrual Financial Assumptions	
Investment Return/Discount Rate	4.95
CPI Price Inflation	2.20
Salary Increases	3.70
CARE	2.20

18. INVESTMENT LIABILITIES

	2017/18 £'000	2016/17 £'000
Derivative Contracts	-	13
Amounts due to stockbrokers	13,736	4,477
	13,736	**4,490**

19. LONG TERM ASSETS

	2017/18 £'000	2016/17 £'000
Assets due in more than one year	5,013	7,110
	5,013	**7,110**
Relating to:		
Central Government Bodies	922	1,845
Other Local Authorities	3,777	4,717
Public Corporations and Trading Funds	142	280
Bodies External to General Government	172	268
	5,013	**7,110**

Payments are being received in respect of pensioner and deferred members of the Magistrates Courts, which was previously an active employer in the Fund. Year 1 is shown as a current asset, but years 2 onwards are included above. Also included are future payments of pension strain to be paid by employers in 2018/19 onwards.

20. CURRENT ASSETS AND LIABILITIES

	2017/18 £'000	2016/17 £'000
Assets		
Contributions due	17,431	19,273
Amounts due from external managers	41,296	144
Accrued and outstanding investment income	1,152	664
Sundries	14,889	12,749
Provision for bad debts	(118)	(167)
Cash at bank	5,259	1,695
	79,909	**34,358**
Relating to:		
Central Government Bodies	1,868	1,863
Other Local Authorities	11,988	13,828
NHS	1	1
Public Corporations and Trading Funds	140	73
Bodies External to General Government	65,912	18,593
	79,909	**34,358**
Liabilities		
Amounts due to external managers	966	-
Transfer values payable	-	1,226
Retirement grants due	3,467	1,944
Provisions	432	294
Miscellaneous	18,574	12,130
	23,439	**15,594**
Relating to:		
Central Government Bodies	2,795	3,895
Other Local Authorities	3,016	1,881
Public Corporations and Trading Funds	26	2
Bodies External to General Government	17,602	9,816
	23,439	**15,594**
Total current assets and liabilities	**56,470**	**18,764**

"Sundries" mainly covers general debtors, property arrears due, agents' balances and recoverable taxation.

"Provision for Bad Debt" relates to general debtors and property rental income, and is based on an assessment of all individual debts as at 31 March 2018.

The main components of "Miscellaneous Liabilities" are the outstanding charges for Investment Management fees, payable quarterly in arrears, Custodian and Actuarial fees, plus income tax due, pre-paid rent and Administering Authority re-imbursement.

21. CONTRACTUAL COMMITMENTS

Commitments for investments amounted to £534.86 million as at 31st March 2018. (2016/17 £606.12 million). These commitments relate to Private Equity £209.46 million, Infrastructure £128.37 million, Opportunities £31.07 million, Indirect Property £165.96 million. As some of these funds are denominated in foreign currencies, the commitment in sterling is subject to change due to currency fluctuations.

22. CONTINGENT ASSETS

When determining the appropriate Fund policy for employers the different participating characteristics as either a contractor or community body or whether a guarantor of sufficient financial standing agrees to support the pension obligations is taken into consideration when setting the fiduciary strategy.

It is the policy to actively seek mechanisms to strengthen employer covenants by engaging "contingent assets" in the form of bonds/indemnity insurance, local authority guarantors, parent company guarantors or charge on assets to mitigate the risk of employers exiting the Fund leaving unrecoverable debt.

These financial undertakings are drawn in favour of Wirral Council, as the Administrating Authority of Merseyside Pension Fund and payment will only be triggered in the event of employer default.

23. RELATED PARTY TRANSACTIONS

There are three groups of related parties: transactions between Wirral Council, as Administering Authority, and the Fund, between employers within the Fund and the Fund, and between Members and Senior Officers and the Fund.

Management expenses include charges by Wirral Council in providing services in its role as Administering Authority to the Fund, which amount to £3.3 million. (2016/17 £3.6 million). Such charges principally relate to staffing required to maintain the pension service. Central, Finance and IT costs are apportioned to the Fund on the basis of time spent on Fund work by Wirral Council. There was a debtor of £9.1 million (2016/17 £11.9 million) and a creditor of £254,502 as at 31 March 2018 (2016/17 £293,110).

Employers are related parties in so far as they pay contributions to the Fund in accordance with the appropriate Local Government Pension Scheme Regulations (LGPS). Contributions for the year are shown in note 7 and in respect of March 2018 payroll are included within the debtors figure in note 20.

A specific declaration has been received from Pension Committee Members, Pension Board Members and principal officers regarding membership of, and transactions with, such persons or their related parties. A number of Members act as Councillors or Board members of particular scheme employers, listed below, who maintain a conventional employer relationship with the Fund:

Liverpool City Council, Knowsley Council, Sefton Council and St Helens Borough Council, Wirral Council, Knowsley Youth Mutual, Helena Housing, Whiston Town Council, Rainhill Parish Council, Knowsley Housing Trust, One Vision Housing, CDS Housing, Greater Hornby Homes and Wirral Partnership Homes (also known as Magenta Living). The value of the transactions with each of these related parties, namely the routine monthly payments to the Fund of employers' and employees' contributions, is determined by the LGPS Regulations, and as such no related party transactions have been declared.

Peter Wallach, Director of Pensions acts in an un-remunerated board advisory capacity on 4 investment bodies in which the Fund has an interest, Eclipse (£13.8 million), Standard Life (£15.8 million), F&C (£21.5 million) and GLIL (£65.9 million).

Linda Desforges, Senior Portfolio Manager acts in an un-remunerated board advisory capacity on 5 investment bodies in which the Fund has an interest, Standard Life (£15.8 million), BBH Capital (£9.1 million), TEO Plc (£14.3 million), GCM Grosvenor Co-Investment Fund (£6.9 million) and F&C (£21.5 million).

Susannah Friar, Property Manager acts in an un-remunerated board advisory capacity on six investment bodies in which the Fund has an interest, Partners Group Real Estate Asia Pacific 2011 (£7.3 million), Bridges Property Alternatives IV (£1.1 million), Century Bridge China Real Estate Fund II (£5.5 million), Phoenix Asia Secured Debt Fund (£3.5 million) Alma Property Partners (£6.6 million) and Barwood Property.

Adil Manzoor Portfolio Manager, acts in an un-remunerated board advisory capacity on 4 investment bodies in which the Fund has an interest, Standard Life Infrastructure Fund I (£7.9 million), Blackrock GRP Fund I (£25.8 million) and AMP GIF II (£35.3 million) and Impax New Energy Investors III LP .

Each member of the Pension Fund Committee and Pension Board Members formally considers conflicts of interest at each meeting.

Key management personnel

The Fund's senior management during 2017/18 was comprised of 7 individuals: the Director of Pensions, the Head of Pensions Administration, Senior Portfolio Managers (x3), Head of Finance & Risk and Senior Investment Manager, the remuneration paid to the senior management during 2017/18 was £421,487 (2016/17 £416,301). In addition, employer contributions of £56,995 (2016/17 £56,042) was also met from the Fund and charged to the Fund Account. The post of Senior Investment Manager was deleted during the year.

24. ADDITIONAL VOLUNTARY CONTRIBUTION INVESTMENTS

	2017/18 £000	2016/17 £000
The aggregate amount of AVC investments is as follows :		
Equitable Life	2,015	2,089
Standard Life	5,988	6,139
Prudential	7,930	6,331
	15,933	**14,559**
Changes during the year were as follows:		
Contributions	3,432	2,473
Repayments	2,441	2,964
Change in market values	383	1,303

SCHEME EMPLOYERS WITH ACTIVE MEMBERS AS AT 31 MARCH 2018

Scheduled Bodies

Academy of St Francis
Bellerive FCJ Catholic College
Billinge Chapel End Parish Council
Birkdale High School (Academy)
Birkenhead High School Academy
Birkenhead Sixth Form College (Academy)
Blacklow Brow School (Academy)
Blue Coat School (Academy)
Carmel College
Calday Grange Grammer School (Academy)
Chesterfield High School (Academy)
Chief Constable
Childwall Sports and Science Academy
Cronton C of E Primary (Academy)
Cronton Parish Council
De la Salle Academy
Deyes High School (Academy)
Eccleston Parish Council
Edsential SLE
Egremont Primary School (Academy)
Emslie Morgan Academy
Everton Free School (Academy)
Finch Woods Academy
Formby High School (Academy)
Garston C of E Primary School (Academy)
Great Meols Primary School (Academy)
Greenbank High School (Academy)
Halewood Academy Centre for Learning
Halewood C of E Primary (Academy)
Halewood Town Council
Halsnead Primary School (Academy)
Harmonize (Academy)
Hawthornes Free School
Heygreen Community Primary (Academy)
Hilbre High School (Academy)
Hillside High School (Academy)
Hope Academy
Hugh Baird College
Kings Leadership Academy (Liverpool)
Kirkby High School
Knowsley Lane Primary School (Academy)
Knowsley M.B.C.
Knowsley Town Council
LDST – Liverpool Diocesan Schools Trust (Academy)
Litherland High School (Academy)
Liverpool City Council

Liverpool City Region Combined Authority (LCRCA)
Liverpool College (Academy)
Liverpool John Moores University
Liverpool Life Science UTC (Academy)
Liverpool Street Scene Services Ltd
Lord Derby Academy
Maghull High School (Academy)
Maghull Town Council
Merseyside Fire & Rescue Authority
Merseyside Passenger Transport Executive (MPTE)
Merseyside Recycling and Waste Authority
New Park Primary (Academy)
North Liverpool Academy
Office of the Police and Crime Commissioner for Merseyside (OPCCM)
Oldershaw Academy
Our Lady of Pity RC Primary School (Academy)
Park View Academy
Poulton Lancelyn Primary School (Academy)
Prenton High School for Girls (Academy)
Prescot Town Council
Rainford High School (Academy)
Rainford Parish Council
Rainhill Parish Council
Rainhill Learning Village Multi Academy Trust
Rainhill St Anns CE Primary School (Academy)
Range High School (Academy)
Roscoe Primary (Academy)
School Improvement Liverpool Ltd
Sefton M.B.C.
Shared Education Services Ltd
Southport College
St. Anselms College (Academy)
St. Edwards College (Academy)
St. Francis Xavier's College (Academy)
St. Helens College
St. Helens M.B.C.
St John Plessington Catholic College
St Margaret Church of England Academy
St Mary & St Thomas CE Primary School (Academy)
St Marys Catholic College
St Michael's C of E High School (Academy)
St Silas C of E Primary School (Academy)
St Thomas C of E Primary (Academy)
Stanley High School (Academy)
Stanton Road Primary School
Studio @ Deyes Academy
Sylvester Primary Academy
The ACC Liverpool Group Ltd
The Academy of St Nicholas

