Public Document Pack

WIRRAL

Policy and Resources Committee
Special Meeting

Date:	**Tuesday, 30 November 2021**
Time:	**6.00 p.m.**
Venue:	Palace Room - Floral Pavilion

Members of the public are encouraged to view the meeting via the webcast (see below), but for anyone who would like to attend in person, seating is limited therefore please contact us in advance of the meeting if you would like to reserve a seat. All those attending will be asked to wear a face covering (unless exempt) and are encouraged to take a Lateral Flow Test before attending. You should not attend if you have tested positive for Coronavirus or if you have any symptoms of Coronavirus.

Wirral Council is fully committed to equalities and our obligations under The Equality Act 2010 and Public Sector Equality Duty. If you have any adjustments that would help you attend or participate at this meeting, please let us know as soon as possible and we would be happy to facilitate where possible. Please contact committeeservices@wirral.gov.uk

This meeting will be webcast at
https://wirral.public-i.tv/core/portal/home

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AGENDA

1. WELCOME AND INTRODUCTION

2. APOLOGIES

3. 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.

4. PUBLIC AND MEMBER QUESTIONS

4a. Public Questions

Notice of question to be given in writing or by email by 12 noon, Thursday, 25 November, 2021 to the Council's Monitoring Officer (committeeservices@wirral.gov.uk) and to be dealt with in accordance with Standing Order 10.

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4b. Statements and Petitions

Notice of representations to be given in writing or by email by 12 noon, Thursday, 25 November, 2021 to the Council's Monitoring Officer (committeeservices@wirral.gov.uk) and to be dealt with in accordance with Standing Order 11.1.

Petitions may be presented to the Committee. The person presenting the petition will be allowed to address the meeting briefly (not exceeding one minute) to outline the aims of the petition. The Chair will refer the matter to another appropriate body of the Council within whose terms of reference it falls without discussion, unless a relevant item appears elsewhere on the Agenda. Please give notice of petitions to committeeservices@wirral.gov.uk in advance of the meeting.

4c. Questions by Members

Questions by Members to dealt with in accordance with Standing Orders 12.3 to 12.8.

5. MINISTERIAL EXTERNAL ASSURANCE REVIEW (Pages 1 - 82)

6. CONSULTATION TO CHANGE SCHEME OF ELECTIONS (Pages 83 - 88)

Policy & Resources Committee Terms of Reference

The Policy and Resources Committee has two main areas of responsibility, which is to provide strategic direction to the operation of the Council, including making decisions on policies and co-ordinating spend not reserved to full Council, and to maintain a strategic overview of outcomes, performance, risk management and budgets.

The Committee is charged by full Council to:-

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

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

(ii) on any cross-cutting policies that impact on other committee areas;

(iii) on policy matters not otherwise allocated to any other committee; and

(iv) to determine any dispute or difference between committees;

(b) provide a co-ordinating role across all other service committees and retain a 'whole-council' view of performance, budget monitoring and risk management, which includes responsibility for a decision:

(i) that has a major impact on a number of Council services or on the Council as a whole;

(ii) on any virement between Budget funds (revenue) requested by a Committee or officer in excess of **£100,000**;

(iii) on any virement between Budget funds (capital) or any amendment to the Capital Programme requested by a Committee or officer in excess of **£100,000**;

(iv) regarding land and property including major acquisition and disposals, which includes reserved decision making concerning any purchase, sale or transfer of a value in excess of, or likely to exceed, **£100,000**;

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

(vi) which is deemed significant in terms of impact on the Council's revenue or capital (to be determined by the Head of Paid Service and/or Section 151 Officer in consultation with the Leader);

(c) without limiting the generality of responsibility for cross-cutting policies (at (a) above), lead on behalf of the Council:

(i) in matters concerning relationships with HM Government, the Liverpool City Region Combined Authority and other major public and non-public bodies;

(d) appoint Council representatives as required;

(e) nominate councillors and other persons to outside bodies; and

(f) undertake responsibility for developing and monitoring the enabling corporate services, including, finance and investment,

project support and risk management, strategic procurement and commercial strategies, ICT, property and asset management, human resources and organisational development, law and governance, communications and public affairs, emergency planning and business continuity.

WIRRAL

POLICY AND RESOURCES COMMITTEE

Tuesday 30th November 2021

REPORT TITLE:	**MINISTERIAL EXTERNAL ASSURANCE REVIEW**
REPORT OF:	**CHIEF EXECUTIVE**

REPORT SUMMARY

The Council, having applied for exceptional financial support, received a capitalisation directive for 2020/21 and received an offer for 2021/22 subject to an external assurance review focusing on its financial position and on its ability, including the strength of its governance arrangements, to deliver its plans for medium-term sustainability. The reviews were commissioned by the Govt. Department with the intention of it resulting in an agreed plan between the Authority and the Secretary of State to address the review's recommendations.

The Minister has now written to the Council on 2nd November 2021 enclosing and publishing the two independent reports that make up the External Assurance Review (attached as Appendix A). The letter asks the Council to set out in writing, within the following month, the steps it is taking in the immediate and longer term to respond to the Review and implement the recommendations.

RECOMMENDATIONS

That the Policy and Resources Committee:

1. Authorise the Chief Executive, in consultation with the Leader, to provide a written response to the Minister's letter to the Council of 2nd November 2021 (attached as Appendix A to this report) in the terms of:
   - (a) acknowledging and accepting with the content of the reports;
   - (b) developing the recommendations for implementation; and, in particular,
   - (c) emphasising the adoption of the recommendations concerning:
     - (i) development of a financial recovery plan;
     - (ii) appointing an independent Panel to support the Council;
     - (iii) moving to a whole council scheme of elections, subject to consultation, to take effect at the earliest practicable opportunity; and
     - (iv) review the committee system to reduce the number of committees.

2. Authorise the Chief Executive to take such decisions as he considers necessary to implement the recommendations contained in the External Assurance Review (as outlined at Appendix B to this report), such decisions to be taken in consultation with the Leader and Group Leaders wherever appropriate.

3. For the remainder of the 2021/22 municipal year, agree to recommend to all policy committees that:

   (a) agenda be reduced so far as is practicable to only those matters associated with the effective maintenance of statutory services, the budget, budget and financial recovery plan development and responding to the external assurance process; and

   (b) all other matters, including all key and non-key decisions, be delegated to the relevant Director, in consultation with a committee's chair and group spokespersons where considered necessary.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 To be able to respond adequately to the letter from the Minister of State for Equalities and Levelling Up Communities of 2nd November 2021.

2.0 OTHER OPTIONS CONSIDERED

2.1 The Committee may disagree with one or more of the recommendations contained within the External Assurance Review.

- There may be a discussion to be had over the content of the reports in full, but all recommendations are considered to be a fair reflection of the Council's state of affairs and of the actions required to be taken at the time that the reports forming the Review were generated.

- Non-acceptance of any of the recommendations may put at risk the capitalisation directive requested by the Council or to cause the Secretary of State to grant a directive but for either or both a lesser amount than that requested and to be made subject to further conditions that might not have otherwise been added.

2.2 Not respond or reject the Review in its entirety.

- If no reply is made, or is unduly delayed, it is highly unlikely that a further capitalisation directive will be granted in respect of the 2021/22 Budget. It may further be considered a breach of the condition of the directive previously granted in respect of the period for 2020/21, leaving the Council with significant sums to make up and require one or more emergency budgets.

3.0 BACKGROUND INFORMATION

3.1 Further to decision of Policy & Resources Committee of 7th October 2020 (minute 9/2020-21 refers), the Council applied to the Secretary of State for a capitalisation direction to fund revenue expenditure incurred by the Council in respect of the pressures or income losses outlined in your request for exceptional financial support. This was in respect of the financial year 2020/21 and also for 2021/22.

3.2 On 10th February 2021 the Secretary of State issued a direction that the Council treat as capital expenditure, expenditure which:

(i) is either:

(a) revenue expenditure and meets the definition of an additional cost pressure as identified and agreed with the Ministry of Housing, Communities and Local Government (MHCLG) through the Authority's formal request for exceptional financial support; or

(b) any revenue expenditure not exceeding the value of income losses in the financial period 2020/21 as identified and agreed with MHCLG through the Authority's application;

(ii) is properly incurred during the financial period 2020/21; and

(iii) does not exceed a total of £9.0m.

3.3 It was additionally made a condition of the direction that:

(i) the Authority may only capitalise expenditure when it is incurred;

(ii) where expenditure is capitalised, the Authority shall charge annual Minimum Revenue Provision using the asset life method with a proxy 'asset life' of no more than 20 years, in accordance with the Department's Statutory Guidance on Minimum Revenue Provision issued by the Secretary of State under section 21(1A) of the Local Government Act 2003;

(iii) the Authority will undergo an external assurance review focusing on its financial position and on its ability – including the strength of its governance arrangements – to deliver its plans for medium-term sustainability. This is to be completed by the end of May 2021 unless a later date for completion is advised by the Department, and will be commissioned by MHCLG, with the intention of it resulting in an agreed plan between the Authority and the Secretary of State to address the review's recommendations; and

(iv) where the Authority's capital financing requirement is increased as a result of the capitalisation of expenditure under this direction, any further borrowing from the date of the capitalisation letter up to and including, but not exceeding, the increase in the financing requirement must be obtained from the PWLB (Public Works Loan Board), and must be subject to an additional 1 percentage point premium on the interest rate above the rate the loan would otherwise be subject to. This requirement does not apply to borrowing in relation to your Housing Revenue Account. Where any borrowing to which these conditions initially apply is refinanced, the conditions must continue to apply to the resulting borrowing.

3.4 Dates were agreed for the external assurance review, which was undertaken by CIPFA and Ms Ada Burns over a period in July and August 2021 by way of a series of interviews and observations.

3.5 The Minister has now written to the Council on 2nd November 2021 enclosing and publishing the two independent reports that make up the External Assurance Review, which is attached as **Appendix A**. The letter asks the Council to set out in writing, within the next month, the steps it is taking in the immediate and longer term to respond to the Review and implement the recommendations.

3.6 A decision upon a further direction for capitalisation for the year 2021/22 will be made based upon the assessment of the Council's written response.

3.7 It is considered that, whilst the reports were based upon a snapshot in time and further and greater detail and further consideration based upon discussion would have provided greater depth and clarity for the report

authors, the reports making up the External Review provide a fair and accurate reflection of the Council. The recommendations should, therefore, be accepted in full and acted upon.

3.8 The primary recommendations of the Review, and as highlighted in the Minister's covering letter, are considered further below. These and all other recommendations from the Review reports, reflection and actions resulting from them are set out in the table attached as **Appendix B** to this report.

3.9 Development of a Financial Recovery Plan

3.9.1 The Review makes the recommendation(s) that the Council:

- Within the next three months (and by the end of Quarter 3) develop a financial recovery plan for the three years 2022/23 to 2024/25;
  - a) the plan to be developed with the active engagement of Members, built from robust data, and following a training programme on local government finance;
  - b) all Group Leaders to engage constructively with the plan and support a dialogue with the public;
- Suspend all work on new initiatives which do not directly contribute to the development or implementation of the plan or are otherwise required to meet statutory obligations.

3.9.2 There are a number of individual recommendations that come together to inform development of the financial recovery plan which the Council's officers have been working towards with some vigour.

3.9.3 The Chief Executive authorised the Director of Resources to appoint additional resource to provide capacity and support in carrying out the duties of the s.151 Officer. The Director has since engaged Mr Stuart Fair, who brings significant experience of local government finance and supporting financial recovery. Mr Fair will bring forward a draft financial recovery plan by 31st December for consideration with the medium term financial plan (MTFP), which will be approved by Council to the same timetable as approval of the 2022/23 budget.

3.9.4 Mr Fair will undertake two sessions of Member training, commencing with a session for Policy and Resources Committee members on 24th November. The training programme is part of a wider organisational development plan that will be brought forward to the same timetable to support the implementation of the financial recovery plan.

3.9.5 The Chief Executive has facilitated a number of dedicated sessions with the political Group Leaders to position the requirements for the Financial Recovery Plan. The sessions have also sought to foster a more collaborative approach between the political groups to support the required decision-making to deliver the Council's financial recovery.

3.9.6 The Council therefore recognises the need for the Policy & Resources Committee to take a strong lead in the development of a robust financial recovery plan, plans for reshaping of council budgets and services and the setting of targets to achieve a balanced budget. An important early step in responding to the issues in the Review has been the establishment of the Finance Sub-Committee as of 25th October 2021. Meeting in a working group capacity as well as in a formal arrangement, it has now begun its work to facilitate an agile and swift approach to delivering oversight and feedback on the budget setting process.

3.9.7 It is intended that officers will develop and operate an approach to prioritisation which will be used as an assistance tool to assess which projects will be paused or stopped altogether as part of the response to the Review recommendations. This will, for example, lead to halting work to develop a Community Bank at this time, as ceasing the project was one of the direct recommendations of the CIPFA report. This approach is to ensure there is a sufficient level of corporate focus on delivering the Council's financial stability in accordance with the Review recommendations.

3.10 Appointing an Independent Panel

3.10.1 The Review makes the recommendation(s) that the Council appoint an independent Panel, with appropriate legal and financial expertise, to:

(a) advise and scrutinise the plan to provide assurance to the Council that it is robust and deliverable;

(b) monitor delivery of the plan and report to the Council on performance against the plan twice a year

The report also recommended that the Department for Levelling Up, Housing and Communities should consider the Panel's report on progress against the Plan to seek assurance that the Council is moving effectively towards financial sustainability

3.10.2 Steps have been taken to contact the Local Government Association to consider those persons who would be suitable and who would be in a position to support the Council in the actions it should take.

3.10.3 A process of selecting and forming the Independent Panel to assist and advise the Council is underway and forms part of the implementation plan included in Appendix B.