The Beacon C E Primary School (Academy)
The Belvedere Academy
The Birkenhead Park School
The City of Liverpool College
The Kingsway Academy
The Prescot School (Academy)
The Studio (Academy)
The Sutton Academy
Town Lane Infant School (Academy)
Townfield Primary School (Academy)
Upton Hall School (Academy)
Weatherhead High School (Academy)
West Derby School (Academy)
West Kirby Grammar School (Academy)
Whiston Town Council
Wirral Council
Wirral Evolutions
Wirral Grammar School for Boys (Academy)
Wirral Grammar School for Girls (Academy)
Wirral Metropolitan College
Woodchurch High School (Academy)

Admission Bodies

Addaction (Sefton)
Age Concern – Liverpool
Agilisys Limited
Amey Services Ltd - Highways
Arriva North West
Arvato Public Sector Services Limited
Association of Police Authorities
Balfour Beatty PFI SEN School
Balfour Beatty Workplace
BAM Nuttall
Berrybridge Housing Ltd
Birkenhead Market Services Ltd
Birkenhead School (2002)
Bouygues E & S FM UK Ltd
Care Quality Commission
Castlerock Recruitment Group Ltd
Caterlink Ltd
Catholic Children's Society
CDS Housing
Change Grow Live
City Healthcare Partnership CIC
Cobalt Housing Ltd
Compass Contract Services (UK)
Compass (Scolarest) Liverpool Schools
Compass (Scolarest) Wirral Schools
Elite Cleaning & Environmental Services Ltd

Friends of Birkenhead Council Kennels
Geraud Markets Liverpool Ltd
Glendale (Liverpool Parks Services) Ltd
Glenvale Transport Ltd/Stagecoach.
Graysons Education
Greater Hornby Homes
Greater Merseyside Connexions
Helena Partnerships Ltd.
Hochtief Liverpool Schools
Hochtief Wirral Schools
Interserve (Facilities Management) Ltd
Kingswood Colomendy Ltd.
Knowsley Youth Mutual
Lee Valley Housing Association Ltd
Liverpool Hope University
Liverpool Housing Trust
Liverpool Mutual Homes Ltd.
Liverpool Vision Limited
Local Government Association
Mack Trading
Mellors Catering – Birkdale
Mellors Catering – St Anns
Mellors Catering – St Mary & St Thomas
Mellors Catering - St Paul & St Timothy
Merseyside Lieutenancy
Mosscroft Childcare Ltd
North Huyton Communities Future
One Vision Housing Ltd
Orian Solutions
Partners Credit Union
Port Sunlight Village Trust
Sanctuary Home Care Ltd
Sefton Education Business Partnership
Sefton New Directions Ltd.
Shap Ltd
South Liverpool Housing Ltd
Southern Electric Co Ltd
Tarmac Trading Ltd
Taylor Shaw (Great Meols)
Taylor Shaw (The Grange)
Taylor Shaw (Raeburn)
Taylor Shaw (Range)
Taylor Shaw (St Andrews)
Vauxhall Neighbourhood Council
Veolia ES Merseyside & Halton
Volair Ltd
WCFT (NHS)

Welsh Local Government Association
WIRED
Wirral Autistic Society
Wirral Chamber of Commerce
Wirral Partnership Homes (Magenta)

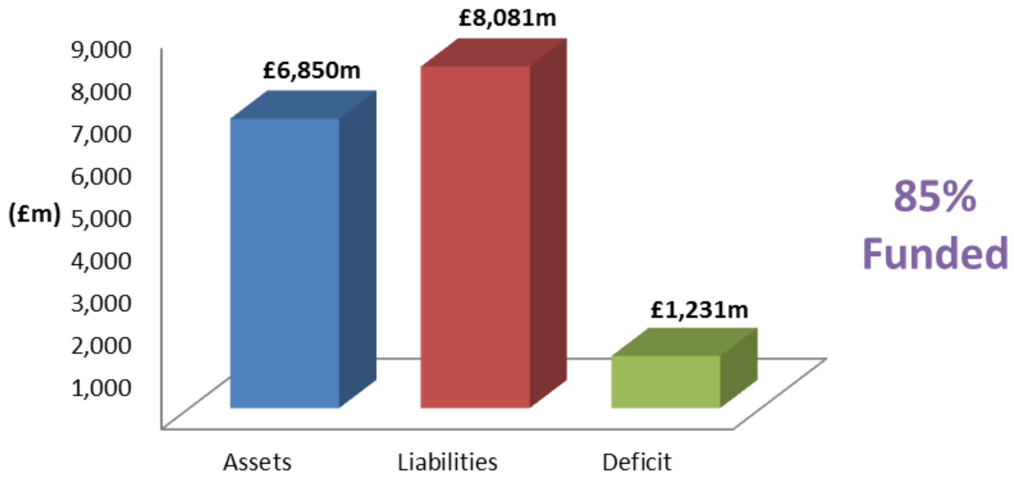
MERSEYSIDE PENSION FUND

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2018 - STATEMENT BY THE CONSULTING ACTUARY

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Merseyside Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £6,850 million represented 85% of the Fund's past service liabilities of £8,081 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £1,231 million.



The valuation also showed that a Primary contribution rate of 15.4% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period is 19 years, and the total initial recovery payment (the "Secondary rate") for 2018/19 is approximately £49 million (this allows for some employers to phase in any increases or to make a prepayment in April 2017). For all employers, the Secondary rate will increase at 3.7% per annum, except where phasing has been applied. With the agreement of the Administering Authority employers may also opt to pay some of their deficit contributions early (after suitably agreed reductions), with either all three years being paid in April 2017 or payment being made in the April of the year in question.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2017.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the Primary rate of contribution were as follows:

	For past service liabilities (Funding Target)	**For future service liabilities (Primary rate of contribution)**
Rate of return on investments (discount rate)	4.2% per annum	4.95% per annum
Rate of pay increases (long term)*	3.7% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.2% per annum

* allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2018 (the 31 March 2017 assumptions are included for comparison):

	31 March 2017	**31 March 2018**
Rate of return on investments (discount rate)	2.5% per annum	2.6% per annum
Rate of CPI Inflation / CARE Benefit revaluation	2.3% per annum	2.1% per annum
Rate of pay increases*	3.8% per annum	3.6% per annum

	31 March 2017	31 March 2018
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.3% per annum	2.2% per annum

* includes a corresponding allowance to that made in the latest formal actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017.

During the year, corporate bond yields rose slightly, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.6% p.a. versus 2.5% p.a.). The expected long-term rate of CPI inflation decreased during the year, from 2.3% p.a. to 2.1%. Both of these factors served to decrease the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2017 was estimated as £11,418 million. Interest over the year increased the liabilities by c£286 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£27 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a decrease in liabilities of £446 million due to "actuarial gains" (i.e. the effect of the changes in the actuarial assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2018 is therefore £11,285 million.

Paul Middleman
Fellow of the Institute and Faculty Actuaries
Mercer Limited
May 2018

Clive Lewis
Fellow of the Institute and Faculty of of Actuaries
Mercer Limited
May 2018

Glossary of Financial Terms

GLOSSARY OF FINANCIAL TERMS

Accruals
Income is recognised when it is earned rather than when it is received. Expenditure is recognised when goods or services are received rather than when the payment is made.

Actuarial Gains and Losses
Actuaries assess financial and non-financial information provided to project levels of future pension Fund requirements. Changes in actuarial deficits or surpluses arise because:

- Events have not coincided with the actuarial assumptions made at the last valuation
- The actuarial assumptions have changed.

Balances
The balances are to provide funding for unanticipated expenditure and / or expenditure that is of an unforeseen nature. The level is determined having regard to the strategic, operational and financial risks and uncertainties faced by the Council.

Budget
The Budget is a statement of the spending plans for the financial year.

Capital Expenditure
Expenditure on the acquisition of an asset or expenditure, which adds to, and not merely maintains, the value of an existing fixed asset.

Capital Receipts
Income received from the disposal of land and other capital assets, and from the repayment of grants and loans to the Council.

Chartered Institute of Public Finance and Accountancy (CIPFA)
This Institute is the leading professional accountancy body for public services and produces the Code of Practice that must be followed in preparing the Council's financial statements.

Collection Fund
A Fund administered by the Council to record all income collected from local taxpayers and business ratepayers and show how this is passed on to other public authorities.

Community Assets
These are fixed assets which the Council intends to hold in perpetuity which have no determinable finite useful life and may have restrictions on their disposal eg parks.

Council Tax
This is the main source of taxation for the Council. It is levied on households within the area and the proceeds are paid into the Collection Fund for distribution to precepting authorities and for use by the Council's General Fund.

Creditors
Amounts owed by the Council for works undertaken, goods received or services provided for which payment had not been made at the date of the Balance Sheet.

Current Service Costs (Pensions)
For a defined benefit scheme, the value of the pension benefits earned by active employees in the period, net of contributions paid by employees in respect of those benefits. The increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period ie the ultimate pension benefits earned by employees in the current year.

Curtailment (Pensions)
For a defined benefit scheme, an event that reduces the expect years of future service of present employees or reduces the number of employees the accrual of defined benefits for some or all of their future service.

Debtors
Amounts owed to the Council that had not been received at the date of the Balance Sheet.

Defined Benefit Scheme
A pension, or other retirement benefit scheme, where the scheme's rules define the benefits payable independently of the contributions paid into the scheme. The benefits paid from the scheme are not directly related to the investments within the scheme. The scheme may be funded or unfunded.

Defined Contributions Scheme
A pension or other retirement benefit scheme into which an employer pays regular contributions, as an amount or as a % of pay, and has no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciation
A charge that represents the extent to which an asset has been worn-out or used or otherwise reduced the useful economic life of a fixed asset during the year.

Expected Rate of Return on Pensions Assets
For the Pension Fund the average rate of return, including both income and changes in fair value net of scheme expenses, expected over the remaining life of the asset.

Expenditure
Amounts paid by the Council for works undertaken, goods received or services provided, which is deemed to have been spent when the works, goods or services have been received.

General Fund
The main revenue fund of the Council and includes the net costs of all services financed by local taxpayers and Government grants. It is the day to day spending on services.

Government Grants
Specific assistance by Government and similar bodies in the form of cash. For specific grants to a particular service there is expected to be compliance with certain conditions relating to the activities of the Council but many grants are "general" and used to help pay for the net cost of Council services generally.

Heritage Assets
These are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained for the contribution to knowledge and culture. This includes Civic Regalia, works of art and historic buildings.

Impairment
A reduction in the value of a fixed asset below the amount brought forward in the Balance Sheet. Reductions include items such as a significant decline in a fixed asset's market value.

Income
Amounts due to the Council for goods supplied or services provided with the income deemed to have been earned once the goods or services have been supplied.

Infrastructure Assets
These are assets which generally cannot be sold and from which benefit can be obtained only from the continued use of the asset eg highways and bridges.

Intangible Assets
These are assets which do not have physical substance but are identifiable and controlled by the Council and include items such as software and licenses.

International Financial Reporting Standards (IFRS)
The Standards dictate specific accounting treatments. They must be applied to all financial statements in order to provide a true and fair view of the financial position, and a standardised method of comparison with others.

Investment Properties
Properties held solely to earn rentals or for capital appreciation, and not used to provide services or for administrative purposes.

Leases
Leasing costs are the rental for the use of an asset for a specified period of time. There are two different types of lease. Finance leases transfer substantially the risks and rewards of ownership of a fixed asset to the lessee. Operating leases are where the balance of risks and rewards remains with the lessor who retains the asset eg computer equipment.

Minimum Revenue Provision (MRP)
This is the minimum amount that the Council is required to charge to the revenue account each year to provide for the repayment of debt.

National Non-Domestic Rates (NNDR also known as Business Rates)
A levy on business property based on national rate in the £ applied to the rateable value of the premises. The Government determines the national rate and the Rates are collected by the Council and accounted for within the collection fund. The Council draws down from this an amount specified at the start of the year.

Net Book Value
The amount at which assets are included in the Balance Sheet i.e. their historical cost or current value less the cumulative amount provided for depreciation.

Net Expenditure
Gross expenditure less specific service income but before the deduction of non-ring fenced government grants and local taxation.

Precept
The amount the Council is required to raise from Council Tax on behalf of other authorities namely the Merseyside Recycling & Waste Authority and the Liverpool Combined Authority. It is collected and distributed on behalf of precepting authorities by the Council. These transactions are accounted for within the Collection Fund.

Prior Year Adjustments
These are material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Property, Plant and Equipment
Assets that yield benefits to the Council and the services provided for a period of more than one year e.g. buildings, land and vehicles.

Provisions
Amounts set aside to meet liabilities or losses which it is anticipated will be incurred but where the amount and / or timing of such costs is uncertain.

Public Works Loans Board (PWLB)
A Central Government body which is the main provider of loans to local authorities to fund capital expenditure.

Reserves
These are amounts held to meet specific, known or predicted future expenditure.

Revenue Expenditure
This is spending on the day-to-day running costs of providing services and is primarily employee costs, general running expenses and capital financing costs.

Revenue Expenditure Funded from Capital under Statute (REFCUS)
This represents items of capital expenditure where no asset exists and the cost is allowed by statute to be charged as revenue expenditure to the Consolidated Income & Expenditure Statement.

Scheme Liabilities
These are the liabilities of the Pension Fund for outgoings in the future and reflect the benefits that the employer is committed to provide for service up to a set date.

Unfunded Defined Benefit Scheme
An employer managed retirement plan that uses the employer's current income to fund pension payments as they become necessary. This is in contrast to a funded pension scheme where an employer sets aside funds systematically and in advance to cover any pension plan expenses such as payment to retirees and their beneficiaries.

Usupported (Prudential) Borrowing
This is borrowing for which no support is given by Central Government. The Council is permitted to undertake unsupported borrowing but has to ensure that the borrowing costs are affordable and be met from the revenue budget.

Useful Life
This is the period over which the Council will derive benefit from the use of an asset.

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WIRRAL

Business Management

Shaer Halewood
Director of Finance and Investment,
Business Management,
PO Box 290,
Brighton Street,
Wallasey,
Wirral,
CH27 9FQ.

to Grant Thornton UK LLP,
Royal Liver Building,
Liverpool,
L3 1PS.

Date 23 September 2018

Dear Sirs,

Wirral Council

Financial Statements for the year ended 31 March 2018

This representation letter is provided in connection with the audit of the financial statements of Wirral Council for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

vi Except as disclosed in the financial statements:

a there are no unrecorded liabilities, actual or contingent

b none of the assets of the Council has been assigned, pledged or mortgaged

c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

viii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x The financial statements are free of material misstatements, including omissions.

xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiii We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xiv We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Council financial statements such as records, documentation and other matters;
b. additional information that you have requested from us for the purpose of your audit; and
c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

xv We have communicated to you all deficiencies in internal control of which management is aware.

xvi All transactions have been recorded in the accounting records and are reflected in the financial statements.

xvii We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xviii We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

a. management;
b. employees who have significant roles in internal control; or
c. others where the fraud could have a material effect on the financial statements.

xix We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xx We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxi We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxiii We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxiv The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council financial statements.

Approval

The approval of this letter of representation was minuted by the council's Audit and Risk Management Committee at its meeting on 23 September 2018.

Yours faithfully

Shaer Halewood
Director of Finance and Investment
23 September 2018

Cllr Adrian Jones
Chair of Audit & Risk Management Committee
23 September 2018

Audit and Risk Management Committee Monday, 23 July 2018

REPORT TITLE:	**MEDIUM TERM FINANCIAL STRATEGY 2019/20-2022/23**
REPORT OF:	**Director of Finance and Investment (S151)**

REPORT SUMMARY

This report discusses the Medium Term Financial Strategy (MTFS) 2019/20 to 2022/23 that is shown in Appendix 1 and was agreed at Cabinet on the 16 July 2018. The MTFS represents the financial plan required to deliver the pledges and outcomes as set out in the Wirral Plan. It is also a key element in the improvement of the Councils financial sustainability.

RECOMMENDATIONS

That the Committee notes the Council's MTFS 2019/20-2022/23.

SUPPORTING INFORMATION

1.0 REASONS FOR RECOMMENDATION/S

1.1 Audit & Risk Management Committee has responsibility for reviewing governance and that effective processes are in place in the Council, making necessary recommendations to Cabinet where effectiveness needs to improve. Part of this includes seeking assurances that the Council has sufficient financial resilience to mitigate and manage its future financial risks. The MTFS is being presented to the Committee as the main element of the Council's approach to improving financial resilience. An effective financial strategy and governance are also necessary to ensure that an organisation functions well.

2.0 OTHER OPTIONS CONSIDERED

2.1 The Wirral Plan and the Medium Term Financial Strategy are key policy documents and drive all other business planning processes within the Council. Consequently they are vital for the Council's future development, therefore no other options were considered.

3.0 BACKGROUND INFORMATION

3.1 The Cabinet considers updates on the Councils financial position throughout the year. This allows the consideration of the financial position of the council and the decisions required to ensure that the council makes the most of its financial resources. The latest of these reports is the MTFS 2019/20-2022/23 considered at its meeting on 16 July.

3.2 This report updates Members of the Audit and Risk Management Committee of the latest review of the MTFS including Financial Resilience. This provided an update on a number of financial matters:

- The financial outlook for the Council, expenditure, income and budget gap over the medium term up to 2023.
- Approach to the development of financial proposals for the years 2019/20-2022/23.
- The development of a Financial Resilience Plan.

3.3 The Council continues to face financial constraints and pressures. The medium term financial planning period to 2023 will see continued grant funding reductions and financial pressures as a result of increasing demand. Aligned to this the Council will in 2020, assume full responsibility for the raising and collection of income generated locally that will be used to fund the services accessed by Wirral residents.

3.4 The MTFS describes the robust and measured way that that Council will address these challenges via a three phased approach:

- The Medium Term Financial Strategy describes what the future financial position of the Council will look like, what our challenges are and how we will allocate our resources to meet our corporate priorities and achieve the outcomes of the Wirral Plan.

- The Medium Term Financial Plan describes how we are currently financed and future changes to this, our approach to meeting the financial challenges and how we will measure this.

- The Financial Resilience plan describes how we can evidence our financial sustainability over the medium term to provide assurance to local taxpayers that we are providing value for money, our process for decision making is robust and we are safeguarding public funds.

MEDIUM TERM FINANCIAL STRATEGY 2019 - 2023

3.5 Over the period 2019 - 2023 the Council will continue to deliver the pledges contained in the Wirral Plan whilst operating in a challenging financial environment. The Medium Term Financial Strategy focuses on ensuring that resources are targeted to the 20 Pledges while operating within the reduced government-related financial resources that will be available. The Council's like for like government funding has reduced since 2010/11 and will continue to reduce until 2020/21.

3.6 Since its approval in July 2015, considerable progress has been made in all areas of the Wirral Plan. At the same time the Council has been moving forward with an integrated approach to planning policy and financial strategy on a long term basis. This is to ensure that our resources are targeted in accordance with our priority outcomes. The last Medium Term Financial Strategy was approved in February 2017 and covered the period 2017 - 2021. The resetting of the MTFS to the period 2019/20-2022/23 recognises the changing landscape since 2017 and the need to rethink where we target our resources to ensure we can provide value for money for our local taxpayers.

Funding Challenges

3.7 The Government announced in December 2015 the key components of the Council's funding for the period up to 2019/20. Through Wirral's acceptance of the four year settlement deal, these levels were confirmed for three years. This does and has provided some assurance around funding and enables financial planning to be clearer. There does however remain uncertainty beyond 2019/20 until 2022/23 with a Government review of how our funding will be calculated.