3.11 Whole council electoral scheme

3.11.1 The Review makes the recommendation(s) that the Council should move to implement a four year, "all out" electoral cycle at the earliest opportunity. The Council currently has an electoral scheme of councillors being elected by thirds for a term of four years by elections held every three years out of four. A whole council scheme (all-outs) is one where all councillors retire at the same time and their seats are made subject to an election once every four years.

3.11.2 A change to the electoral scheme requires a two-thirds majority vote at a Council meeting established for that purpose and only after a process of consultation. The resolution must state the year of the change and, once made, a decision on changing cannot be made again for a period of five years.

3.11.3 The various factors associated with the required consultation and its outcome, what practical and resourcing preparations are required for any change and the impact of other factors, such as the Boundary Commission' review, planned combined elections and the introduction of new legislation concerning the running of elections, are to be considered in a separate report to this Committee.

3.12 Reducing the number of committees

3.12.1 The Review makes the recommendation for Members to work with the Director of Law and Governance to review the Committee system to reduce the number of Committees, assign authority to the Policy and Resources Committee in respect of financial recovery, and significantly reduce the related administrative burden.

3.12.2 A review is underway of the Committee system. That review includes the questioning of all members, a comparison of other authorities and is being assisted by the Local Government Association. It is expected that the Constitution and Standards Committee will make receive this information and make a formal recommendation at its January meeting.

3.12.3 The Council's objectives in setting the committee arrangements are accountability, credibility, transparency, collaboration and timeliness, as defined in the Constitution. This accords with that in the Guidance that accompanied the introduction of the Local Govt Act 2000 of local governance arrangements of being efficient, transparent and accountable as defined in the Guidance. The Guidance goes on to state, however, that committee arrangements should take the broad form of there being:

> "no more than five committee(s) (excluding regulatory committees, area committees and joint committees) of the local authority with delegated functions from the full council to implement the policy framework and to put proposals to the full council for future policies and budgets" (policy & services committees).

3.12.4 Comparatively, there are currently nine unitary or London/Met councils with a committee system, of which:

- two councils have four policy & services committees;
- four councils have five policy & services committees; and
- one council has six policy & services committees.

Wirral currently has seven policy & services committees.

3.12.5 A report setting out these considerations in detail will be presented to the Constitution Committee of 14th December 2021, which will acknowledge the Review recommendations, note comment and direction from this meeting and advise that the Committee seek to reduce its policy and services committees to the five or less, as contained in the Guidance, and how that might be achieved.

3.12.6 As a response to the Review recommendations whilst this process unfolds, it is considered appropriate to respond by reducing the agenda of committees and increasing the delegation of officers accordingly, so that business transacted by the policy committees of the Council is primarily focussed on matters associated with the budget, budget and MTFP development and responding to the issues raised by or as a result of the Review. This in addition to matters associated with the essential maintenance of services and any matters that officers consider must be referred to Members. It is felt that this approach should continue until the Council has agreed the revised medium term financial plan (MTFP) and the implementation of a change in the committee governance arrangements.

4.0 FINANCIAL IMPLICATIONS

4.1 The development of an effective financial recovery plan is essential to the viability of the Council.

4.2 The Council's opportunity to operate within a balanced budget for 2021/22 will depend to a large degree on whether a further capitalisation directive is granted or not.

4.3 The cost of the independent panel is as yet unidentified and will be reported in due course.

4.4 Individual published decisions may be required in order to implement the Council's response to each recommendation. The associated financial implications will be considered at the time any such decisions are intended to be made.

5.0 LEGAL IMPLICATIONS

5.1 A capitalisation directive, and the ability of the Secretary of State to issue a directive and apply conditions a is set out in sections 16(2)(b) and 20 (treatment of costs as capital expenditure) of the Local Government Act 2003

5.2 Individual published decisions may be required in order to implement the Council's response to each recommendation. The associated legal implications will be considered at the time any such decisions are intended to be made.

5.3 Under s.15 of the Local Government Act 1999, if the Secretary of State is satisfied that the Council is failing to comply with its requirements as a best value authority, they may direct it to carry out a review of its exercise of

specified functions (a Best Value Review). The same legislation also empowers the Secretary of State to direct that the exercise of functions of the Council are undertaken by the Secretary of State or their nominee (known as commissioners), or that the Council comply with any instructions of the Secretary of State or their nominee in relation to the exercise of that function.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 The response to the External Assurance Review requires a realignment of the Council's resources to deliver the response to the recommendations and to focus on the development of a sustainable Medium Term Financial Plan (MTFP) as a result.

6.2 To support delivery of the MTFP and ensure it is prioritised around the implementation of the Wirral Plan, a Change Programme will be brought forward to the next meeting of this committee on 1st December 2021. The Change Programme will seek to ensure the Council's operating model is optimised and that a programme of service reviews is brought forward to harness opportunities for better integration and configuration and to achieve specified savings targets as business cases for service change are developed.

7.0 RELEVANT RISKS

7.1 Should capitalisation not be granted, then the Council is at risk of having to implement severe ongoing reduction in expenditure.

7.2 Not accepting or responding in a considered and appropriate manner to deliver effective governance and ongoing MTFP places the Council at risk both reputationally as an authority and within the Borough but also with Government and regulators, and financially in terms of a potential s.114 notice and/or further intervention.

7.3 If the Secretary of State considers that the Council is responding insufficiently to the External Assurance Review, then they may direct it to carry out a Best Value Review under s.15 of the Local Government Act 1999. Where specific failures are found, the undertaking of a Best Value Review often then leads to the imposition of commissioners to directly take over Council functions or for the Council to comply with their instructions. Equally, a failure in governance that leads to a s.114 notice (by the s.151 officer), a s.5 notice (by the monitoring officer) or a public interest report (by external auditors) would also likely lead to such a step.

8.0 ENGAGEMENT/CONSULTATION

8.1 On 15th November 2021 an all-Member presentation was made by Ada Burns and by CIPFA, the authors of the External Assurance Review's governance report and financial management report.

8.2 The Chief Executive intends to provide a weekly update on progress to Group Leaders, to be cascaded to Members of their respective political groups.

9.0 EQUALITY IMPLICATIONS

9.1 To enable the Council to comply with its equality requirements and to meet its objectives concerning equity, as set out in the Wirral Plan, the Council will need to be able to operate within a sustainable financial and governance framework.

9.2 Any consultation and individual considerations arising out of this report and implementation plan will include equality implications and an equality impact assessment will be completed as part of that consideration wherever warranted.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 The individual considerations arising out of this report and implementation plan will have due regard to the Council's Environment and Climate Change Action Plan and the 'Sustainability' working principle.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 To enable the Council to meet its objectives of community wealth building as embedded in the Economic Strategy as a key working principle, the Council will need to be able to operate within a sustainable financial and governance framework.

REPORT CONTACT: Paul Satoor, Chief Executive

APPENDICES

Appendix A (1)	Letter of the Minster encompassing the External Assurance Review
Appendix A (2)	Governance Report – External Assurance Review
Appendix A (3)	Finance Report– External Assurance Review
Appendix B	Response to Recommendations in External Assurance Review

BACKGROUND PAPERS

Letter of 9th October 2021 requesting capitalisation directive
Letter of MHCLG of 10th February 2021

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Policy & Resources Committee	7th Oct 2020
Council	1st March 2021
Policy & Resources Committee	9th June 2021

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Department for Levelling Up, Housing & Communities

Kemi Badenoch MP

Minister of State for Equalities and Levelling Up Communities

Department for Levelling up, Housing and Communities
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Cllr Janette Williamson
Leader, Wirral Metropolitan Borough Council

Via email:
janwilliamson@wirral.gov.uk

2 November 2021

Dear Cllr Williamson,

I am writing to inform you that I have today published the two independent reports that make up the External Assurance Review of Wirral Metropolitan Borough Council.

I would like to take this opportunity to thank you for your willingness to engage openly with the Review Team. I am, however, concerned that you have not fully acknowledged or perhaps even understood the severity of challenge that your Council faces. The Review has set out both financial and cultural challenges that need to be addressed at both Member and Officer level. I trust that the findings will help you to focus your Council on activity that will lead to sustainable change.

After careful consideration, I agree with Ada Burns' findings that, with the right support in place, the Council should be able to respond to these challenges. I will need assurance that the Council accepts these findings and are motivated to improve the Council's financial standing. This includes implementing the principal recommendations of developing a financial recovery plan and appointing an independent Panel. I am also keen to understand the Council's plans relating to the implementation of a four year "all out" electoral cycle.

As such, I would ask that you set out in writing, within the next month, the steps you are taking in the immediate and longer term to respond to the Review and implement its recommendations. Any faltering in this area would be of considerable concern and could lead to a reconsideration as to whether a different approach might be appropriate to secure the improvements that are necessary.

Your response to the Review findings will help to inform my final decision on capitalisation with respect to the financial year 2021/22 and any associated conditions.

Yours sincerely,

Kemi Badenoch MP

Minister of State for Equalities
and Levelling Up Communities

EXTERNAL ASSURANCE REVIEW - GOVERNANCE
WIRRAL METROPOLITAN BOROUGH COUNCIL

Ada Burns

September 2021

Contents

Appendices

1. Review Terms of Reference

1.1 A condition of Wirral Metropolitan Borough Council's capitalisation direction for 2021/22 was an external assurance review. In undertaking the governance element of the review, I was asked to determine whether "the Council has effective mechanisms in place to ensure that savings are delivered and that the Council are fully committed to sustainable transformation". In particular, the review was asked to consider the following themes:

- Governance, e.g. a sense of strategic vision and direction, adequate structure and internal processes, key senior posts filled with permanent appointments
- Culture and Leadership, e.g. positive and open relationships between Councillors and Officers, openness to challenge
- Financial Governance, e.g. the extent to which poor financial management has been caused by weak decision making, scrutiny of financial decisions and governance arrangements including for commercial investments
- Services, e.g. whether governance weaknesses have impacted upon the effectiveness and/or efficiency of service delivery
- Capacity and/or capability to improve, e.g. acknowledging problems and engaging with sector support; evidence that attempts at improvement (possibly with sector support) have been effective

1.2 The review was undertaken via a series of interviews, observation of Committee and other meetings, and reading. Details are included within Appendix A. I would extend my thanks to Officers and Members who have been helpful and generous with their time. I have had access to documents as required and while it would be better to undertake a review of this nature on site, the Council's use of webcasting meetings and Teams largely overcame any disadvantages from distance. This is a snapshot and inevitably some of the evidence from which I have drawn wider conclusions may be specific to that service/Committee. However, I have liaised with the Chartered Institute of Public Finance and Accountancy (CIPFA) team undertaking the finance review and drawn evidence from their research where appropriate.

2. Summary

2.1 Wirral Metropolitan Borough Council was established in 1974. It is a metropolitan district council, which is one of five in Merseyside, one of the 15 Metropolitan Districts of North West and one of 36 in the metropolitan counties of England. It also provides the majority of local government services in Wirral. It is a constituent council of Liverpool City Region Combined Authority with a population of 322,796.

2.2 Following the 6 May 2021 council elections, the council is no overall control with a political makeup of 30 Labour, 23 Conservative, 6 Liberal Democrat, 5 Green, 2 Independents.

2.3 The submission for a capitalisation direction of £19.68m over 2020/21 and 2021/22 noted three factors to the requirement for assistance: non delivery of savings as a consequence of Covid, increases in demand, and Covid related income losses not covered by Government compensation funds.

Overview

- The political and managerial environment over more than a decade has engendered a set of significant challenges to improvement and the financial sustainability of Wirral Metropolitan Borough Council.
- The request for a Capitalisation Directive, whilst necessitated by the specific challenges of the Covid Pandemic, has its underlying causes in the failure to ensure a sustainable financial model for the Council, the reliance upon balances and the failure to deliver on past savings plans.
- Elections in thirds, changes in political control, and changes in political Group leadership have, since the first election to the Council in 1973, worked against the stability needed to make and carry through long term strategies.
- There is no evidence of work from the Political Groups to build political consensus on medium term financial strategies that could cushion the impacts of the electoral cycle.
- On the managerial side persistent weakness in corporate culture and capacity have both contributed to serious service failings and to a current situation where much of the architecture of a well-run Council is being established or re-established.
- Improvements are being made by the current well respected Chief Executive, but by his own admission this is probably a five-year turnround programme.
- Approaches to managing change programmes, service reviews and improvements to commissioning are robust, but process heavy and run against the need for pace in releasing cashable savings.

- There is a disconnect between the likely and necessary outcomes of these new approaches and a political culture that has been resistant to making difficult decisions, for example in seeking to reduce staff numbers only via voluntary redundancy and natural wastage.
- Members are not receiving clear and consistent information on the Council's finances, on the choices open to them, and robust advice on the decisions required to achieve financial sustainability within the timescale needed.
- While the Council has a strategy and ambitions for Wirral 2025 there is no effective read across between the goals within the Wirral Plan and the financial realities and choices that will now need to be made.
- The move to a Committee system, implemented in the middle of the pandemic has clearly improved Member engagement but poses a further risk to the improvement journey because of its immaturity, its overelaborate design, and the administrative burden its placing on Officers.
- While budgets at the start of the year have been balanced, this has been based in large part on untested proposals which frequently have not been realised.
- The consequent movement within year and use of underspends and one-off funds to manage year end is imprudent and has also damaged the credibility of the budget strategy and plan. The Council's External Auditor issued a "qualified adverse conclusion in respect of the arrangements to secure economy, efficiency and effectiveness in the Council's use of resources" 2018/19 Audit report. And further noted that "we do not consider that the Council effectively set or controlled its budget in 2019/20".
- The added financial impact of Covid has resulted in the Council reaching a place where it has sought a Capitalisation Directive to buy sufficient breathing space to resolve the underlying issues in its revenue spend.

2.4 The following sections examine the constituent parts of the Councils operation and culture to determine if there is sufficient in place to avoid the need for any further assistance.

3. Governance

Strategies and Plans

3.1 There are a number of strategies and plans which taken together signal both the ambition of the Council and the approach to realising greater financial resilience and sustainability.