3.8 The Council set a balanced budget for 2018/19 utilising one off funding of £26m. This enabled a protection of services to the most vulnerable and those services that are most important to our communities to remain in place. It also provided temporary investment into Children's Services to offset future demand, which is being used to pump prime invest to save initiatives and divert reactive funding to preventive work. This was enabled through a planned programme of drawing down available for use reserves and the programme of Children's investment being 'repaid' though efficiencies over a three year period. This approach is clearly not sustainable in the long term and to ensure reserves do not fall to an unsustainable level, the replenishment of temporary funding is included within the following year's budget gap

3.9 Continuing their plan to end government grant funding by 2020, for the following two years the government funding we receive will be phased out. The forecast budget gap to 2023 is as follows:

Budget Projections 2019/20-2022/23: Budget Gap Forecast

PROJECTIONS	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Cumulative Budget Gap	45	62	65	67
Annual Increase in Budget Gap	45	17	3	2

3.10 A number of elements of future funding are subject to development. This means that there is a degree of uncertainty on the detail relating to:

- A Government Fair Funding Review that will determine the level of spending the Government thinks we will need. The outcome of this is due in late 2019, to be implemented from 2020/21. We have been informed that 2020/21 will be a transition year and our new formula will formally be reset in April 2021
- The phasing out of Revenue Support Grant and the retention of Business Rates.
- The transfer of new responsibilities including the un-ring-fencing of public health grant and the transfer of this into the business rates pool
- The treatment and level of specific grants.
- The performance of the economy post Brexit and the impact on public sector finances.

3.11 Wirral Council continues to seek to protect those services which it considers to be its highest priority and the approach for the period of the Medium Term Financial Strategy will be to minimise cuts to services which impact on our most vulnerable residents e.g. children and adults social care. However due to the extent of the budget gap, there is some inevitability that not all services can be provided in the same way.

Resourcing the Council's Priorities

3.12 A focus for the Council over the next four years is the generation of income to help supplement our funding from local taxpayers. The future for local government finances is one in which Councils aim to be financially self-sufficient. This means that Wirral has to plan to establish a strong and buoyant tax base and other sources of direct income. The Council will provide the tools to encourage local regeneration leading to jobs and growth. The local plan will be the mechanism to generate significant new income from Council Tax, in some cases within the higher bands and will support the local economy through the creation of new jobs. The **Income Strategy** describes in more detail our ambition to generate more income.

3.13 With the establishment of the Wirral Growth Company this will unlock sites for regeneration and housing across the borough. This will enable existing and new inward investment, creating thousands of jobs and opportunities for young people wanting apprentices after leaving school and college. Providing access to employment for young people will see them on a good footing to live and work in Wirral over a longer term enabling better life prospects. The **Growth Strategy** provides details of how this will be achieved and our vision for the future.

3.14 Through our commercialisation agenda we will take a more confident approach that will open up opportunities to generate income from commercial activities, whether this is ensuring we are charging appropriate market rates for the services we sell, to providing our in-house professional services to local partners and the private sector. Our **Commercial Strategy** highlights our plan for a more innovative and commercial approach.

3.15 By adopting a more risk aware approach to investments we will be able to generate a higher return on our treasury management activities to generate more income. More diverse and innovative investments are available to us and many local authorities have already successfully branched out into investing in non-traditional areas such as green energy, solar power, bonds and commercial property. These types of investment are not without risk and a longer lead in time is required to ensure adequate due diligence can be carried out to provide assurance that the investments are sound. Our **Treasury Management Strategy** sets out the framework under which we operate for investments.

3.16 For our Council Tax base this will mean:

- Enabling hew housing through planning policy and the Local Plan.
- Ensuring that our Council Tax Reduction Scheme is fair and provides support to the most vulnerable groups.
- Planning to maximise income from Council Tax within the guidelines set by Government.

The aim across the period 2019-23 is to:

- Increase the number of properties paying Council Tax, especially in the higher bands
- Minimise the number of homes that are empty and maximise income through the appropriate application of discounts and exemptions.
- Improve collection rates and reduce the levels of outstanding debt for Council Tax.

3.17 For our Business Rate base this will mean:

- Attracting new investment to Wirral.
- Using loans and grants to ensure businesses are supported in the area.
- Enabling development to take place in the area, with the mixed development of a number of sites in Wirral, using our land, prudential borrowing or other financial mechanisms to encourage regeneration and jobs including new employment, in newly developed spaces.
- Setting a fair and equitable Council Tax within the guidelines set by Government.

The aim across the period 2019/20-2022/23 is to:

- Grow and maintain the business rate tax base in Wirral.
- Maximise businesses paying the expected level of business rates.
- Support new incubators and SME's to grow using business rate flexibilities.

3.18 For our Fees and Charges this will mean:

- The introduction of new income sources through charges and trading, for example with local businesses.
- Review of and ensuring fees and charges take account of costs, demand and comparable charges made by others for similar services.
- Ensure the fees and charges are recognised as a key and increasingly important part of the financial resources of the Council.

3.19 For our Treasury Management this will mean:

- The optimisation of returns on investments whilst ensuring security and liquidity.
- Examination of new opportunities for innovative investments, balancing risk with opportunity to be more risk aware to generate short and long term income.
- Use of prudential borrowing where it is supported by a sound business case in accordance with the principles of the Treasury Management Strategy.
- Ensure that Treasury Management is recognised as a major contributor to the Councils overall financial standing the resilience. Whilst operating within the relevant guidelines and regulations.

Wirral Together

3.20 One important aspect of the MTFS will be the engagement of communities about where they want the Council's resources to be spent and what they can do themselves to enable us to divert resources into the areas that are most valuable to them. Working with our trusted partners in the voluntary and third sector will also be important to enable them to provide services on the ground, targeted to the area of most need.

3.21 Other initiatives such as crowd funding can play an integral part in matching Council funding with contribution from local businesses and local residents for community projects that communities can take ownership of and feel proud of. We must also unlock any grant funding available to us from external organisations to help supplement our budget and maximise the opportunities to support services to the community.

3.22 Working with our major contractors to generate opportunity from social value will play a major part in supporting the sustainability of council funding by reducing expenditure and/or generating investments across all areas of the Council.

3.23 A thriving economy supports new business to grow and will encourage the need for new housing and through our work with Anchor Institutions in the borough to encourage them to spend more locally, we can support small local business prosper.

MEDIUM TERM FINANCIAL PLAN

3.24 The Medium Term Financial Plan is the tool to implement the Strategy. It describes our plan to ensure the Council is sustainable in the medium to long term, and how we will manage the governance, policies and actions we have in place to ensure the Strategy can be delivered.

Reserves

3.25 The plan contains a statement on how we will use our earmarked reserves to supplement investment in projects that will generate efficiencies, savings and income initiatives for the future. Over the past few years we have been utilising our reserves to support such projects and have drawn down all available uncommitted reserves to ensure we can continue to provide services. However, our reserves position going into 2019/20 is a stable one – with sufficient reserves in hand to mitigate any unforeseen and unexpected expenditure – and at a level that can provide the financial resilience the Council needs. We are no longer in a position to use reserves going forward to support ongoing day to day expenditure, and nor should we as this is an unsustainable and irresponsible strategy.

3.26 Our usable reserves (excluding school balances) are in the main split into two categories:

- General fund balance – this is to be kept for unforeseen and unexpected expenditure e.g. emergency planning
- Earmarked reserves – these are amounts committed against specific future expenditure e.g. Insurance Fund, Flood Defences, Local Welfare provision

Capital and Treasury Management

3.27 The Medium Term Financial Plan provides details on our approach to utilising capital funding. Capital expenditure is described as expenditure on anything that will last over 12 months and can be regarded as an asset e.g. buildings, vehicles, machinery. We are not allowed to use capital funding to provide day to day services but we can use it to enhance assets and technology to enable us to spend less on day to day services e.g. assistive digital technology in older people's homes can be paid for from capital funding and will result in less visits from social workers; meaning that we do not need as much social care provision in that area and older people feel more independent and can remain in their own homes for longer.

3.28 Where possible we use our own cash flow to pay for capital projects but we generally have to borrow money to pay for capital expenditure. We can borrow money cheaply however from a public sector loan fund and when considering funding capital projects, the saving or income the project generate must offset the cost of the interest on the loan.

3.29 Our Treasury Management Strategy is approved at Full Council and is the framework by which we invest our surplus cash balances or need to borrow cash for projects and initiatives. At any time, the Council may have a surplus of cash in the bank that it will invest (lend out) to other organisations to generate an income return. This is good practice and the income we receive is re-invested into front-line services to pay for day to day expenditure. We are not allowed to spend the surplus cash on day to day expenditure as it required to pay our suppliers when due.

3.30 We invest cash in many different types of organisations to minimise the risk of loss and we generate a different return of income depending on the risk profile of the investment e.g. a higher rate of return for more flexible investments.

FINANCIAL RESILIENCE PLAN

3.31 The financial resilience plan highlights a series of actions that will be tested to ensure we can demonstrate a high level of financial management and control, effective leadership and decision making and ensuring evidence is available to prove that we are providing value for money for our local taxpayers.

3.32 In order to compile the plan we have undertaken a diagnostic to test 4 specific areas to identify where are strengths are and to identify where can further improve to ensure our resilience can be maintained.

3.33 The plan also enables us to carry out predictive modelling to identify future demand to enable advance planning to manage and mitigate any future pressure. This will ensure our medium term financial situation is robust and we can provide assurance that the Council is financially sustainable.

ANNUAL BUDGET SETTING

3.34 Each year we are legally bound to set an annual budget, agreed by Full Council. The process for budget setting for each year 2019 – 2023 is a continuous one with activities taking place all year round to ensure a balanced annual budget can be set.

3.35 The development of financial proposals for future years takes place via a Cabinet Portfolio aligned approach to action planning and budgeting. Budget proposals are encouraged organisation wide and are reviewed by an Officer 'Star Chamber' meeting that asses the feasibility, acceptability and deliverability of each proposal in line with the corporate objectives and Wirral Plan.

3.36 Portfolio Holders subsequently present these proposals to a Member Star Chamber led by the Leader and Deputy Leader(s) of the Council and the Portfolio Holder for Finance and Investment. Portfolio Holders are accountable for progressing proposals via business cases through consultation and Scrutiny before they are recommended by the Cabinet to Full Council for approval.

3.37 Once the budget has been set, Portfolio Holders are accountable for ensuring they are delivered and monitored during the year.

4 FINANCIAL IMPLICATIONS

4.1 The budget setting and planning process is integrated with the Wirral Plan. A process has been set out in this report that will determine how resources will continue to be directed to support the delivery of the 20 Pledges. Also detailed is an approach to the planning required to meet the continuing financial challenges the Council faces in the period 2018/19-2022/23. Further resource implications are detailed within the Medium Term Financial Strategy and these implications are reviewed by the reports revising the financial position submitted to Cabinet throughout the year

5 LEGAL IMPLICATIONS

5.1 There are none arising directly from this report.

6 RESOURCE IMPLICATIONS

6.1 There are none arising directly from this report.

7 RELEVANT RISKS

7.1 This report outlines the contents of the report on the MTFS 2019/20-2022/23 considered by Cabinet. The council faces financial challenges in this period as it seeks to increase income, reduce costs whilst transforming its approach to services. There is a risk in future years that the Council does not achieve a planned approach. The Financial Resilience Plan and its development will mitigate an element of this risk.

8 ENGAGEMENT/CONSULTATION

8.1 There has been no formal consultation on the MTFS. As part of the formal 2019/20 budget setting process a formal consultation will take place on the individual proposals submitted with scrutiny committees and communities.

9 EQUALITY IMPLICATIONS

9.1 Equality and diversity themes are embedded into policy development and service planning as well as the budget planning process. The Council actively promotes equality of opportunity and are committed to eliminating unlawful discrimination for all our residents, customers and employees. The Council values diversity, mainstreaming equalities into all of its service planning to enhance quality, improve access and deliver better value. In recommending a balanced budget for 2019/20, the equalities implications will be considered for each individual proposal.

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APPENDIX

Medium Term Financial Strategy 2019/20-2022/23 – reported to Cabinet 16 July 2018

SUBJECT HISTORY

Council Meeting	**Date**
Cabinet Medium Term Financial Strategy 2019/20-2022/23 Medium Term Financial Strategy 2017-21	 16 July 2018 20 February 2017

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MEDIUM TERM FINANCIAL STRATEGY
2019/20-2022/23

A sustainable financial strategy to support our 20 Pledges

Foreword

Wirral Council like other Councils across the country continue to face challenges in providing good quality services whilst under significant financial constraints. To meet these financial challenges to continue to maintain and deliver improvements in services, the Council must have a strategy, the Medium Term Financial Strategy (MTFS). The challenges and plans for delivery will stretch over several years, or over what is known as 'the medium term'.

The MTFS has two main elements:

- The MTFS providing an overview of the approach to the period 2019/20-2022/23.
- The Medium Term Financial Plan (MTFP) contains a Financial Resilience Plan setting out how council finances will be managed over the period.

Approach to 2019/20-2022/23

The MTFS helps provide the monies which will support the delivery of the Wirral Plan. Approved in July 2015 the plan provides a clear ambition for the area based on three overarching themes:

PEOPLE	Wirral is a place where the vulnerable are safe and protected, where every child gets a good start in life and older residents are respected and valued.
BUSINESS	Wirral is a place where employers want to invest and businesses thrive.
ENVIRONMENT	Wirral has an attractive and sustainable environment, where good health and an excellent quality of life are enjoyed by everyone who lives here.

The three themes are supported by 20 pledges which define the outcomes to be achieved by 2020. This shared set of outcomes, goals and objectives will see the Council and our partners working towards bringing together services and budgets to make best use of the available public sector resources for the benefit of Wirral people. It's not just about the Council. Our Partners are committed playing a leading role in achieving 8 of the 20 pledges.

For 2018/19 priorities have been set and the Council's focus on what it will deliver for residents, how it will be done and what will be achieved agreed. These are:

- Getting the Basics Right
- Jobs and Growth
- Children's Services
- Local Plan and Housing
- Leisure and Culture Review

The budget for 2018/19 outlined what the Council plans to do to take these forward, the plans to improve Children's Social Care, protecting services to residents and attracting investment and jobs to the area. The Council is committed to all of these whilst maintaining a balanced budget. The MTFS that follows builds on the investment and changes made in 2018/19 Budget.

The MTFS focus is on building the foundations for a sustainable financial future with sufficient support for services and describes how to provide the funding and services so that residents receive the support for their lives and communities. Outlined, in addition, is how the Council will invest in our local economy to encourage growth to continue.

The MTFS and the 2018/19 Budget is the first step in resolving the financial challenges we face and moving to a more self-sufficient funding position. Maintaining business as usual whilst reforming services and regenerating the local economy will be the future focus to target our resources. Establishing the correct baseline to do this is an essential component of our delivery and the MTFS sets out how we plan to do this in line with our financial principles. It details the financial remit within which the Wirral Plan directs all services up to 2023.

The plan enables funding to be targeted to prioritising the transformation of our local economy to be sustainable and inclusive. At the same time attention will continue to be directed on the most appropriate method to deliver services. These will be delivered not in isolation but through a partnership with the area and residents. We are increasingly looking to the future and taking responsibility for the challenges Wirral faces. This is more than the Council making choices on services. All residents are involved in the challenges that Wirral faces. Wirral Together introduces new ideas to tackle some of the social and services challenges the area faces.

<u>Partnership and Wirral Together</u>
The Wirral Plan has been adopted by all the Councils strategic partners from the public, private and third sectors. It is how all partners work towards a shared set of outcomes, goals and objectives, moving toward integrating as far as possible services and finances.

The Council and its partners need a focused approach to commissioning services, to integrating services across the public sector and to ensuring that services are decommissioned where they do not align with priorities or cannot be afforded. This is an outcome based approach to community engagement. Working together to manage demand and subsequently the cost of specialist, substantial services mean we can invest more resources into early intervention and prevention services. In line with the Wirral Plan and the views of residents it is important to protect the vulnerable and working with Health partners to improve the health and well-being of Wirral people will see the integration of resources to realise efficiencies to help meet the increasing demand.

The Integrated Commissioning Hub, a partnership between the Council and Wirral Clinical Commissioning Group (CCG) have a combined plan of how Adult and Health Care Services will be delivered. A pooled budget will enable funds to target to the areas of most need that generate the most beneficial outcomes.

To be successful, the Council will call on all Wirral residents to play their part for example in playing an active role in their community and supporting local shops and businesses. This call will include taking steps to take part in the future shape of the area by increasing independence, civic pride and self-help. Measures such as recycling more, volunteering, getting on-line to access services and keeping healthy build a better future for all and help with the financial challenges being faced.

Future budgets will build on 2018/19, they will reflect the Wirral plan to make investments in services, reforming services where required to meet the needs of a changing population, encouraging local economic growth and supporting residents to make improvements in their lives. Whilst it is not possible to correct the changes in Council funding since 2010 in one budget, the MTFS is an important first step to a sustainable financial future. The aim is to grow our local economy; however this will take time and will need to be phased to ensure that it is achievable, deliverable, sustainable and responsible.

Local Economy

It is essential that the Wirral economy thrives, not just for businesses but for residents. Long-term under-investment and poverty undermine the areas real economic potential. The Councils commitment is to build sustainable economic development with good jobs, that ultimately increases equality and fairness, reduces poverty, improving the life changes and well-being of everyone on Wirral. The Council will also benefit from this through new income from new businesses paying rates and income from visitors participating in local events.

The Council plans for regeneration will lead to a better, financially sustainable future for both our residents and the Council through a stronger and more inclusive local economy. It will make better use of local assets and mean that everyone has an opportunity to take part and benefit from economic growth, with all sectors of the community benefitting from local growth. To achieve our vision, we are transforming our approach to regeneration through the dual approaches of community wealth building and attracting new inward investment.

Community Wealth Building is the encouragement of local growth through groups and institutions working in co-operation with a strong focus on self-help, participation and social responsibility. It is a place-based approach to local economic improvement involving the community, partners and the local council to grow and keep wealth locally. Using existing local wealth, through area based bodies such as the Council and hospitals spending locally to benefit local areas by buying locally. This means that residents and their local employers can continue to be sustained and grow. This local investment, the Wirral Pound, would be retained in the area leading to new opportunities.

Attracting inward investment to Wirral aims to create new residential and business developments whilst retaining existing employers. Through the Wirral Growth Company and working with our developer Muse, the Council aims to regenerate large areas of Wirral. The company will bring together Council land, planning powers with private sector investment and development expertise. The focus will be on the renewal of key sites and communities in Wirral.

Through the MTFS and budgets in future years we will ensure that the commitments made in the Wirral Plan are delivered and fully funded through sustainable and robust finances. A strong financial position makes Wirral more resilient. Rebuilding our finances and reforming services will require work over coming budgets. However, the Council cannot do this in isolation. It will be for all of Wirral, partners and residents to address the challenges.

Introduction

The MTFS covers a 4 year period detailing anticipated funding and assumptions on spending. Our challenge for 2019/20 and beyond is to deliver our 20 pledges whilst having fewer resources provided to us from central government. Our services are currently funded by council tax, business rates, government grants, plus fees and charges. Key areas of spending for the Council are services like social care for vulnerable children and adults, libraries, parks and transport.

The Council's budget also includes ring-fenced spending on education and housing benefits. These are funded by specific government grant which are 'ring-fenced' i.e. can only be used for these purposes and planning for these is undertaken separately from the revenue budget covered by the MTFS.

Over the next 4 years we anticipate rising costs (inflation) and demand for services alongside reduced central government funding that will result in a budget gap of £45m in 2019/20 and £67m by 2022/23. In 2018/19 alone, we will see a reduction of £7m of government grant funding, which together with increased costs and demands, resulted in a budget gap of £61m. We have already saved over £100m between 2011/12 and 2018/19 and therefore finding further efficiencies and savings is becoming progressively more challenging.

Over the period the Council will seek to achieve the following to resolve the funding gap:

Short Term

Growth in income sources will make a limited contribution with the amount of council tax growing through new homes being built. Business rates are also expected to expand as new businesses are established along with fees and charges increasing too. Saving proposals will need to make up a significant part of the resolving of the funding gap and this will mean that not all services can continue to be provided in the same way.

Medium to Long Term

In the long term the Councils plan is to change approaches so that it can raise or generate more income itself and be less reliant on central government. This will be through:

- **Income and investments.** Aiding local economic development so that the area becomes more self-sufficient through economic growth, community involvement and social action.
- **Transform** how the Council works and operates to improve service and deliver pledge outcomes and reduce costs.
- **Working with partners and residents** to provide the tools to get people into employment and improve health. Through this route there will be better life outcomes and a reduced need for social care.