The Wirral Plan

3.2 This is a Strategic Plan for Wirral which has been refreshed (delayed as a consequence of Covid) and is currently being taken through the Committee process. The Plan sets out the overarching aspirations for Wirral. It aims to address deep seated inequalities and deprivation in parts of the borough whilst capitalising on the unique assets and opportunities that Wirral has to create a sustainable and equitable place to live and work. It appears to enjoy widespread Member support and work is underway to develop delivery plans for its key ambitions.

3.3 While referencing the intention to develop a financial sustainability strategy it is not clear what impact the urgent need to achieve a viable financial model may have on the timescale or approach to achieving the Plan's aspirations and ambitions.

3.4 Reading the Plan could lead one to conclude that there will be no adverse impact on service reach, quality, or cost to the user. It is unclear how this is to be achieved.

3.5 It is clear that there are significant economic growth opportunities and the Council is to be congratulated on the amount of external funding secured which will help to tackle the legacy of industrial decline. Models have been developed to map the realisation of income from these for the Council, nevertheless there is inevitably significant risk in delivery in regeneration, and it would not generally be advised to rely on new business rates or increased Council tax to balance the MTFP. This risk is not articulated in the budget papers.

Medium Term Financial Strategy (MTFS)

3.6 The five-year financial strategy, the MTFS, was appended to the Budget report to Council on 3rd March 2021. It contains many of the elements one would expect to see in a strategy – the role of benchmarking to identify high cost and high spend services, the role of fees and charges, housing and business growth, the need to review delivery arrangements for services, the role of demand management etc.

3.7 However, there is an absence of detail putting flesh on how these techniques and approaches were applied to the Medium Term Financial Plan and 2021/22 budget, and how they will drive the budget process for the next three years.

3.8 The first 2022/23 budget workshop observed, for Policy and Resources Committee, involved a series of slides describing only for their respective budgets, ideas from Officers on where savings or extra income for 2022/23 could be made.

3.9 The MTFS makes a link to the Wirral Plan ambitions but again does not signal the implications that a plan to reduce recurrent revenue spending will have on the timescale or approach to delivering these, as clearly recommended by the Council's Auditors.

3.10 This somewhat disingenuous drafting is evident in Committee reports too. For example, the development of a new Sport and Physical Activity Leisure Strategy was cited in interviews as a vehicle to reduce the very significant Council subsidy to a discretionary service. Within the MTFP Appendix E, agreed in March a saving of £1.380m is detailed as an outcome over three years. Given what we understand from interviews and from the MTFP appendices to be the desired outcome – a good service at significantly lower cost to the Council – one might have expected this goal to be explicit up front, with the Committee asked to agree the financial target to direct Officers. The two Committee reports to date do suggest that there may be financial implications, without indicating whether these are about growth or cuts. Anyone reading the reports could be forgiven for believing that the Council will invest more in its leisure assets and services. While Officers are at pains to reference tough conversations in private with Members on the required outcomes, it is an essential part of good governance that these outcomes are documented in reports, recommendations and decisions, and that accountability is clear.

Target Operating Model and Change Programme

3.11 The MTFS makes reference to the Target Operating Model (TOM) which is in draft, dated October 2020. Explicitly it says that its purpose is "not designed to address immediate financial challenges…but is a vehicle to financial sustainability over the medium to long term".

3.12 Again, many of the things one might expect are here, and there are programmes detailed within the body of the document with savings targets attached that apply these. The Change Programme is in development and is monitored by the Investment and Change Board (chaired by the Director of Resources). With assistance from CIPFA, the Programme Office is bringing forward robust and rigorous models to manage in particular a range of corporate savings with the goal of saving £7.4m in 2022/23. Much of this work will address issues highlighted within the Annual Governance Statements, including new commissioning models, greater rigour around contracting, lean and business process re-engineering.

3.13 However, while the architecture for reducing recurrent revenue spend is being put in place, a dialogue with Members, and the development of a cross party consensus on what will need to change, and how quickly is not apparent.

3.14 While it is of course possible and indeed essential that change programmes do improve outcomes, genuinely doing more or better for less, with the scale of financial gap Wirral faces this cannot be assumed to be the only outcome. The risk analysis for the Change programme, notes that "reliance upon voluntary redundancy and natural wastage" to reduce the establishment is "challenging".

3.15 The first step is an explicit message about the road ahead, from the Leader, the Chief Executive and from the statutory Officers in particular.

3.16 The ambitions of the Council are shaped by an understanding of the community it serves and by the laudable desire of any elected Politician to enable the best outcomes and opportunities for their residents. But these cannot be achieved without a clear plan as to how to operate within the resources known and projected to be available to the Council over a rolling three-year plan, and a dialogue with staff and the public on the journey ahead.

3.17 These three documents, the Wirral Plan, the MTFS and the TOM, need to be aligned in a clear, costed and timed plan in order to put the Councils finances on a sustainable footing. There needs to be clear accountability for what, how, and when steps to reduce recurrent revenue spend are to be delivered.

Committee System

3.18 Wirral MBC moved to a Committee system in the Autumn of 2020. It was developed in a very swift timeframe following the move to No Overall Control in the 2019 elections. The LGA provided support to the Council in developing its thinking and is lined up to support a review in the Autumn of the current year.

3.19 Potentially it has a valuable role to play in allowing space for deep Member involvement and consensus building, and transparency and engagement have been cited in every interview as a positive benefit of the move. This is particularly valuable in an environment of No Overall Control with five political groupings and elections in thirds.

3.20 However, there are significant risks to the ability of the system to support swift and sustained progress on finances. The risks sit with the division of responsibility and resources into seven Policy Committees, with the retention in addition of a Decision Review Committee. This poses a risk of fragmentation and delay, for example where corporate and service savings strategies need sign up from all Committees. The risks of fragmentation could be mitigated where there is a comprehensive Council financial strategy (as above) which Policy and Resources would lead and delegate to the Committees to drive forward. I've seen no evidence that this is in place and indeed the budget development process agreed by Policy and Resources Committee on 17th March 2021 revolves around a consideration by each Committee of only the budgets relevant to their responsibilities.

3.21 The number of Committees and requirements to ensure appropriate briefing of all the five Political Groups in the lead up to each meeting is posing a significant resource burden on the Council. The volume of papers and length of agendas is both an administrative burden and a likely distraction from a necessary focus on key decisions.

3.22 Further, the existence and procedures of the Decision Review Committee poses a risk to swift decision making, and it is difficult to understand the rationale for retaining a feature of the strong Leader and Cabinet model in a Committee system. For example, Policy and Resources Committee recommended a budget to Council in March that included an objective to raise £1m in car parking charges. This was agreed by all parties at full Council and the Environment, Climate Emergency and Transport Committee in June 2021 agreed the plan to achieve this sum. The decision was called in and the Decision Review Committee met on 29th July to consider this. I observed the Committee meeting between 6.00pm and 10.00pm by which time Officers had not participated in the process (beyond answering a couple of procedural questions). I understand that the meeting adjourned without a decision at 11.30pm.

3.23 Any budget proposal that reduces or cuts or increases charges for a service will be unpopular with a section of the public and therefore it may be assumed that as the Council gets to grips with its spending reductions that there will be more unpopular decisions to be taken. A Committee system which has the potential to delay implementation will work against achieving the Plan and restoring sustainable finances. Committee meetings would be more effective if procedures and processes ensured that they utilised Officer expertise and advice from the outset.

3.24 The forthcoming review should ensure that the Committee system is fit for purpose and should ensure in particular that the Policy and Resources Committee exercises leadership for the development and implementation of a robust financial recovery plan.

3.25 The Senior Leadership Team is complete with permanent appointments although it is noted that a number of these Officers are relatively new in post.

4. Culture and Leadership

4.1 There is universal praise for the style and achievements to date of the relatively recent Chief Executive, and the words used to describe the Council were "changing, improving, becoming more corporate, a cohesive Senior Leadership Team (SLT), ambitious, innovative".

4.2 The Chief Executive is regarded as accessible and open, but with a significant turn-around job still to do. A meeting of the SLT was observed and there was good engagement from all Directors on the agenda. There is praise too for the members of the Senior Leadership Team although differences expressed across the political divide.

4.3 In a Council engaged on a significant improvement journey, it is particularly important that the three statutory Officers are giving clear leadership and robust advice to Members. The weakness in financial grip and the cumbersome nature of the Committee system are not helping to achieve the momentum required.

4.4 It was noted that as might be expected there is ongoing work to ensure that management culture and capability is similarly focused on improvement, and this may be impacted on by historic recruitment difficulties and the need to avoid compulsory redundancies. A People Plan is in place and supporting improvements on appraisal, and succession planning. The scheme to significantly grow apprenticeships across the Council is a positive development to manage an ageing workforce and contribute to the Wirral Plan goals.

4.5 Wirral MBC is a self-declared "member led" Council and as with the Committee processes observed this is evident in a more transactional form of relationship with Officers. Officers prepare reports and then step back while Members debate and decide how they want to proceed, although there are more informal negotiations behind the scenes.

4.6 In the 2021/22 budget setting process Members at a late stage of the budget build rejected £2m of Officer proposals in favour of alternatives which might not be expected to have had the degree of rigour that would give the S151 Officer assurance.

4.7 This episode could be the consequence of a lack of confidence in what Officers were bringing forward, a desire to reinforce political strength, or a more fundamental lack of understanding of the scale of financial problem and the decisions that are going to be required in the years ahead.

4.8 With leadership comes accountability and, in a Member-led Council, one expects to see a high degree of accountability exercised for delivery of key priorities and in this instance financial stability and resilience. That has not been observed in this process. Leading Members interviewed did not articulate a common view of how the Council was to achieve financial stability, and interventions within Committees and meetings observed did not demonstrate a strong directive to Officers to prioritise the MTFS. The existence and use of the call-in power

provides a further opportunity for Members to engage in point scoring at the expense of their responsibility to the people of Wirral.

4.9 Wirral MBC has apparently struggled with conduct issues in the past and while references were made to “robust” challenge and questioning, this was not observed and assurances were received that poor behaviour would be called out.

4.10 It is the case that Officers who have risen in seniority during the years of the strong leader and executive model will have had less exposure to politicians than within a committee system, and it may be that more training is necessary to ensure that they make their input appropriately and effectively.

4.11 Given that there is apparently a good Officer/Member relationship and given the confidence Members have in the Chief Executive, then it may be expected that Officers would be comfortable to ensure that robust advice is given the Members.

4.12 For example, Officers have invested time in exploring at the request of Members a Community Investment Bond idea, and there is a commitment to support the development of a Mutual Bank for Wirral. While both ideas undoubtedly fit with the ambitions in the Wirral Plan, they are risky, will not contribute to the immediate challenge the Council faces, and will consume Officer time in a service area where capacity is said to be very thin. One would expect Officers to give very clear advice to Members that these and other new initiatives should be deferred for any further consideration until finances are on a stable and sustainable footing. This has not been observed.

4.13 The statutory assurance from the S151 Officer in the budget papers appears as Appendix 10 and many hundreds of pages beyond where one might expect she would want Members to focus their attention.

4.14 In the political leadership there have been changes within the last year in the two main parties. Both the Council Leader and Conservative Group Leader are in their first period in these senior roles. The Council Leader has drawn on support from the LGA.

4.15 In a Council in the political and financial situation that Wirral finds itself in, building relationships across the Groups can enable agreement to be reached on key plans and strategies. While Covid has not helped, there was an appetite from Group Leaders to have more engagement with the Leader to build trust and consensus where possible.

4.16 **So, while relationships appear to be functional and there is respect and communication, there is a need for both the Chief Executive and Leader to make sure that the whole Council is focused and accountable for addressing the challenges the Council faces.**

5. Financial Governance

5.1 There are continuing weaknesses in assurance and grip on finance which pose an ongoing risk to achieving financial sustainability.

5.2 There is no mandated training for Members on local government finance and the challenges facing Wirral MBC. In some instances, and particularly with the electoral cycle bringing new members onto Committees, the levels of financial literacy are low and Members interviewed have expressed a wish to be better informed.

5.3 The Corporate financial system underpinning financial monitoring and management is out of date and being replaced, although Adult Services are able to utilise more up-to-date and responsive software. It may be as a consequence of the poor infrastructure but for the Policy and Resources budget workshop the quality of financial data provided for Members to consider spending reduction proposals was very poor and limited. Some Members have expressed a desire to see detailed budget data in Committee to underpin savings identification but this has not as yet been provided.

5.4 Without a dialogue with Members based on comprehensive data on all budget lines, Officers run the risk of their savings proposals again being rejected at a later stage in the process.

5.5 It appears that not all savings proposals included within the 2021/22 balanced budget are founded on robust business cases and accurately profiled, a finding previously referenced in External Audit reports.

5.6 As an example, in the May finance updates for SLT, and just two months into the new financial year, some £3m of the £20m agreed savings proposals were noted as undeliverable. £1.4m of these relate to the Environment, Climate Emergency and Transport Committee and the update makes reference to “options on how to implement” the savings proposals being considered at the June Environment, Climate Emergency and Transport Committee.

5.7 In an agenda pack of 132 pages, the update on budget monitoring comes at page 82. It notes that of the savings attributable to the Committee, the £1.3m saving from the installation of LED lights will not be achieved in full as the sum was based on a 2018/19 estimate. The report also notes that because of the need to agree how to implement the other savings attributed to that Committee, only a part year saving can be assumed to be deliverable. The Committee only considered options for car parking income achievement which was the subject of a Call In.

5.8 It is reasonable that all of these items were included in the 2021/22 budget proposals, but they should have come with a realistic assessment of the timeframe for delivery and profile over the two or three years required. That however would have resulted in a further hole to be filled and it may be assumed that that was felt to be too difficult to do.

5.9 But the practice of producing a very optimistic balanced budget each year and then having significant in year movement undermines the credibility of work to focus minds on the choices to be made.

5.10 Within the remit of the Change Programme, work is progressing to develop a new model of Commissioning and much tighter procurement and contract management. There is evidence of improvement in the amount of spend incurred without purchase orders in the latest Annual Governance Statement. It is proposed to create a Procurement Board to exercise a stronger corporate grip on contracting and contribute to savings.

5.11 It was noted that the draft Commissioning Model places a very significant focus on delivery of the Council's Social Value objectives but less on how these need to be balanced off against spending reductions from contracts. Similarly it was noted that the establishment of the Procurement Board will require further consultation with commissioners across the Council. Given evidence from elsewhere that it can save money there does not appear to be a good reason to delay.

5.12 In terms of how corporate strategic risks are managed the most recent Risk Strategy considered in July 2021 by the Audit and Risk Committee is incomplete and cannot be regarded as supporting assurance on the most significant risks facing Wirral.

5.13 There are gaps in the scores attributed to key risks (and no explanation on what the scores represent), no details on the target score (recognising that many risks cannot be eliminated), and no dates for mitigating actions to be completed.

5.14 In particular, it would be expected that the issues highlighted within the External Audit report as posing risks (investment in arm's length companies for example) would be highlighted within the register.

5.15 Given the immaturity of strategic risk management, and the fragility of Council finances, it is of concern that the Council is projecting an additional £1m income from Treasury Management activity in 2022/23 by adjusting risk appetite.

5.16 As noted above, the Council is engaged in an exciting and hugely significant programme of regeneration which will re-shape the physical environment. It has been very successful in accessing external funds. Given the complexity of the many programmes and many different funding routes, it may be expected that specific and careful consideration is given to the risks to the Council within the Programme. This has not been observed.

5.17 The Annual Audit Letter and report has not been considered by Policy and Resources Committee, which might be expected given its conclusions on value for money.

5.18 The quality of financial leadership in any authority is pivotal, and it needs to be confident, clear, and transparent, have and exercise the authority to drive delivery of agreed plans.

6. Services

6.1 The review examined in brief four key service groupings which have the potential to be damaged by weaknesses in governance, and to damage financial recovery plans.

6.2 In respect of Children's Services, the issues around governance were not observed to have impacted negatively upon the ongoing improvement plans. This may be a legacy of the fact that prior to the move to a Committee system there was an Improvement Board with good Member engagement following the Ofsted notice. There is an experienced Director in place since the Spring and clear evidenced plans to reduce and manage demand and placements were seen. It may be expected however that as with other local authorities across the country there will be new pressures on safeguarding expenditure as children re-engage with face to face services. **It will be important therefore to see a strong Corporate focus on ensuring that cashable savings are released from the investments made to manage demand and placement costs.**

6.3 In respect of Adult's Services there is an experienced Director in place and clear evidenced plans to reshape conversations to a strength based model, with investments secured from the Better Care Fund. The Department in particular has a role to play in supporting the emerging new commissioning model and ensuring that this delivers best value. **Savings plans appear to be on track but these are ambitious going into future years and continued focus is required**, along with continued good engagement with the development of the ICS.

6.4 Wirral is seeing, after many years of stagnation and false starts, the signs of regeneration bearing fruit, with stronger relationships with key agencies such as the Combined Authority and Homes England. The Director is relatively recently in post and is taking steps to increase the capacity of the Officer team. There are, within the Annual External Audit report, ongoing risks associated with the companies and vehicles set up to drive delivery and given the scale, the pace and the complexity of schemes and funding, it is very important that these risks are addressed and explained fully to Members.

6.5 There may be merit in commissioning a Peer Review of capacity, risk and oversight of all aspects of regeneration plans and delivery.

6.6 Neighbourhood Services holds a major part of the discretionary spend and the relatively new Director is bringing energy to the service reviews and to supporting corporate improvement around performance management.

6.7 As reviews bring forward savings proposals that are likely, as with car parking charges, to prove unpopular with sections of the public, she needs the explicit backing of Members and SLT to drive implementation.

7. Capacity and/or Capability to Improve

7.1 The Council is very open about its improvement journey and it is reassuring to hear of the extensive use of support from the LGA, and CIPFA. The LGA supported the implementation of the Committee system and is to undertake a review in the Autumn. The Council has agreed to a Corporate Governance Peer Review and while there is a risk that this distracts the Council it may offer opportunities for further reflection on wider improvement, especially in the context of building more cross party consensus.

7.2 The SLT has undertaken team and leadership development, and within its People Plan work is underway to refresh the appraisal process, communications and engagement. Capacity may be an issue although this was not examined in great detail.

7.3 An area of risk, however, is ensuring that there is sufficient financial and legal expertise assigned to the very complex and fast moving delivery and investment vehicles in regeneration. Pleasure at seeing external funding secured and schemes progressing after many years of false starts may be bringing a degree of optimism that clouds a rigorous and healthily sceptical view of the financial risks.

7.4 External support has been secured to develop a new Economic Strategy. There are resources allocated to the Change programme office and to develop delivery plans around the Wirral Plan.

7.5 The LGA has supported the new Leader with a mentor. Extensive work has been undertaken to refresh the Member Training and Development arrangements with a new Member Portal and induction although as noted above mandated training does not include local government finance.

7.6 In service areas additional capacity and expertise is being drawn down to support the redesign of services, and in particular children's and adults social care services where relationships and opportunities to work across other the NHS, schools and other public services is being taken.

7.7 There are however a number of areas of weakness identified which are particularly pertinent to the focus of this review.

7.8 The Director of Resources has a wide span of responsibility and some gaps in her department. A relentless focus on the numbers, on the plans short and medium term, an absolute grip on delivery, and the development of the costed, timed plan to achieve financial stability is needed from the Director and she may not have the capacity to lead this.

7.9 Support to the Director is required to help her to move beyond an annual hunt for euphemistically described "savings" so that she can land and carry through specific recommendations on the actions required for stability and the rebuilding of reserves.

7.10 As noted above the tone of Officer engagement with Members set by the Chief Executive needs to be more assertive on the actions required, the tough decisions, the need to park new initiatives (unless they contribute cashable savings), and the priority for Wirral Plan delivery activity to focusing on sorting the money first.

7.11 The relative inexperience of the Leader and the impact of Covid on face to face engagement at a time of huge challenge for Wirral represents a potential risk to improvement. There is an urgent need to see across the Political Groups strong and very public political leadership and priority to the requirement to build financial stability. As noted above, the challenges of the electoral cycle, if it does not change, require the building of a solid cross party consensus around delivery of the financial recovery plan, and this needs to come from the Leader with the support of the statutory Officers.

7.12 The electoral cycle and the particularly volatile politics of some Council seats in Wirral is a barrier to continued improvement. While Members interviewed have expressed total support for the model, the advantages of securing a four year window to undertake the sort of radical remodelling of services and finances needed should be reconsidered.

7.13 The Committee system as already noted is offering greater engagement and this could be very powerful in bringing Members to collective decisions and consensus on the money. But it is overly elaborate, and is creating too much of an administrative burden, not just in the number of Committees but in the length of agendas, and the volume of papers and reports.

7.14 **As noted above, the Council is on an improvement journey, has a respected Chief Executive who is bringing about demonstrable improvements in governance, performance and reputation, has an increasingly cohesive senior leadership team, and has tackled some of the weaknesses of the former Strong Leader and Cabinet model in terms of Member engagement. However, the financial impact of Covid has accelerated the pace at which sustainable transformation needs to take place and this Rapid Review has not been able to conclude that the governance, leadership and mechanisms are yet in place to take assurance that this will be achieved**.

8. Recommendations

Wirral Metropolitan Borough Council should:

Financial Recovery

- Within the next three months (and by the end of Quarter 3) develop a financial recovery plan for the three years 2022/23 to 2024/25;
  a) the plan to be developed with the active engagement of Members, built from robust data, and following a training programme on local government finance;
  b) all Group Leaders to engage constructively with the plan and support a dialogue with the public;
- Suspend all work on new initiatives which do not directly contribute to the development or implementation of the plan or are otherwise required to meet statutory obligations.

  See Note

- Appoint an independent Panel, with appropriate legal and financial expertise, to:

  (a) advise and scrutinise the plan to provide assurance to the Council that it is robust and deliverable;
  (b) monitor delivery of the plan and report to the Council on performance against the plan twice a year

- The Department for Levelling Up, Housing and Communities should consider the Panel's report on progress against the Plan to seek assurance that the Council is moving effectively towards financial sustainability

- Wirral Metropolitan Borough Council should move to implement a four year, "all out" electoral cycle at the earliest opportunity

Additional Recommendations for Wirral MBC

- Prioritise income from growth to support the re-building of reserves
- The Director of Resources to ensure that <u>all</u> reports include explicit financial implications
- The Chief Executive to review the portfolio of the Director of Resources to ensure that she has the capacity and support to develop and manage delivery of the financial recovery plan
- Undertake an LGA Corporate Governance Peer Review at an appropriate point to further underpin broader improvement in governance and outcomes
- Consider commissioning an LGA Peer Review of its arrangements for regeneration

- Strengthen its approach to management of corporate risk and ensure better visibility on key risks
- Consider the Annual Audit letter at Policy and Resources Committee
- Members to work with the Director of Law and Governance to review the Committee system to reduce the number of Committees, assign authority to the Policy and Resources Committee in respect of financial recovery, and significantly reduce the related administrative burden

Note to the Financial Recovery Plan

- the Plan to be constructed from robust and comprehensive data on spend, with Members able to see the distinctions and sector benchmarks for statutory and discretionary services
- the Plan to be costed and realistically profiled over the three years
- all service reviews to include a financial goal at the outset as a success criteria
- the Plan to exclude estimated income from growth or other one off funding; there may be an exception to this in the first year of the Plan as a result of the profiling of spending reductions/recurrent income increases

Appendix 1

Evidence Pack

1. General:
LA overview briefing
LGA headline report (from LG Inform)
Capitalisation Direction Submission[1]
FISA review
FISA review Appendix 1
FISA review Appendix 2
Wirral Data Pack

2. Financial:
External audit plan 2020/21
External audit findings report 2019/20
Statement of Accounts for last financial year 2020/21
Budget **2020/21** and Medium Term Financial Plan[2]
Budget **2021/22** and Medium Term Financial Plan
Budget Monitoring 2021/22 and Budget Process 2022/23
Provisional outturn for capital 2020/21
Provisional outturn for revenue 2020/21
MTFS and FRP 2020/21 – 2024/25
MTFS and FRP 2019/20-2022/23
2021/22 Budget Monitoring and 2022/23 Budget Process report
Medium Term Financial Strategy and Resilience Plan

3. Governance and Committee Reports:
Annual Governance Statement 2019-20
Wirral Council Corporate Plan 2025
Target Operating Model October 2020
Committee System Structure
Overview and Scrutiny Committee Annual Report 2018-19
Audit and Risk Management Committee Annual Report 2018/19
Internal Audit Annual Plan 2020-21
Internal audit update March 2021

June/July Committee Agendas for
Adults Social Care and Public Health
Audit and Risk Management
Decision Review Committee
Economy Regeneration and Development
Environment, Climate Emergency and Transport
Tourism, Communities, Culture and Leisure
Policy and Resources

Presentation slides for Policy and Resources Committee Budget Workshop
Investment and Change Board papers 2/08/21

4. <u>Other:</u>
Ofsted Inspection of LA Children's Services 2019
Ofsted Inspection of LA Children's Services 2016
LGA Corporate Peer Challenge Report
Relevant local media stories

Interviews

Paul Satoor, Chief Executive
Cllr Janette Williamson, Leader

Shaer Halewood, Director of Resources
Nicki Butterworth, Director of Neighbourhoods
Graham Hodkinson, Director of Adults Care and Health
Alan Evans, Director of Regeneration
Phil McCourt, Director of Law & Governance and Monitoring Officer
Simone White, Director of Children's Services
David Armstrong, Assistant Chief Executive

Cllr Tom Anderson, Conservative Group Leader
Cllr Phil Gilchrist, Lib Dem Group Leader
Cllr Steve Hayes, Independent Group Leader
Cllr Pat Cleary, Green Group Leader
Cllr Kathy Hodson, Chair of Audit and Risk Committee
Focus Group – Cllr Yvonne Nolan, Chair of Adults, Cllr Wendy Clements, Chair of Children, Cllr Elizabeth Grey, Chair of Environment, Cllr Helen Cameron, Chair of Tourism

Claire Hogan, LGA Principle Advisor

Observed

Policy & Resources Committee
Policy & Resources Committee Budget Workshop
Decision Review Committee
Group Leaders Briefing
Senior Leadership Team

CIPFA

Peopletoo
it works better with you

Department for Levelling Up, Housing and Communities

Local Government Finance Review – Wirral Council

November 2021

FINAL

Table of contents

1. Executive Summary

1.1 General introduction about the review

Wirral Council requested Exceptional Financial Support from the Department for Levelling Up, Housing and Communities (hereon DLUHC) for 2020-21 and 2021-22 to help it balance its budget by raising capital borrowing to support some of its revenue expenditure. Accordingly, DLUHC, commissioned CIPFA to undertake an independent and detailed financial assurance review of Wirral Council (the Council).

The financial challenges facing the Council are not solely attributable to dealing with Covid. The prevailing culture amongst officers and Members in the Council prior to Covid had been to avoid difficult financial decisions and thus the General Fund reserves needed to meet unexpected events had already been reduced from 8 per cent of net revenue expenditure in March 2018, to an anticipated 3.3 per cent by March 2022. The prevailing culture has been attributed, in part, to political differences between parties contributing to a lack of consensus amongst Members, but it also reflects how the relationship between officers and Members has failed to deliver a realistic and viable financial strategy.

The Wirral peninsula benefits from tourism in some areas and suffers considerable deprivation in other areas. None of the political parties has overall control of the Council and the political uncertainty is exacerbated by holding elections in thirds, which means that the main parties are always focussed on the next election. The significant delays in agreeing a Local Plan illustrate the difficulties in reaching consensus on a strategic direction.