Alongside the MTFS, the Council sets an annual budget for the next financial year. This is an iterative process with proposals being submitted as an when they are identified to enable consultation and scrutiny to take place so that the impacts of the proposals are known in advance; it is important that the Council aligns resources available to the highest priority areas in the plan and is on-message to meet its corporate objectives. It is also essential to demonstrate good financial management, control and financial planning to ensure we can demonstrate value for money. This document provides an overview of the Council’s financial position and how it will, through the Wirral Plan, make the most of the financial resources available.

The Council has responded to a changing and challenging local government financial environment. This needs to continue. It will impact on the shape and direction the Council takes, including the services it provides. The MTFS provides the financial foundations for the Wirral Plan.

Vision for Wirral and its Finances

The Council faces a difficult financial outlook. Within this context the MTFS and the annual budget will continue to prioritise the themes and pledges made in the Wirral Plan and will protect those services for the most needy and vulnerable.

Reductions in central government funding will continue. The future for local government finance is for all Councils to be self-sustaining. This means that the Council needs to plan for a resilient budget that includes strong income sources to protect key services to our residents.

Over the period of the MTFS the Council will seek to accomplish the following:

- A balanced four year budget agreed annually.
- Growing and diversifying income generation in the area in a sustainable way.
- Maximisation of returns from Council investments within a prudent approach.
- Maintaining investment in key services and outcomes that support the Wirral Plan 20 Pledges.
- Maintenance of the right level of earmarked reserves and general fund balances to protect Council services and mitigate against future risks.
- A four year capital programme aligned to achieving the outcomes in the Wirral Plan and the maximisation of invest to save opportunities.
- Maximisation of income generation and collection.
- Using best practice financial management approaches and control of Council budgets.
- Minimisation of fraud and corruption.
- Fit for purpose annual accounts.

Financial Challenges

The Council is planning to resolve the budget gap it faces over the MTFS period through action to generate new income and reduce expenditure.

MTFS Financial Influences

The MTFS covers the four year period to 2022/23. It sets out anticipated levels of funding and financial pressures. Forecasts are kept under constant review as changes occur and decisions are taken. These are sometimes based on assumptions about inflation, financial pressures and levels of income such as from Council Tax.

The biggest influence on the Council's budget is the continuation of reductions in government grant funding and the move towards self-funding by all Councils. The business rates retention scheme (BRRS) introduced in 2013–14 has allowed councils to retain up to 50% of the real-terms growth in local business rates revenues and bear up to 50% of any real-terms falls. The government has announced plans to increase this share to 75% by 2020/21 and continues to expand a series of pilots of 100% retention in some areas of the country including the Liverpool City Region. The aim of these reforms is to provide stronger financial incentives for councils to boost local economies and tackle the underlying drivers of spending need. However, changes may see a potential for councils' income resources to diverge from their spending needs across the England. There is a risk that affluent areas with potential to raise more income may benefit whilst poorer areas suffer. This is currently being examined by the Government as part of the Fair Funding Review.

The Fair Funding Review commenced in late 2017, with the outcomes of the needs and resources reviews likely to be implemented in 2020/21. The Needs Assessment commenced with a consultation paper and the Council responded in March this year. Further consultation including on the ability of Councils to generate income are due out later this year.

The outcome of the review is anticipated to have a major impact on the distribution of funding between Councils in England. The consultation paper is a key part of the development of a new funding formula that will ultimately assess spending needs and available resources in every Council. Few details of the likely impact on Wirral are known but will be fed into future updates of the financial projection from 2020/21.

Between 2010 and 2015 Government funding to local government will have been cut by 33 per cent in real terms. In terms of income the Council can raise further income. The reduction in grants may be offset by the Council's share of any growth in business rate income, Council Tax and fees and charges.
In addition to this the Council has and continues to restrain its costs as far as possible. This has been through savings programmes over a number of years.

Although costs have been contained the Council continues to face cost increases and unavoidable financial demands. The assumption is that inflation is absorbed within budgets and only specific contracts receive budgeted inflationary increases.

The inflationary challenges are one element of the financial pressures faced. The on-going rise in demand led pressures for social care both in Children's Services and Adults adds to the financial challenges faced by the Council. There are also other unavoidable increases such as levy changes and pension increases. The Council has little influence, in some of these areas, over the costs that it must incur.

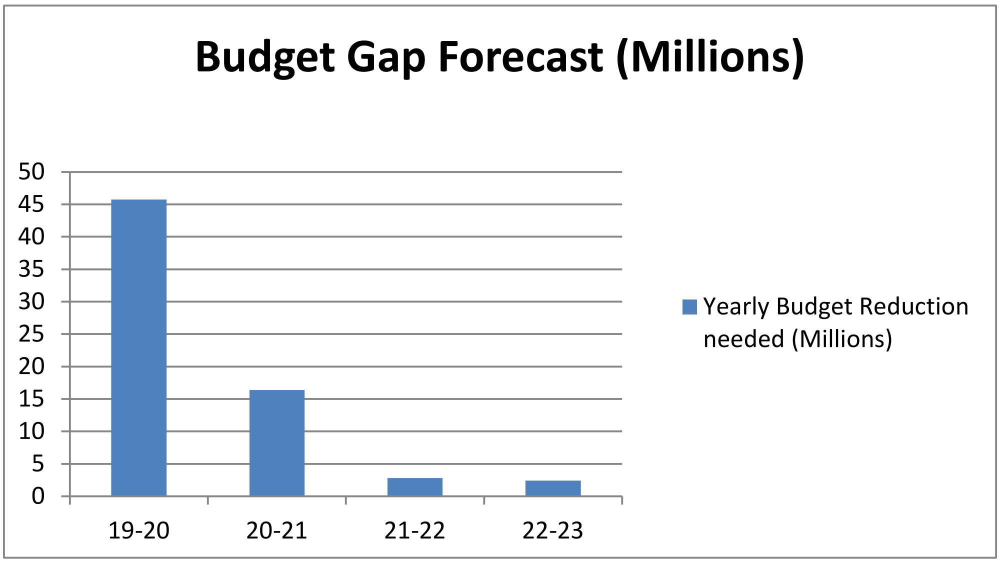
The Council will continue to invest its financial resources on its key Wirral priorities. Our annual expenditure will be focused on those areas that are most important to us.

The Government announced in December 2015 the key components of the Council's funding for the period up to 2019/20. Through Wirral's acceptance of the four year settlement deal these levels are confirmed for three years. This does and has provided some assurance around funding and enables financial planning to be clearer. There does however remain uncertainty beyond 2019/20 until 2022/23.

The Council has been able to set a balanced budget for 2018/19 with support from one off funding. However, after 2018/19 there is a new funding gap to be resolved. The gap is forecast to reach £67m by 2021/22 of which £45m relates to 2019/20.

Budget Projections 2019/20-2022/23: Budget Gap Forecast

PROJECTIONS	2019/20 £m	2020/21 £m	2021/22 £m	2021/22 £m
Cumulative Budget Gap	45	62	65	67
Annual Change in Budget Gap	45	17	3	2



The financial pressures in the period 2019-23 facing Wirral Council are considerable. The MTFS projections contain anticipated cost pressures and changes that the Council has to manage. The main anticipated expenditure changes are as follows:

- Economic – inflation and pay awards;
- Demographic – investment in Services for increased demands including greater houses;
- Policy – new service requirements, government legislation, grant settlement;

There are a number of areas where there may be additional costs to the Council in future years which are uncertain at present. One area to be addressed in the period of the MTFS is the approach to containing the demand for services, cost pressures and growth in a period when grant funding is reducing.

Wirral is very reliant on government grant to support all services. Since 2010 Government grant funding has reduced each year. This drop in funding coupled with a number of increasing financial pressures such as those due to changes in our population have meant that the Council has had to save considerable amounts over recent years. Wirral will continue to face considerable financial challenges, uncertainty and funding reductions over the medium term period. Beyond 2019/20 Central Government has made no detailed announcements on the general grant funding of local government. There remains a great deal of uncertainty in projecting Wirral's' future funding and an assumption of no central grant funding has been made in the final years of the MTFS period.

Addressing the Challenges

Since 2010, Wirral has delivered a programme of savings and increased income in response to financial pressures and cuts to government funding. The response over recent years has been to find solutions through efficiencies, a number of innovations and transformation plus raising more income. The use of one off funding in 2018/19 means that the period 2019/20-2022/23 represents a new challenge and to respond requires a reset to the Medium Term Financial Strategy.

The key challenge for the Council is to maintain and improve where needed our services to the people of Wirral whilst managing with reduced central government funding.

To meet this challenge a number of financial approaches are developing and will be used across the four year period. The full details of their implementation will be through the annual budgets in each of the years of the MTFS period. It is anticipated that there will be a mix of approach across the timeframe as a number require actions that have long lead times that span a number of years.

Our MTFS approaches 2019/20-2022/23

Increasing Income

The future for local government finances is one in which Councils aim to be financially self-sufficient. This means that Wirral has to plan to establish a strong and buoyant tax base and other sources of direct income. This will result in more the income that will protect services. The Council will provide the tools to encourage local regeneration leading to jobs and growth.

1. For our Council Tax base this will mean:

- Enabling hew housing through planning policy and the Local Plan.
- Ensuring that our Council Tax Reduction Scheme is fair and provides support to the most vulnerable groups.
- Planning to maximise income from Council Tax within the guidelines set by Government.

The aim across the period 2019/20-2022/23 is to:

- Increase the number of properties paying Council Tax.
- Minimise the number of homes that are empty and maximise income through the appropriate application of discounts and exemptions.
- Improve collection rates and reduce the levels of outstanding debt for Council Tax.

2. **For our Business Rate base this will mean:**

- Attracting new investment to Wirral.
- Using loans and grants to ensure businesses are supported in the area.
- Enabling development to take place in the area, with the mixed development of a number of sites in Wirral, using our land, prudential borrowing or other financial mechanisms to encourage regeneration and jobs including new employment, in newly developed spaces.
- Setting a fair and equitable Council Tax within the guidelines set by Government.

The aim across the period 2019/20-2022/23 is to:

- Grow and maintain the business rate tax base in Wirral.
- Maximise businesses paying the expected level of business rates.
- Improve collection rates and reduce the levels of outstanding debt for Business Rates.