Officers consider that the Exceptional Financial Support will enable the Council to balance its budgets for 2020-21 and 2021-22 and that from thereon its ambitious programme of regeneration, coupled with a focus on prevention measures, will strengthen its financial resilience. The programme of regeneration does have the potential to revitalise parts of the borough, but this growth-based strategy will take time and is unlikely to address the immediate financial challenges that the Council faces.

The regeneration and prevention agenda also exposes the Council to a higher level of risk with its involvement in a regeneration company and the potential investment in a community bank. It is unclear whether the Council fully understands these risks.

The Medium-Term Financial Strategy (MTFS), presented by Officers to the Council, to address the financial challenge is not explicit about the scale of the challenge or the tough choices that will need to be made to deliver it. The plans rely on considerable savings of some £80m up to 2025-26 and the Council has failed to deliver over 25% of its savings in the last two years. Reserves have reduced in recent years and are lower than similar councils, which means that any failure to deliver savings will impact quickly on the Council's ability to set a legal balanced budget.

There is little evidence of Member support for key savings initiatives, particularly those that require considerable reorganisation with the potential need for redundancies. Rather than addressing this issue, Council Officers have instead developed plans to undertake service reviews that do not have any clear remit to deliver significant savings. On this basis, there is a significant risk that the Council will not be able to balance its budget over the period of the MTFS.

Current financial plans do not address the prevailing culture, which avoids making tough decisions and are by no means certain of success. Current savings plans are tactical in nature and do not represent a clear well thought through plan to address the financial challenges that the Council faces in the medium term. In short, there is no plan to fundamentally reshape the way the Council allocates resources to balance the budget over the period of the MTFS. Until Members and officers face up to the need to have to make difficult decisions on its finances, its financial sustainability remains uncertain.

The Exceptional Financial Support requested by the Council is required to bridge the budget gap in 2021-22. There is a high risk that the budget gap for the year will widen further, but there should be sufficient funding and reserves to meet such variances.

The forecast budgets for subsequent years, however, are extremely optimistic. Action is needed from the Executive Team to develop a more robust and realistic Medium-Term Financial Plan (MTFP), which takes a more realistic view on the delivery of savings and a more strategic and long-term view about the allocation of resources across competing council services. In short, there needs to be a clear plan about how the Council will reshape its finances and the services that they fund. As many of the savings identified in adult and children's services over the medium term are likely to be required to mitigate continued cost pressures, the focus for additional savings will need to be within the activities overseen by the Neighbourhoods directorate. Securing Member support and buy-in will be crucial for these tough decisions if the Council is to achieve medium term financial stability so that it does not need to rely on further capitalisation or be subject to a S114 notice.

Our view is that the Council's claim for exceptional financial support in the form of a capitalisation direction is reasonable and necessary subject to the following conditions that the Council needs to implement to improve its financial resilience.

Recommendations on strengthening financial sustainability

A. **On reserves:** Develop a mitigation plan for outturn variances in 2021-22

   We are concerned that the substantial savings within the current year budget may not be delivered and that this may put further pressure on reserves that are already at a low level.

   We recommend that the Council should: -
   - Carry out a more realistic assessment of the current year savings and the extent to which they will be delivered in the current financial year
   - Identify and pursue additional savings, such as in the Neighbourhoods directorate and in staffing efficiencies that, if necessary, can be used to offset current savings that are unlikely to be delivered in the current financial year

B. **On reserves:** Develop a plan to rebuild general reserves over the period of the Medium-Term Financial Strategy

   Reserves are too low to protect against unforeseen spending pressures or manage the risk of under-delivery of savings. They are also at a lower level than most similar unitary councils.

We recommend that the Council should: -

- Undertake a review of financial reserves that considers increased risks in terms of savings delivery and those associated with Council's companies
- Review the level of earmarked reserves to determine whether they are still required for the purpose that they were established with a view to using any monies that are no longer required to rebuild general reserves to a level that adequately mitigates the risks to longer financial sustainability
- Build in an obligation to increase the General Fund reserve in line with the above risks assessment over the period of the MTFS.

C. **On future sustainability:** Prepare a more realistic Medium-Term Financial Strategy that better reflects the challenges facing the Council

The current financial strategy is unrealistic about the impact of regeneration and preventative measures to help the council balance its budget in the medium term. It is not explicit enough about the tough choices that will need to be made over the period of the MTFS to balance the budget and deliver existing savings plans.

We recommend that the Council should: -

- Ensure that the Strategy is explicit about the challenges facing the Council and the tough choices that it will need to make
- Adopt a realistic approach to regeneration and prevention measures and the limited impact they may have on the MTFS in the short term.
- Seek Member approval either through Council or the Policy and Resources Committee for the updated MTFS at the start of the budget process to set the framework for committees to consider outline spending plans or budget options.

D. **On future sustainability:** Update the Medium-Term Financial Plan so that it provides a realistic assessment of the financial challenge facing the Council

It is essential that future financial projections are realistic and identify clearly the potential scale of the financial challenge. No one can accurately predict the future with total certainty, and it is therefore important that Members understand the assumptions made within financial projections and how the size and scale of the challenge can be affected by relaxing assumptions. It is also important that the financial projections do not take an overly optimistic view of future income.

We recommend that the Council should: -

- Use a sensitivity model to show the potential range of the funding gap over the period of the MTFP if various key assumptions e.g., inflation/pay/council tax are changed.
- Use a risk-based approach to the delivery of savings within the MTFP. Factor in the likelihood that a proportion of savings will not be delivered each year
- Revise the MTFP to correct the errors identified in relation to post Covid income
- Remove the assumed profit share from the Wirral Growth company as this should not be relied upon for financial planning purposes

E. **On savings plans:** Engage Members at an early stage in identifying savings

As a member-led organisation, Members need to take more responsibility for managing the budget process at the outset. This includes setting out clear savings targets for committees as well as engaging at an early stage with the tough decisions that need to be taken to deliver more challenging savings that may involve redundances and service reductions.

We recommend that the Council should: -

- Task the P&R Committee with specifying the parameters, assessment criteria and targets for the savings required from each Committee as part of the process for agreeing the Medium-Term Financial Strategy at the outset of the budget process.
- Set challenging targets to identify additional savings in existing high-spend areas, such as the Neighbourhoods Directorate, for consideration by Members of the P&R Committee.
- Set clear financial targets for any service reviews in line with the Medium-Term Financial Strategy. This should include a review of the benefits and costs of discretionary spend. (P&R Committee).
- Task the Senior Responsible Officers for each planned saving to develop detailed delivery plans that can be signed off by Members at the relevant Committee. (P&R Committee).
- Establish a working group of the Executive Team and all Group Leaders to develop a robust Medium-Term Financial Strategy and associated plans for a more fundamental reshaping of council budgets and service delivery to achieve a balanced budget.
- Task the P&R Committee with regularly reviewing progress with the delivery of savings so that any slippage can be identified and mitigated timeously.

F. **On commercial practices and borrowing:** Maintain oversight over existing level of borrowing

The Council has significant regeneration plans and projects that means its borrowing will increase by some £90.1m up to 2025-26. Most of this (£81m) is over the next two years as part of the Council's regeneration agenda. The Capital Programme for later years does not fully represent all the Council's capital spending pressures.

There is considerable risk that borrowing will need to increase considerably more when spending pressures are identified for 2024-26.

The net revenue impact of existing debts has been accommodated with the Council's budget for 2021-22 and its existing MTFP. It will be important, however, to carefully review future borrowing plans to ensure that they are realistic and that any further increases will not place undue pressure on the Council's future budgets.

We recommend that the Council should:-

- Review its capital programme and ensure that it has identified realistic capital programme pressures in 2023-26 so that it can assess the overall impact on Council borrowing.
- Consider setting tight limits on the level of future borrowing to ensure that the minimum revenue provision remains prudent.

- Dispose of sufficient assets to obviate the longer-term need for borrowing under the capital direction.

G. **On assets:** The Council should develop a clear asset disposal strategy

The Council has a significant asset portfolio, which can potentially generate significant capital receipts for the Council. Equally the asset portfolio presents a considerable drain on financial resources. The Council has not set aside significant resources within its future capital programme to maintain its assets. Existing plans in its Capital Strategy to dispose of some assets are not supported by a clear, strategic plan.

The Council needs to develop a long-term plan for the assets that it holds and how it will maintain them without having to put further pressure on Council borrowing. This means that the Council will need to develop a more realistic asset disposal strategy, focusing on reducing the number of libraries, leisure centres, golf clubs, and public conveniences.

We recommend that the Council should: -

- Review the condition of all Council assets to determine maintenance requirements over the medium term
- Engage with Members at an early stage to develop a realistic asset disposal strategy that focusses on the disposal of assets that require significant maintenance and repair
- Identify asset disposals to offset the risk of increased council borrowing which could fund
    - the repair and maintenance of existing council assets
    - the cost of the capitalisation direction
    - future potential regeneration plans

Recommendations on strengthening financial governance and oversight

H. **On governance and oversight:** Prioritise the work required to build financial resilience

We do not consider that there is sufficient focus at Member level to address the financial challenges that the Council faces.

We also consider that the scale of the financial challenge faced by the Council means that the Section 151 Officer needs to have sufficient capacity to focus on delivering a balanced budget and ensuring that action is taken to address it.

We recommend that the Council should: -

- Halt those initiatives, such as the development of a Community Bank, that would otherwise divert the focus of the organisation from addressing the Council's finances as well as exposing it to additional financial risk.

- Re-assign the non-financial responsibilities of the Section 151 Officer to enable the individual to focus on financial resilience. If the role is re-assigned, the Section 151 Officer should continue to be part of the executive leadership team.

I. On governance and oversight: Strengthen financial governance

We are concerned there is still a view amongst Members that the Council can always find some money to close its budget gap and avoid having to make cuts to services. There is little evidence that even the most senior Members appreciate the scale of the financial challenge and the tough choices that they need to take to rebalance the Council's budget.

The move to the Committee System means that all Members are far more engaged with making financial decisions around the future affordability of services provided by their committee.

We recommend that the Council should: -

- Provide a mandatory annual training session for Members on local government finance and their core financial responsibilities as members
- Provide briefings on Council financial challenges to all Council managers.
- Provide a mandatory briefing to all Members on the key financial challenges facing the Council.
- Appoint shareholder representatives and task a senior manager in finance with responsibility for monitoring the resource needs of the Council's companies.
- Develop quality assurance arrangements, such as a peer-based improvement panel, to ensure written and oral briefings and other materials provided to Members clearly state the financial position and what actions are proposed

J. On governance and oversight: Ensure that all key risks are identified

We are concerned that the Council does not clearly understand the extent of the financial risks associated with its regeneration agenda and the companies it owns.

In addition, we are concerned about the level of focus on key Council risks and the level of awareness more generally across the council of key risks, as evidenced by the fact that the Council has yet to score certain major financial risks around financial resilience.

We recommend that the Council should: -

- Commission an independent review of the financial position of the Council's companies and other commercial ventures to ensure all potential risks are identified
- Ensure that all major Council risks in relation to financial resilience are scored
- Include risk management awareness, particularly in relation to financial risks as part of the member awareness training.

2. Focus of this report

2.1 Purpose of this report

On 24 June 2021, DLUHC commissioned CIPFA to undertake an independent and detailed financial assurance review of Wirral Council. The aims of the review are:

- To provide an assessment of the Council's financial management and management of risk, deliverability of savings plans, and efficiency in delivering services.
- To provide assurance that, in response to the £9 million of Exceptional Financial Support provided in 2020-21, the Council took appropriate steps to improve its financial sustainability.
- To provide assurance that, in response to the in-principle agreement for Exceptional Financial Support from DLUHC for 2021-22, the Council has taken appropriate steps to improve its financial sustainability.
- To provide support to Wirral Council in the form of recommendations and performance requirements to ensure they achieve this objective.

This report sets out the findings of the review undertaken by CIPFA. Part 3 outlines why a capital directive was requested. Parts 4 and 5 review the finances of the Council and its approach to financial management. Part 6 examines the assets and commercial investments of the Council. Part 7 sets out a roadmap to support the recommendations in Part 1.

2.2 Methods used

Data collection was undertaken by CIPFA with support from Peopletoo between 5 July and 6 August 2021. Data collection involved the following methods:

- **Semi-structured interviews.** On-line interviews were conducted with a range of participants. Details are at Appendix 3.
- **Document review.** The Council provided documents and working papers on key financial and non-financial issues – see Appendix 4.
- **Benchmarking.** A comparison of Wirral and other statistical neighbour Councils
- **Observation** of the video of the Performance and Resources Committee on 28 July 2021.

Analysis involved a triangulation of data from the different sources, and a sensitivity analysis and comparative analysis of the Councils' finances. Key information was discussed with the Chief Executive and s.151 Officer on 6 August to confirm the basis of the analysis.

2.3 Any scope restrictions

This report is based on the fieldwork completed within the time frame for the review. It was not a comprehensive audit of the Council's finances. The conclusions do not constitute an opinion on the status of the Council's financial accounts.

3. Background

3.1 The structure of the Council and how it operates

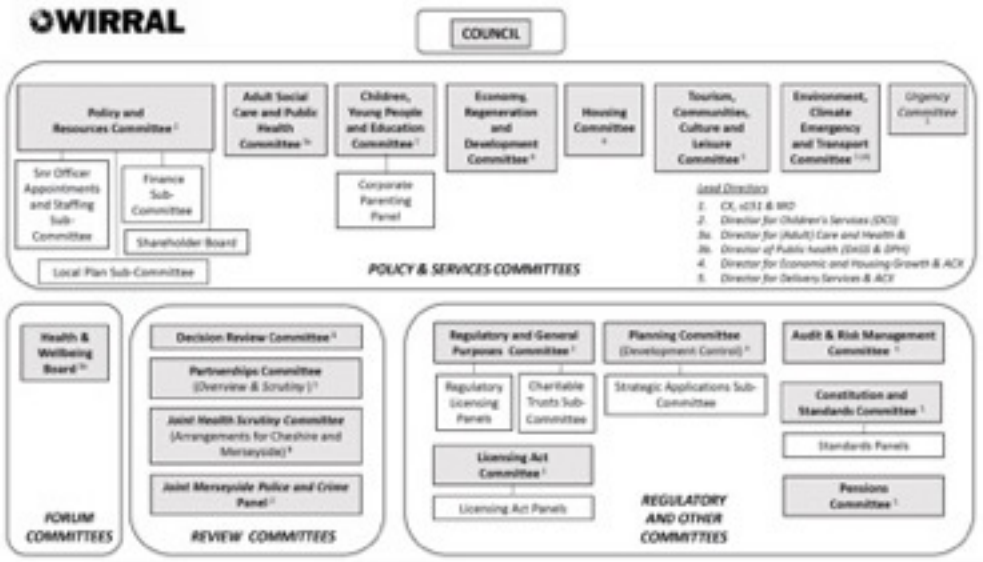
Wirral Council encompasses some 60 square miles of the Wirral peninsula. The Council was established in 1974 as a result of the merger of the county boroughs of Birkenhead and Wallasey, the urban districts of Wirral and Hoylake, and the borough of Bebington (schedule 1 of the Local Government Act 1972).

The direction and structure of the Council had remained somewhat disjointed and fragmented since its establishment. There was no Local Plan setting out the spatial vision for Wirral and much of the infrastructure associated with the earlier boroughs and districts remained extant. Interviewees refer to the large number of leisure facilities (including four municipal golf courses). The Council operates from 19 offices including town halls in both Birkenhead and Wallasey and has some 16 libraries. The LGA (2019) reported a wide-spread perception that the political divides amongst Members was inhibiting strategic decision-making.

In October 2019, the Council passed a resolution to move from Leader and Cabinet Executive arrangements to a Committee System form of governance arrangements. The aim of the change was to encourage wider Member engagement in issues, improved transparency and thus a stronger consensus on the Council's strategic direction.

Since May 2020, Full Council has become the ultimate governing body of the Council. Its membership comprises all the elected councillors at any one time. It is supported by seven Committees that are responsible for the Council's executive functions – see figure 1.

Figure 1: Wirral Council Structure



Source: https://democracy.wirral.gov.uk/documents/s50070238/Committee%20System%20Structure%20V9.pdf

The Council comprises 66 councillors (hereon referred to as 'Members') from 22 wards. Following the elections in May 2021, there continues to be no overall political control. The composition of the Council is:

- Labour – 30 seats
- Conservative – 23 seats
- Liberal Democrats – 6 seats
- Independent - 2 seats
- The Green Party – 5 seats

The revised governance structure is still bedding down in the Council, but several of the officers we interviewed noted that the frequency of elections appears to be encouraging a focus on short-term political point scoring rather than consensus building.

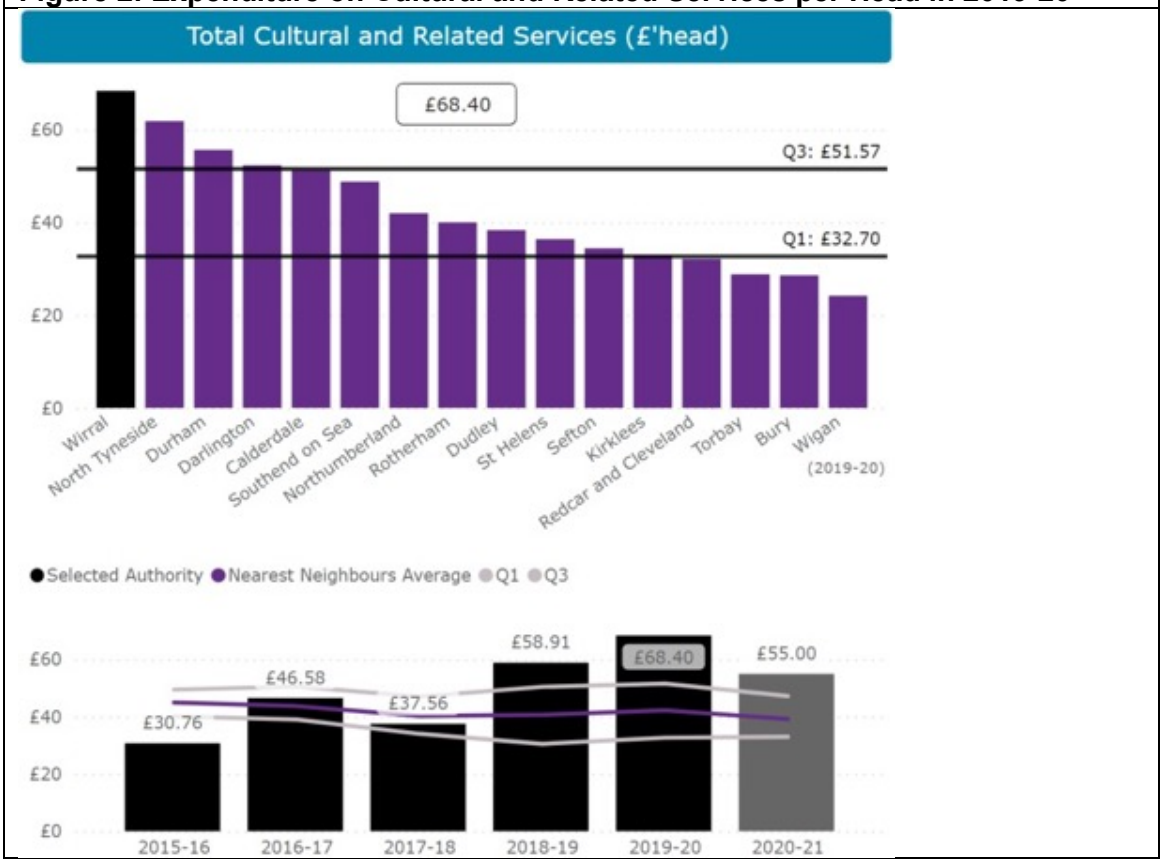
3.2 Key Statistical Landscape

Wirral delivers services to a relatively older population, with the proportion of residents over 45 and 65 and over higher than the regional average. The proportion of residents over the age of 65 is expected to continue to grow at a faster rate than the rest of the region. Conversely Wirral has a smaller proportion of residents under the age of 24.

Levels of deprivation across Wirral are mixed with the highest deprivation in the North-West of the Borough and most notable levels of deprivation in terms of health, employment, and the living environment. Unemployment across the borough is below both the regional and national average.

Overall Council spending is high compared to similar unitary authorities. This is particularly the case for cultural and related leisure services, where spending in Wirral per head is the highest of the 15 other statistical neighbour councils and has increased significantly since 2015-16 – see figure 2 overleaf. The high level of spending on non-statutory services reflects the reluctance amongst Members to accept the need to have to make difficult decisions in order to secure financial sustainability and a reticence amongst officers to change this culture.

Figure 2: Expenditure on Cultural and Related Services per Head in 2019-20



3.3 Past performance

Previous Budgets and Savings Plans

The Council has found it difficult to manage pressures and to identify and deliver financial savings. Officers have focussed on developing savings plans that have been tactical in nature and have not set out a more fundamental overarching plan to refocus and reshape council spending to meet the financial challenge that it faces.

Members have been reluctant to accept proposals that might have an adverse impact on the provision of services to the community and officers have not routinely delivered the savings agreed.

In 2018-19, the £0.6 million underspend was only achieved by the utilisation of directorate reserves, along with unfilled vacancies and cost reductions in the corporate resources directorate. Most of the savings did not translate into further ongoing savings.

In 2019-20, the out-turn was impacted by Covid-19. This was reflected in the Council having to deliver a balanced budget by using some £25m of earmarked reserves, although £3.5m was used to close the underlying budget gap. At the same time the Council used flexible capital receipts to fund transformational change of some £8m.

In 2019-20 the Council delivered some £29.35m savings against a target of some £41.75m. This was a reduction of some £12.4m (30%). The main areas where savings were not delivered are as follows-

- Council-wide reorganisation initiatives
- Rationalising processes
- Reducing contract and supplies and services spend
- Raising fees and charges
- Service reviews

In some cases, the decisions to make savings had been reversed following subsequent scrutiny. This included savings plans around golf, floral and enforcement contracts. It demonstrates a reluctance amongst Members to support savings initiatives and a reticence amongst officers to change this culture and to prioritise actions to secure financial sustainability.

Failure to deliver savings creates concern around the robustness of the original business cases and savings proposals as well as the level of Member understanding and buy-in concerning the nature and consequences of the savings proposals.

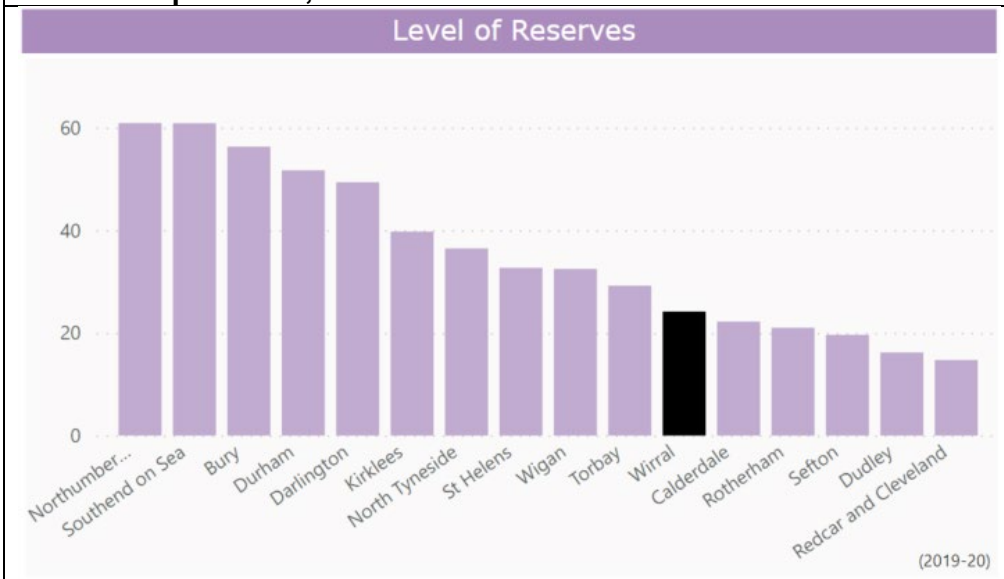
Council Officers are now developing a greater focus on the delivery of savings but there is still a need to address key concerns about the level of engagement from both officers and Members in the identification and agreement of savings proposals.

Council Reserves

The Council's usable reserves are relatively low, due to an increased reliance on such funds to balance the budget and meet service-related financial demands. At 31 March 2018, the General Fund reserve of £24.8 million represented some 8 per cent of the net revenue budget (£301 million). Some £15 million was allocated to Children's Services to fund the improvements required in response to an inadequate rating by OFSTED. There has been no subsequent progress with replenishing the General Fund reserve, and the balance has since been maintained at around £10.7 million.

Usable reserves are crucial to managing external risks or internal pressures on services. Figure 3 shows that total usable reserves, as a proportion of net revenue expenditure were comparatively low. The level of reserves is too low to protect against unforeseen spending pressures or manage the risk of under-delivery of savings.

Figure 3: A comparison of levels of usable reserve as a percentage of net revenue expenditure, 2019-20



External Audit have challenged the low level of reserves, and this was raised in the s.25 report by the Director of Resources on the robustness of estimates for 2021-22. Whilst the report by the Director of Resources advises Members to take steps to increase the General Fund Balance to around £15 million (5%), the Medium-Term Financial Strategy, associated plan and Financial Resilience Plan do not include such actions and the submission to the Policy and Resources Committee (February 2021) did not include any future actions to do so.

3.4 Conclusions

The financial pressures facing the Council are not simply due to the impact of Covid-19. There appears to be a lack of commitment and focus from officers and Members to deliver the significant savings plans that they have agreed to balance previous years' budgets. In turn this has put pressure on Council reserves.

Savings plans to date are primarily focussed on incremental savings rather than making fundamental decisions about the level of services that the Council can afford to provide and the tough choices that may be associated with those decisions.

These pressures are directly attributable to the difficulties that the Council has previously faced in trying to secure the consensus needed to set a clear strategic direction that balances the needs of its community with the need to maintain adequate financial resilience.

The financial information provided to members is not sufficiently explicit about the scale of the challenge that is faced and needs to be more realistic about the tough decisions required to address the challenge.

Members need to take the financial challenge that they face more seriously and develop viable medium-term plans with officers that don't just cover the in-year budget gap but focus on the more strategic changes that will need to be made to deliver financial sustainability in the medium to longer term.

Building a more robust consensus is dependent on changing the attitudes/focus of Members and strengthening the authority and resilience of key officers. It is crucial that a clear plan is put in place to remedy such issues to prevent their continued recurrence.

4. The Financial Position

4.1 Introduction

In February 2020, the Council agreed a balanced budget of £304.7 million[1]. It represented an increase on the previous year due to budget pressures of £37.5 million and unachieved savings from 2019-20 of £6 million. The accompanying statement by the Section 151 Officer highlighted a projected budget gap of £27 million to £29 million per annum in subsequent years, and that options to address the gap need to continue to be examined.

In October 2020, the Section 151 Officer provided a report to the Policy and Resources Committee on the financial position facing the Council. It outlined an anticipated year-end financial deficit in 2020-21. This was based on:

- **£17m of non-deliverable savings.** It included the deferral/cancellation of £5 million from transforming how the Council operates, £4.6 million from renegotiating contracts, around £5 million from changes in adult and children's services and £2.4 million from changes in treasury management.
- **£6m reduction in fees and charges** once government compensation schemes were taken into account.
- **£2m of unachievable capital receipt sales**.

The added costs of £25 million were then anticipated to be offset by £3m of forecast savings as a result of vacancies to give an anticipated year-end deficit of £22 million.

Furthermore, the forecast budget for 2021-22 included an anticipated gap of £45 million. This comprised the continued non-delivery of £17 million of savings, £7 million of contract and pay pressures; £9 million in demographic pressures and £12 million in reduced funding and loss of income. Taken together, the two years represented a gap of £67 million.