3. **For our Fees and Charges this will mean:**

- The introduction of new income sources through charges and trading, for example with local businesses.
- Review of and ensuring fees and charges take account of costs, demand and comparable charges made by others for similar services.
- Ensure the fees and charges are recognised as a key and increasingly important part of the financial resources of the Council.

4. **For our Treasury Management this will mean:**

- The optimisation of returns on investments whilst ensuring security and liquidity.
- Examination of new opportunities for innovative investments, balancing risk with opportunity to be more risk aware to generate short and long term income.
- Use of prudential borrowing where it is supported by a sound business case in accordance with the principles of the Treasury Management Strategy.
- Ensure that Treasury Management is recognised as a major contributor to the Councils overall financial standing the resilience. Whilst operating within the relevant guidelines and regulations.

Investment in Services

The financial position for the Council is challenging over the 4 year MTFS period. Despite this the Council budget will continue to deliver funding to support spending on services more than £300 million a year. The focus of the Wirral Plan and the MTFS is on prioritising the allocation of these resources to ensure the right outcomes for Wirral, at best value for money, with our partners and providers. The budget will continue to be invested in line with the Wirral Plan themes:

PEOPLE Wirral is a place where the vulnerable are safe and protected, every child gets a good start in life and older residents are respected and valued.

BUSINESS Wirral is a place where employers want to invest and businesses thrive.

ENVIRONMENT Wirral has an attractive and sustainable environment, where good health and an excellent quality of life are enjoyed by everyone who lives here.

Targeting resources to those who need our help the most – this may mean changes in some services – which we are trying to deliver in a way that is both fair and equitable; promoting independence with a move away from the Council doing everything, encouraging self-help and community empowerment and resilience through Wirral Together.

A key area for investment is Children’s Services. In this service the Council will continue to invest in prevention and early intervention to help families, by actions to help them come out of and stay out need and care. We will also protect our must vulnerable groups of children through working with partners. To improve Value for money in this area there is future work to be undertaken on the procurement and commissioning of services.

The aim across the period 2019/20-2022/23 is to:

- Help Children to stay in the area with their families rather than being in expensive placements. Improving life opportunities and outcomes for our children.
- Reduce the cost of providing Children’s Social Care, through multi agency working.
- Reduce the relative high costs of providing children’s social care.

Getting the Basics Right

Improving and modernising the Council is about understanding and responding to the needs of our residents. This means getting our everyday services right each day in all areas e.g. fixing potholes, replacing street lights, answering calls quickly, ensuing our streets are safe and clean etc. Communities need assurance that we are providing value for money for the local taxes they pay and allocating resources to the areas that matter most to them.

To enable this, we will review all services to ensure they are providing value for money through the **Reforming Services Programme**. Drawing on benchmarking and intelligence information on other Councils’ operations it will review the cost and configuration of all services. The use of benchmarking and predictive modelling tool CFO Insights will assist with this approach. This online analysis tool that gives access to insight on the financial performance, socio-economic context and service outcomes of every council in England, Scotland and Wales. The tool provides a three-dimensional way in which to understand council income and spend by category, the outcomes for that spend and the socio-economic context within which a council operates. This enables comparison against others, not only nationally, but in the context of their geographical and statistical neighbours.

The aim across the period 2019 - 2023 is to:

- To be more efficient and assess Value for money – Making sure that we deliver our services in the most cost effective way possible – streamlining processes, joining up our back office functions and not spending money on administration that could be invested in services in line with our priorities.
- Review the mechanisms for delivering services to obtain the best fit for delivery to the residents of Wirral.
- Explore and enhance partnership working – working more in partnership with others in the public, community, voluntary and faith sectors, reducing duplication and delivering better outcomes for residents.

The total financial resource of the Council and wider partners needs to be maximised, prioritised and channelled to the right areas and activities. All financial planning activity will be targeted towards ensuring that resources are matched to the priorities identified in the Wirral plan, ensuring that statutory functions continue to be delivered and that enabling functions provide best value for money. Already the Council has examined and challenged the way services are delivered looking for improvements in the effectiveness of services to produce savings. It has also challenged the methods of delivery, who is delivering services the most cost effective services.

The increasing deficit to 2023 coupled with the ability of the Council to continue to get “the same for less” will become increasingly difficult and the emphasis for future years will be on the challenging services the Council continues to fund, integrating with partner organisation to get focus on the overall “public purse” and ensuring that efficient ways of working is at the heart of the organisation. Efficiencies alone will not resolve the funding gap. Difficult decisions on the range of services provided will need to be made and the Wirral Plan sets out the vision and framework for those decisions.

To be successful, the Council will call on all Wirral residents to play their part for example in playing an active role in the community and supporting local shops and businesses.

Conclusion and Next Steps

The financial challenge is considerable. For Wirral this means a funding gap of £67m over the next 4 years against an overall net expenditure of less than £300m per annum.

To respond and deliver the Wirral Plan the Council will over the period of the MTFS increase income, invest in services that support the delivery of the 20 Pledges and review what we do through Getting the Basics Right.

The total financial resource of the Council and its partners needs to be maximised, prioritised and channelled to the right areas and activities. All financial planning activity will be targeted towards ensuring that resources are matched to the priorities identified in the Wirral plan, ensuring that services continue to be delivered and enabling the provision of best value for money.

The successful delivery of the Wirral Plan and the MTFS in this challenging period is dependent on:

- A continuation of the new and focused approach to economic development in the area driving jobs and growth as the key to increasing and growing funding levels and sources. But also improving well-being for residents and bringing individual and organisational financial stability and resilience.
- A community approach to decisions and delivery with active community involvement with Wirral Together resulting in communities finding their own solutions and heling the area.
- A focus on early help and prevention to support independence and reduce demand on service.
- The prioritisation of resources to key areas.

The MTFS and budget development for 2019/20 will reflect the realignment of the Council, allocation of resources and its approach to financial strategy over the next four years. This will drive our approaches that will also lead to balanced sustainable budgets that support all Wirral residents, communities and businesses.

MEDIUM TERM FINANCIAL PLAN 2019/20-2022/23

A sustainable financial strategy to support our 20 Pledges

Financial Resilience Plan

Financial Resilience Plan: Management of Expenditure and Income

Introduction

The financial position for local councils continues to be challenging. To respond over the period, improving and maintaining financial resilience is a requirement that the MTFS needs to incorporate. It is about coping with the financial shocks and unpredictable events that take place. There are a number of ways of building resilience:

- Management of Spare resources.
- Use of Reserves.
- Income Generation.
- Forecasting and management of expenditure.
- Developing a holistic view of expenditure and spending.
- Rethinking the way services are delivered.
- Anticipating what is going to take place.

However, of these, two emerge as the main ones as follows:

- Improved Internal Financial Management - A major aspect of financial resilience is managing in changing conditions and contexts.

- Increased Income- Diversification of income through various Council approaches such as regeneration and commercialisation.

Review of Financial Resilience 2018/19

During the early part of 2018 a review of the Council's Financial Resilience and Financial Management has occurred with the aim of making this a key part of the delivery of the MTFS to 2023. This was started for the following reasons:

- Increasing Financial Pressures on local government raising the profile of the strength of financial resilience in the sector. High profile examples such as Northamptonshire County Council demonstrate that the sector is facing a number of stresses and strains following the austerity programme that commenced in 2010 with the election of the coalition government

- Wirral financial performance and resilience changing over the last two years. The council has faced increasing financial pressures in both 2016/17 and 2017/18. While the overall outturn for the Council for both years has been favourable there has been a reliance on one-off funding such as balances and in year solutions to mitigate and put in place actions to resolve adverse financial pressures that developed in major service areas part way through both financial years. Linked to this the following has been identified:

    - A clear reduction in the level of earmarked reserves. There has been an increasing use of earmarked reserves as temporary budget funding while budget proposals are implemented.

- Short term financial planning. The budget for 2018/19 was for one year only, rather than across a wider MTFS timeframe. There has been limited planning for future years savings and increased additional income.

- An increasing tendency for services to have unplanned overspends and/or carry forward the implementation of financial proposals from one year to the next.

- Increasing size of the budget gap with a higher proportion of the solutions being found from one-off funding if no specific savings and additional income having been identified.

- Organisational changes and a new senior management structure. A new structure presents an opportunity to review financial roles and responsibilities to ensure that there is appropriate management of budgets and understanding of roles and responsibilities.

- A new approach to budget preparation and management through greater Member involvement via portfolio responsibilities.

Building Financial Resilience: Review Findings and Action Plan

A combination of financial pressures in the last few years combined with increasing challenges in future years plus organisational changes make it an important priority to refresh and renew the Council approach to its financial resilience. Building financial resilience is a key part of the MTFS planning for our finances. A major part of this is getting the basics of financial management right especially given the pressures and changes that have occurred over recent years.

During 2018, we have tested our financial resilience plan with a diagnostic tool, the CIPFA Financial Management Model. The tool was used to assess the financial management arrangements in the operation and its findings are summarised in the points below:

<u>Strengths</u>

The high level strengths identified included:

- The outcomes based focus of the Wirral Plan demonstrates a willingness by Members and the Senior Leadership Team to be open to new ideas on how services might be delivered in future.
- The determination and commitment of the Senior Leadership Team and the Cabinet to instil a culture of financial discipline throughout the organisation.
- A budgeting process for 2018/19 and 2019/20-2022/23 that was becoming more grounded and rigorous.
- There are pockets of good practice in the Council.
- The Director of Finance has begun to raise the influence and profile of the Finance team on strategic issues.

Development areas

The areas for development:

- There is a pressing need to agree a Medium Term Financial Strategy and associated transformation plan to address the projected spending gap.
- The future delivery of the Medium Term Financial Strategy and transformation plans are dependent on changing the existing culture within the Council.
- Members and senior officials need to more explicitly set a tone that financial discipline is important.
- Focusing the finite resources of finance and audit on the key areas of financial risk.
- Further developing the enablers that provide effective financial management.

The Council continually reviews and improves its financial resilience to ensure it can demonstrate long-term financial sustainability. Since the diagnostic has been carried out, the areas for development have already been progressed and programmes are in place to support these.

The programme has 4 elements being the 4 elements for financial resilience:

- Getting routine Financial Management Right.
- Benchmarking – making this routine.
- Clear plans for the delivering savings.
- Prudent use of reserves.