Capitalisation Request

The Chief Executive wrote to the DLUHC to request a directive to capitalise the forecast deficit in 2020-21 and 2021-22. The figures had been adjusted by this stage; the request was for £63.5 million, which comprised £23.9 million for2020-21 and £39.6 million for 2021-22.

By December 2020, the forecast gap for 2020-21 had reduced significantly. This was due to further tranches of covid related funding for Adult social care and test and trace obligations.

On 3 March 2021, DLUHC approved the Council's application to treat up to £9 million of revenue expenditure in 2020-21 as capital spending. This was on condition that any borrowing was from the PWLB and that the associated MRP assumed an asset life of 20 years.

- [1] https://democracy.wirral.gov.uk/documents/s50064930/Budget%20report%202020-21%20incl%20MTFP%20200205.pdf

By the 2020-21 year-end, the Council reported the gap to be £6.525 million, although this figure is still subject to confirmation by the external auditors. Our examination of Council records confirmed that £6,524,700 was accordingly added to the schedule of capital expenditure funded by borrowing, and that the MRP is based on the annuity method over 20 years.

4.2 Projected budget position for 2021-22

Current Year Budget Approval

The 2021-22 budgeted net revenue expenditure of £329.4 million is based on the conditional approval from DLUHC for the Council to fund £10.7 million of revenue expenditure from capital.

The report by the Section 151 Officer to the Policy and Resources Committee (17 February 2021) outlining the proposed budget for 2021-22 does explain that it is dependent on DLUHC's approval of the capitalisation directive subject to conditions but does not specify those conditions or what is required to meet them. The minutes of the meeting do not refer to the capitalisation directive.

The budget was subsequently considered and agreed at Full Council on 1 March 2021. The papers and minutes of that meeting confirm that there was discussion of proposed savings, but there is no reference to the capitalisation directive or the fact that the Council would not have been able to set a legal budget without it. Overall, the papers were not sufficiently explicit about the financial challenge facing the Council.

Interviewees confirmed to us that they were aware of the capitalisation directive and recognised that it was not a good position for the Council to be in. The consensus was that the Council had previously utilised reserves to cover budget gaps and that there are now plans in place to raise income through regeneration. As such, they considered that the capitalisation directive is required to enable the Council to meet short term needs until the benefits of regeneration materialise. The only plans to improve financial sustainability that we identified were around regeneration. Whilst this may revitalise parts of the borough, the growth-based strategy will take time, exposes the Council to a higher level of risk and does not address the underlying reluctance to take tough decisions in order to secure financial sustainability.

Cost Pressures

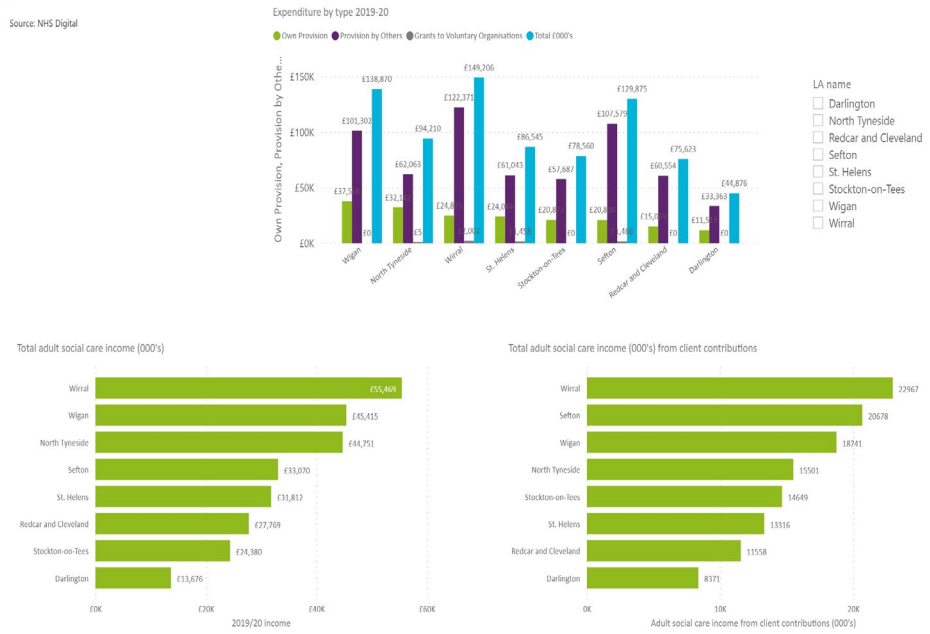
The budget for 2021-22 includes pressures and growth that are expected to increase costs by £48.5 million compared to the previous year. Of this sum, £16.0 million (33 per cent) is for non-delivered savings in the previous year (2020-21). This is a high percentage and follows a pattern in previous years. Interviewees attributed the non-delivery in 2020-21 to a lack of staff capacity due to having to deal with Covid issues.

The anticipated pressures also include a £6 million loss in income from libraries, leisure and other facilities due to Covid. This is on the basis of a 100% loss in Q1, a 75% loss in Q2 and a 50% loss in Q3. These estimates are reasonable, based on existing knowledge of the pandemic. Nevertheless, early data for 2021-22 suggest that the Neighbourhoods directorate are likely to overspend.

Our review confirmed that two typically significant and volatile areas of spend, Children's services and Adult Health Care, are not a significant risk. Outturn to date in 2021-22 for both directorates appear to be within budget. Whilst total spend on adult social care is

high in comparison to other similar authorities, so is its income – see figure 4. Similarly, data up to March 2020 indicate that whilst the number of looked after children per 10,000 population aged under 18 is relatively high in Wirral, numbers are broadly stable.

Figure 4: A comparison of total expenditure and total income in Wirral and other similar authorities, in 2019-20



Source: Peopletoo

Cost pressures include an extra £5.9 million to provide the minimum national living wage for all care staff through the incentivisation of care providers. This was approved, as part of the pay policy, by the Council in May 2020. It is not clear from the minutes whether the financial implications for the 2021-22 budget of this discretionary spend were considered.

Identified Savings

The cost pressures facing the Council are offset in part by an anticipated £23.9 million in savings in 2021-22. Some £7.6 million (32 per cent) are internal savings in corporate services and resource management. These represent savings that the Council has failed to deliver in previous years, so there can only be limited confidence that these will be delivered.

Of the remainder, £11 million (46 per cent) are to be delivered by the Neighbourhoods Directorate and the Adult Care and Health Directorate.

Eight of the savings proposals originally developed by officers for 2021-22 (amounting to £2,128,000) were rejected by Members of the Performance and Resources Committee and replaced with alternatives. There were further changes approved by the Full Council in March 2021. There has also been retrospective consideration by Members on whether to revise the planned increase in car parking fees.

A summary of the proposed new savings included in the public consultation was provided to Members when the budget was approved on 1 March 2021, but this information did not provide much detail on how each one would be achieved. By May 2021, the Council stated that some £2.9 million (12.1 per cent) of the planned savings in

2021-22 would not be delivered as planned. A further £4.83 million of savings (20.2%) were assessed as at risk, mainly because options papers on their delivery had not yet been shared with Members.

The absence of clear Member support on savings initiatives and the reliance on service reviews rather than clearly specified savings plans create a significant risk that the Council will not be able to balance its budget over the period of the MTFS.

Funding

The funding required to meet budgeted expenditure is dependent on raising £155.6 million through Council tax, and the remainder through business rates, grants and the Exceptional Financial Support from the Council. The Council tax is based on a 1.99 per cent increase (plus 3 per cent for the Adult Social Care Precept), a small growth in the tax base, and a collection rate of 97.5 per cent. The collection rate appears high compared to the national average and past performance by the Council. The budget then assumes a £1 million shortfall in the collection fund in 2021-22 due to the economic impact of Covid. Business rates is based on 100 per cent retention, and together with s.31 grants, top up grants and the Better Care Fund amounts to £137.7 million.

Budget Risks

Overall, there are three key risks with the 2021-22 budget.

(i) It is highly likely that the Council will not achieve all the savings it has budgeted,
(ii) it is possible that there might be an overspend in the Neighbourhoods directorate, largely due to additional lost income.
(iii) There is uncertainty around the extent to which the pandemic has suppressed demand for Childrens and Adults Services

Council Reserves

It is feasible to utilise the General Fund reserve of £10.7 million to mitigate any further cost increases. Any draw on reserves, however, risks leaving the Council more exposed in 2022-23. The General Fund represents just 3.3 per cent of the net revenue budget of £329 million in 2021-22. The impact on the general fund reserve could potentially be mitigated by reviewing the level of earmarked reserves.

The Section 151 Officer advised raising the General Fund reserve to 5 per cent in the section 25 statement, but this increase is not built into the budget for 2021-22.

Conclusion

In conclusion, the £10.7 million capitalisation directive requested by the Council remains a reasonable estimate of the funds required to balance the budget in 2021-22 once covid funding that has not already been utilised is factored in, where eligible.

The next section outlines how such needs would increase the pressures on the 2022-23 and subsequent years' budgets. In particular, it considers whether the Council will be able to bring its budget into balance in the medium term so that it does not need to seek a further capitalisation direction.

4.3 Financial resilience in the medium term

The medium-term financial strategy and associated forecasts of expenditure and income for the years 2022-23 to 2025-26 were considered at Full Council on 1 March 2021. This

section of the review examines the adequacy of the Council's medium-term plans and what is required to strengthen its financial resilience. The table below shows the headline figures from the Medium-Term Financial Plan.

£'m	21/22	22/23	23/24	24/25	25/26
Base Budget	304.7	329.4	316.9	316.9	319.5
Pressures	48.5	6.2	15.3	13.1	12.1
Savings	- 23.9	- 18.7	- 15.3	- 10.5	- 12.8
Budget Requirements	329.4	316.9	316.9	319.5	318.8
Projected Income	- 329.4	- 317.4	- 316.9	- 327.0	- 334.3
(Surplus)/Deficit	**- 0.1**	**- 0.6**	**- 0.0**	**- 7.5**	**- 15.5**

The forecast figures assume that cost pressures will be much less severe in 2022-23 than the previous year. This is partly due to one-off pressures in 2021-22 (such as the introduction of the real living wage for carers) and the expectation that the adverse impact of Covid on fees and charges will have relented by then. The reversal in 2022-23 of the £6 million anticipated loss of income from fees and charges factored into the 2021-22 budget, however, has not been matched by the associated reversal of around £2.3 million in government funding to mitigate the impacts of Covid. Consequently, the MTFP understates the budget requirement by £2.3 million.

There is also no expectation of any previous year non-delivered savings or cost overspend, despite under-delivery on savings targets in each of the last two years.

Of the total £57.3 million savings within the MTFP,

(i) Adult Care and Health provide some £17.0 million. The directorate has had a reasonably good track record in delivering savings before, but we found little evidence of plans for how the £4 million required each year would be achieved.

(ii) Workforce remodelling is expected to deliver some £5 million in savings between 2022-23 and 2025-26. These savings are likely to be high risk. Similar savings were deferred in previous years and interviewees questioned whether the Council had the political appetite to introduce any redundancy programme.

(iii) Contract management savings deliver a further £9.7 million in savings from more robust governance and oversight of contract management and commissioning. It is not yet clear how this change in approach will directly lead to cashable savings. Again, these savings have featured in previous savings plans and have not been delivered.

(iv) Regeneration initiatives are expected to deliver a further £8.8 million in savings between 2022-23 and 2025-26. Around £1.1 million of these savings would be from profits made by Wirral Growth – the regeneration company part owned by the Council. In our view it is better to exclude such savings from the MTFP – due in part to the plans to reconsider their business plan and the consequent risks to the company's future work programme.

(v) Council Tax and Business Rates. A further £5.4 million savings are expected from the net growth in the council tax and business rates bases due to regeneration. The estimates do take into account the anticipated additional costs to the Council from extra households and businesses, and build in an anticipated time lag between project completion and the funds being received. Nevertheless, such savings are high risk due to the possibility of external factors impacting on delivery. For example, £3.4 million of the £5.4 million saving would be from additional business rates, but this assumes Wirral Council would continue to be entitled to 100 per cent retention in future, and that post Covid the demand for office and retail space would not change.

Sensitivity Analysis and Risk Assessment

Current projections do not set out clearly the impact of relaxing/changing key assumptions and how this may impact on the potential financial position. This means that it is hard to know the full extent of the challenge that the Council may face if some assumptions prove to be overly optimistic. It would therefore be sensible to show the potential range of future budget gaps if assumptions were relaxed.

Given the risks identified above, it would also be sensible to carry out a more realistic risk assessment of the savings that are identified within the Medium-Term financial plan. This is likely to reduce the anticipated level of savings, which means that the Council will also need to look for other alternative savings to help rebalance its medium-term financial plans.

Other Savings

There are relatively few savings in the MTFP between 2022-23 and 2025-26 in the Neighbourhoods directorate, despite the Council having the highest spend on cultural and related services amongst its statistical neighbours – see figure 2. Interviewees acknowledged the relatively high provision available – including libraries, leisure centres and golf courses. There appears to be little political appetite for change. For 2021-22, for example, plans to sell its four golf courses and save £273,000 a year were rejected by Members, although wider service reviews have now been commissioned across leisure services.

Existing savings plans refer to reviewing services and a leisure strategy without specifying any detail of what the efficiencies might involve. Even where savings are being delivered, such as the closure of the Europa Fun Pool, the Council agreed in March 2021 that it should reopen *"… when its practicable and safe to do so in line with government and public health guidance, during the School Summer holidays."* The cost of reversing the anticipated 2021-22 saving of £250,000 has not been factored into the costings for 2022-23.

Where reviews are commissioned, it is important that clear targets are set for delivering further savings to bring the cost of leisure services more into line with similar authorities and to a level that the Council can sustain in the medium and long term.