General Fund Balances and Earmarked Reserves

Introduction

The maintenance of general fund balances and earmarked reserves at the correct level is part of the Council's strategic financial planning and approach to the management of risks it will face in the future. Both need to be maintained at sufficient levels to ensure that unforeseen financial pressures can be met without jeopardising the viability of the Council.

The Council's approach to how it manages its reserves is based on Wirral's local circumstances. The amount held is decided by the Council in line with its perceived future local demands. As such there is no standard approach to the level of reserves that could be applicable to every Council. Despite the certainty given by the four year funding settlement the financial future for the Council continues to be challenging and a number major uncertainties remain. In determining the appropriate level, the Section 151 Officer has assessed a number of local factors. In determining the appropriate level of General Fund balances the Council takes account of the strategic, operational and financial risks factors facing the Council. This approach is supported by Grant Thornton (the Council's external Auditors) and by CIPFA (Chartered Institute of Public Finance and Accountancy, the professional body which issues the guidance in this area).

Wirral Council adopts a risk-based approach to financial planning, which is used to determine the minimum level of reserves required. The aims of this approach are to:

- Ensure the General Fund Balances are set at a reasonable level – this is the Council's 'last line of defence' should unforeseen financial difficulties emerge. Funding for the New Ferry explosion is an example of where these balances have been used
- Ensure earmarked reserves are set at a reasonable level to cover specific financial risks faced by Wirral Council – these may also be used on a short-term temporary basis for other purposes provided the funding is replaced in future years.

Over 2016/17- 2018/19 the overall level of available funds has and will continue to reduce. The use of one off support was planned for these years to close the budget gap. However, for future years the budget gap will be closed through the implementation of the new financial proposals and additional income. Any bridging of the gap using general fund balances and earmarked reserves will only be considered as a last resort and will only happened in the early part of the MTFS timeframe.

General Fund Balances

Wirral Council's risk-based reserves strategy is applied in the context of the current state of the economy, the other financial risks facing the council and the underlying financial assumptions within the medium term financial plan. The level of the Working Balance must be maintained at £10m for 2018/19.

The setting and justification of General Fund balances is part of the Council Medium Term Financial Strategy. It is crucial the Council has sufficient balances, and earmarked reserves, to maintain financial standing and resilience. For local authorities there is no statutory minimum level and it is for each Council to take a view on the required level having regard to matters relevant to its local circumstances. CIPFA guidance issued in 2014 states that to assess the adequacy of unallocated general reserves the Chief Financial Officer should take account of the strategic, operational and financial risks facing their authority. The assessment of risks should include external risks, such as natural disasters as well as internal risks such as the achievement of savings. The Local Government Finance Act 1992 required Councils to consider their level of reserves at least once a year.

CIPFA state that the financial risks should be assessed in the context of the Council's overall approach to risk management. In its paper "Local Authority Reserves and Balances" the following factors are relevant to determining the level of balances.

- The treatment of inflation and interest rates.
- The treatment of demand led pressures.
- The treatment of planned efficiency savings/productivity gains.
- The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments.
- The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions.
- The general financial climate to which the authority is subject.

In determining the appropriate level of balances, the Council takes account of the strategic, operational and financial risks facing the Council. In planning the financial future and the level of reserves the Council considers the main risks and uncertainties including:

- Legislative changes
- Inflation
- Grants and Partnerships
- Volume and Demand Changes
- Budget Savings
- Insurance and Claims
- Energy Security and Resilience

The basis of the level of general fund balances framework are an area of risk, a budget amount, an assessed level of risk, and a percentage factor, which will vary according to the level of risk, which produces a value.

This has been Wirral Council's approach since November 2012 and is reviewed in line with CIPFA guidance. A consideration of the risks and the financial circumstances that might be faced by Wirral for 2018/19 has been made. The risk factors used in the Council's assessment are like those recommended by CIPFA guidance.

The calculation of the level of General Reserves Balances is as follows:

	2017/18	2018/19
Assessed Minimum Level of Balances	£10.0m	£10.0m

In is current anticipated that this level will be maintain across the MTFS timeframe.

Earmarked Reserves

The Council maintains earmarked reserves in addition to its General Fund Balances, which are set aside for specific purposes. The Council is obliged to maintain a number of Legally Restricted Reserves; these are sums of money that the Council is required to set aside for legally defined purposes (e.g. the Dedicated Schools Grant). Reserves are set aside by the Council to meet future expenditure such as decisions causing anticipated expenditure to be delayed. As such they are only available to be spent on specific purposes. The categories of earmarked reserves are as follows:

Category and Purpose
INSURANCE AND TAXATION Assessed liabilities including potential cost of meeting outstanding Insurance Fund claims, Business Rates appeals, etc.
TRANSFORMATION To support the Transformation programme, which includes support to to deliver future savings and the reconfiguration of services.
SCHOOLS RELATED Balances and sums for school-related services which can only be used by schools and not available to pay for Council services.
SUPPORT SERVICE ACTIVITIES AND PROJECTS Includes Government Grant funded schemes when the grant is received and spend incurred in the following year and sums held that are earmarked for the completion of programmes such as Community Asset Transfer.

A robust reserves strategy is a key part of the financial resilience of the Council and provides the first line of defence underpinning the statutory requirement to set an annually balanced budget. Adequate reserve levels help prevent local authorities from overcommitting themselves financially, mitigate against risk and provide organisational stability in the event of unanticipated, unforeseen or emergency spending being required. An assessment of the adequacy of reserves is a key statutory requirement to be undertaken at least annually.

The Council in recent years has increasingly relied on reserves in balancing the budget and in meeting service related financial demands. Actual general fund and earmarked reserves have reduced by £20m between 31 March 2014 and 31 March 2017, representing a 20% reduction. Looking forward, reserves are forecast to reduce further to £47m by 31 March 2019.

The Budget 2018/19 strategy does not provide for any replenishment of reserves but draws down some £15m as general budget support. This is not sustainable in the longer term and opportunities will need to be taken to contribute to reserves, wherever possible. Demands on the use of reserves will be restricted and closely monitored in the light of ongoing risks being faced by the Council.

The experience at Wirral is common to other Councils. A recent Study by the Office of Budget Responsibility contained details of the level of local authority reserves since 2010/11. This showed that in period 2015/16 and 2016/17, English local authorities drew down from their stock of reserves by £0.4 and £1.5 billion respectively. This reversed the build-up of reserves from 2010, which saw them rise by an average of just under £2 billion a year between 2010/11 and 2014/15.

Monitoring and Management

Compliance against a benchmark for general fund balances is monitored on a regular basis and reported to Members through the Revenue Monitor report. The aims of this approach are to:

- Ensure the General Fund Balances are set at a reasonable level- this is the Councils ‘last line of defence’ should unforeseen financial difficulties emerge;
- Compliance against this benchmark is monitored on a regular basis and reported to Members through the revenue budget monitor.

Summary

Although the budget position is very challenging and will remain so for the foreseeable future, the Section 151 Officer considers the level of reserves and balances to be reasonable for 2019/20-2022/23 based on:

- Working Balance of £10m, which assessed as reasonable given the financial risks the council is facing;
- Current level of general fund earmarked reserves.

The Council uses its reserves instead of making budget reductions the level of reserves held will reduce as they are used up. Reserves are being used in 2018/19 In future years will only be used to smooth budget changes. However, the budget changes required to balance the budget cannot be avoided using balances. In addition, using reserves means that the Council is less likely to be able to fund unforeseen events or plan for future transformational changes without the need to make further reductions in expenditure. A financial priority is the bolstering of reserves to fund support to future changes and provided financial resilience during the MTFS timeframe.

Capital and Treasury Management

Balance Sheet Management

Balance sheet management is a comprehensive approach to managing assets and liabilities to ensure that resources are used effectively (both financially and operationally) and that appropriate governance arrangements are in place around the use of public sector assets and liabilities. Failure to do this could expose the authority to a range of operational, reputational and accounting risks.

The Council already has embedded processes to review its fixed assets through the asset management strategies, for treasury management and borrowing. Over the course of 2018/19 it will undertake a self-assessment of the process for managing and making provisions for outstanding debtors to ensure that it is effective and will implement any appropriate changes.

Capital Overview

The MTFS includes the capital strategy for a three year period 2017/18 to 2019/20. The strategy is designed to maximise outcomes through a prioritisation of limited resource allocations. The Council will continue to identify future capital resources including on-going reviews of its own asset holdings, the latter aiming to generate receipts to be reinvested into its capital resources. In addition, the strategy seeks to minimise the level of unsupported borrowing where no additional source of income or saving can be identified to cover the ongoing revenue costs.

Capital Strategy

The Capital Strategy is concerned with, and sets the framework for, all aspects of the Council's capital expenditure – its planning, prioritisation, management and funding. It is closely related to and informed by; the Council's Asset Management Plan and is an integral aspect of the Council's medium term service and financial planning process as reflected in the MTFS. It is also essential that the strategy reflects the wider public and private sector investment into the overall improvement of the area.

The key aims of the Capital Strategy are:

- how the Council identifies, programmes and prioritises capital requirements and proposals;
- provide a clear context within which proposals are evaluated to ensure that all capital investment is targeted at meeting the Wirral Plan objectives;
- consider options available to maximise funding for capital expenditure;
- identify the resources available for capital investment over the three year planning period;

Treasury Management

The Treasury Management Strategy sets out the expected treasury operations for this period, linked to the Council's Medium Term Financial Strategy, Capital Strategy, Asset Management Plan and the Wirral Plan. It is inextricably linked to delivering the Council's priorities and strategy. It contains four key legislative requirements:

- The Treasury Management Strategy Statement which sets out how the Council's treasury service supports capital decisions, day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit required by Section 3 of the Local Government Act 2003 and is in accordance with the CIPFA Codes of Practice;
- The reporting of the prudential indicators for external debt and the treasury management prudential indicators as required by the CIPFA Treasury Management Code of Practice;
- The investment strategy which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the Department for Communities and Local Government (DCLG) Guidance on Local Government Investments updated in 2010;
- The Council's Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for capital assets through revenue each year as required by Local Authorities (Capital Finance and Accounting) Regulations 2008.

Revised editions of the CIPFA Prudential Code for Capital Finance in Local Authorities and CIPFA Treasury Management Code of Practice were published in November 2011. The Council has adopted the codes and the Treasury Management Strategy Statement 2018-21 reflects the updated codes.