Capital Programme

Finally, we examined the future capital programme and its impact on the revenue budget. Some 60 per cent of the £131.5 million capital programme for 2021-2026 is for regeneration. The plans would necessitate an additional £90.1 million of borrowing. These are summarised in the table below.

£'m	2021/22	2022/23	2023/24	2024/25	2025/26
Adult Care & Health	5.7	2.5	-	-	-
Children	8.1	3.7	2.5	2.5	2.5
Cross Cutting Initiatives	10.7	-	-	-	-
Neighbourhoods	8.8	1.8	3.2	-	-
Regeneration & Place	45.9	28.4	12.2	0.3	-
Resources	4.6	-	-	-	-
Total Expenditure	**83.8**	**34.4**	**17.9**	**2.8**	**2.5**

Financed by:					
Borrowing	55.8	25.8	8.1	0.3	-
Grants & Other	28.0	8.6	9.8	2.5	2.5
Total Funding	**83.8**	**34.4**	**17.9**	**2.8**	**2.5**

Whilst the level of borrowing to support the Council's capital programme is reasonable, the Minimum Revenue Provision also includes the repayment of transferred debt from Merseyside County Council. Once interest, Minimum Revenue Provision and investment income are factored in, the anticipated financing costs of the Council's debts are expected to rise from 5.6 per cent of net revenue in 2020-21 to 7.2 per cent in 2023-24. This is manageable, but still represents a significant increase.

The level of spending reduces over the period of the programme with only £5.3m of spending identified for the last two years. This creates a concern that the Council has not fully assessed its capital spending needs over the period of the programme. For example, only £310,000 provision is made for regeneration in the last two years 2024-26, compared to £131.5m in the previous 3 years.

The existing programme does not provide sufficient resources for the maintenance and repair of Council assets, which could create further pressure on borrowing if this spending is not funded by asset disposals.

This creates a risk that the full impact of capital spending decisions up to 2025-26 may be significantly underestimated. In turn this would add to the pressure on the Medium-Term Financial Plan. There is a need to reassess capital programme pressures in 2023/26.

Conclusions

The 5 year MTFP for 2021 to 2026 considered by the Council in March 2021 includes a number of uncertainties and inaccuracies that will add to the risk of delivering the MTFP. The lack of any sensitivity analysis also makes it difficult to understand the level of risk if key assumptions prove to be too optimistic. The Policy and Resources Committee could play a much bigger role in challenging overall budget plans and the MTFP before they are considered by the Budget Council. Consideration by Members of the Budget Council in March 2021 focused predominantly on individual savings proposals rather than the wider risks to the Council's finances.

The expectation that existing savings plans and increased income through regeneration will enable the Council to make a surplus of £23.6 million over the period to replenish its General Fund reserve is extremely optimistic in view of past savings delivery. There are no plans to make any material increase in reserves until 2024-25, which presents a significant risk to the Council. There is little evidence that the Council is setting challenging targets for further savings to rebalance the MTFP, especially in relation to leisure services.

There is considerable scope for the Council to make further cost reductions, such as in the culture and leisure sector or in more clearly in staffing efficiencies, but it does not have the existing support of Members or the plans in place to deliver these in 2021-22. Council approval of the MTFP shows that there is little evidence that Members appreciate the scale of the financial challenge needed to rebalance the Council's budget.

The existing capital programme requires a marked increase in Council borrowing. The scope of this additional borrowing may also be under-estimated, given the lack of any reasonable capital provision for 2023-26.

There is only limited scope to increase borrowing further without MRP creating additional financial challenges that will adversely affect financial sustainability. The Council needs to better understand the potential investment that it will need to make in regeneration and the extent to which this is affordable through borrowing. Existing plans in the capital programme to dispose of selected assets should be supported by a more robust strategy around what assets the Council should keep or might be disposed.

The Council needs the capital direction for 2020-21. Without approval, the general fund reserve for 2021-22 would reduce to some £4 million (less than 1.5% of net revenue expenditure) which would be too low for future years.

A capital direction is required for 2021-22, but the reasons this has become necessary cannot simply be attributed to the challenges of Covid 19 or other unanticipated events. As we highlight in the next section, there needs to be a much more rigorous approach to financial management by Members and officers in order to mitigate the risk of further directions being required in future years. Accordingly, the acceptance of the capital direction should be conditional on the resolution of these actions.

5. Authority's approach to financial management

Interviewees identified a reluctance amongst Members to take strategic decisions in the longer-term interests of the Council because of the short-term political risks they might create. Examples included:

- a reluctance to reduce costs by cutting back leisure and sporting facilities,
- the large number of libraries,
- reviewing decisions to raise money by increasing car park charges,
- a reluctance to reduce staffing costs if this involves redundancies.

Past decisions by the Council would support this argument, and the frequency of elections is likely to be a contributory factor.

Nevertheless, it is too simplistic to argue that responsibility rests solely with Members. There is an onus on officers to develop a more fundamental plan that rebalances and refocuses council spending to rebalance Council the budget over the period of the MTFS.

Officers and members do not engage effectively to develop realistic medium term budget plans. Officers have not been able to get sufficient Member buy-in and support to the tactical plans that have been agreed to date as evidenced by members reviewing previous savings decisions. Members may not fully understand the implications of the plans that they have agreed and they need to be more heavily involved at an early stage in developing these plans.

The senior management team has a duty to support and guide Members in making such difficult decisions. This section of the review, therefore, focuses on two issues:

- The adequacy of existing financial management practices.
- The Council's approach to transformation and savings.

5.1 Adequacy of existing financial management practices

Audit Opinions

The Council's Chief Internal Auditor gave a positive assessment of the level of financial control within Wirral Council as set out below: -

> *In my opinion, during 2020/21 the Council has generally maintained adequate and effective control and governance processes overall. This opinion is based on a range of audit activity completed during this very challenging year and from my cumulative knowledge and experience of the organisation including my judgements about the calibre and actions of its senior management team during the pandemic and an understanding of the organisation's direction of travel. There has been positive engagement with management throughout the year and where audit work has identified weaknesses in the design or application of controls agreement reached regarding required actions.*

The Council's external auditor has raised the following concerns: -

"We have concluded that Wirral Council does not have proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an adverse value for money conclusion"

The external audit has focussed on the Medium-Term Financial Plans developed by Wirral Council and their delivery. The External Auditor notes in their most recent audit finding report issued in December 2020.

"The most likely course, should the capitalisation directive not be secured, is the issue of a s114 notice under the Local Government Finance Act 1988 and a ban on all new expenditure" .

Given the explicit comments made by the external auditor, it is of significant concern that Members still rejected 8 potential savings proposals of some £2.2m and have subsequently sought to review further agreed savings proposals to increase car parking charges.

This creates the impression that strong messages concerning the extent of the financial challenge are yet to gain traction with Members of the Council to the point where finance is at the heart of their decision making.

The recent focus on the Community Bank, although well intentioned is another example of a lack of focus on the financial challenge. This will both involve considerable financial risk for the Council and distract key finance staff from focussing on the major task to achieve a balanced Medium Term Financial Plan.

There is little evidence that Members and officers are working effectively together to develop a clear financial plan to address the urgent financial challenge that lies ahead and focus on the key decisions that need to be made to rebalance the Medium-Term Financial Plan. This means that there can only be limited assurance that the Council will not need to rely upon further Government support in 2022/23 to balance its budget.

Risk Management

The Audit & Risk Management Committee has oversight of council risks. The Council's approach to risk management appears to be evolving. For example, many of the most significant risks to face the Council are yet to be scored. These include risks around the Regeneration Programme, Financial Resilience, and the Capitalisation Direction.

The Council's approach to risk management shows insufficient oversight of key organisational risks. A focus on the main risks, while useful does not enable members to get a full picture of the risks that the Council faces by understanding new risks being added to the register and those that are being closed. Equally they do not appear to have clear information on the movement of risks and, in particular, where risks are increasing.

A focus on risk is essential for an organisation that needs to make substantial budget reduction that could impact on the services that it deliver and the risks that it carries.

Annual Governance Statement

The Audit and Governance Committee considered a detailed Annual Governance Statement for 2020/21. The statement reviews actions taken during the previous year and identified further actions that need to be taken during 2021-22.

The document does not provide a realistic assessment of the scale of the financial challenge and the actions it will need to take. The statement focusses on improvements to financial reporting rather than the tough choices that will need to be taken on the road to financial resilience.

Finance Team Capacity

The Director of Resources has a wide span of responsibilities, covering Human Resources, ICT, the Pension Fund, and Change Management as well as the responsibility of being the Section 151 Officer. Whilst this is not unique to the sector, the workload generated by the Council's committees create an additional pressure and workload. This may well be manageable where there is a settled committee structure and the Council is financially resilient. This is not the case in Wirral which creates a major risk that the S151 Officer may not be able to focus sufficiently on the financial challenge faced by the Council. In these circumstances, it is crucial that the Finance team is sufficiently resourced and experienced to support the S151 Officer and that systems, procedures and working practices are robust.

Interviewees explained that there have been changes in the finance team over the last twelve months and that these will take time to settle down. There are around 12 vacancies out of some 120 posts, and around 11 posts currently filled by interims and agency staff. We understand that key posts are covered, although several of the senior managers we interviewed were relatively new in post. There is a senior manager for commercial procurement, but we found no evidence of a post holder with specific responsibility for the financial oversight of the Council's three active companies.

The Council's systems and processes appear to be adequate, although there is a need to strengthen compliance, especially over procurement rules. This will be critical given the significant savings that the Council is seeking to make in this area and the increased focus on regeneration and the concerns raised by senior staff over the capacity of the existing team to manage the anticipated workload.

Given the relative inexperience of some senior staff in the finance team, the main challenge to financial management is the capacity of the Director of Resources to focus on financial challenges facing the Council. Given the need to strengthen financial resilience, it is difficult to justify the staff resources and senior staff time needed to pursue the establishment of a community bank. The work required to develop the business model and meet the levels of due diligence required to secure a license are likely to be considerable. In the circumstances, we consider this proposal should be halted to enable the Director of Resources to prioritise strengthening the Council's financial resilience.

5.2 Approach to transformation and savings

The organisation's approach to transformation and savings is weak. We recognise the work that has been put in place to focus on the delivery of savings through an enhanced performance management process. This work will be helpful in the future.

Nevertheless, this work does not address the key obstacle to the delivery of savings within the Council, which requires the Executive Management Team to develop a clear set of savings options and engage effectively with Members to agree an effective and realistic savings medium term savings plan.

Alongside our interviews, we observed some of the Committee deliberations in July 2021 and reviewed minutes of previous meetings to assess how finance is represented and considered by Members.

From the work done, we noted a reticence by officers to set out clearly the financial position facing the Council and to challenge Members, where their comments might conflict with the financial position facing the Council. There are exceptions to this; for example, we understand that the Director of Resources had previously highlighted the risk that a section 114 notice might be necessary.

We are concerned that officers may seek to compromise too quickly with Members. There is a danger that officers appear to try to resolve the budget by less controversial solutions, that may not actually deliver the necessary saving or carry more inherent risk. Both approaches add to the impression that the financial state of the Council is not especially serious, and it can be resolved behind the scenes by officers. The relationship between officers and Members is difficult to evidence, but there are also issues in the accompanying documentation that illustrate the issue:

- The CIPFA Financial Management Code highlights the importance of clear, transparent and objective commentary by the Chief Finance Officer on the budget estimates and proposed financial reserves. The section 25 statement for Wirral does not clearly draw attention to the risks in the MTFP. It is only shown as appendix 10 in the agenda pack for the Council meeting on 1 March 2021 and makes no reference to the requirement for a capitalisation directive.
- Savings plans are relatively opaque in explaining the actions required and consequently key issues, such as whether redundancies are necessary, are not addressed.
- The optimism in the MTFP infers that the budget gap can readily be closed. There is a risk that this will add to the perception amongst Members that budgets can be balanced without recourse to any difficult decisions.

6. Council assets and other commercial interests

Council Assets and Potential Disposals

The total number of Assets owned by the Council is set out in the table below:-

Building Type	Volume	Building Type	Volume
Schools*	127	Depots	5
Open Spaces	209	Golf Courses	4
Libraries	16	Leisure centres	7
Car Parks	27	Offices**	19
Children's Centres	7	Culture facilities	2
Community Centre	7	Playgrounds	25
Adult services	3	Public Conveniences	5
Youth Clubs	5		

*Of the 127 schools listed above, 29 are Academies
**Whilst 13 offices are included in the table above, many of these are now vacant and awaiting disposal.

The key areas where there may be scope to reduce the asset base are:

- **Office Disposals** – the Council plans to dispose of 10 offices as part of the asset consolidation and staff relocation project. The timing of this will depend on the opening of Building 1 at the Birkenhead Development, scheduled to be completed in 2023. This will still leave 9 offices and scope for further rationalisation.
- **Libraries and Leisure Centres** – there has only been very limited asset rationalisation in these building types to date. Both Leisure centres and Libraires are currently subject to a strategic review, which may impact on the volume of assets required in future.
- **Other Assets** - Other potential areas of focus should be: Public Conveniences with many Councils either closing or transferring many of these sites, 5x Youth Clubs, 7x Community Centres and 4x Golf Clubs. All of these sites should be considered for further rationalisation and/or Community Asset Transfer (CAT).

New Ways of Working

In the offices held by the Council, the Asset Management team have typically targeted a ratio of 6 desks for every 10 staff who are based at an office. There is considerable scope for further rationalisation as shown in the table below.

- Wallasey Town Hall (1 desk to 1 staff),
- Birkenhead Town Hall (3 desks for 1 staff) and
- Pilgrim Street (c1.5 desks for 1 staff).

A historic desk occupancy survey across Council offices with a third-party (occupy) which identified 40% average occupancy, with a peak of only 52%.

The Birkenhead Commercial District office building has been developed with 6 staff for every 10 desks. This should be reviewed in the light of more flexible working arrangement that allow staff to work from home 2-3 days per week. There may be opportunity to lease out certain areas of the building if the Council no longer need the space.

The Service confirmed the building was being developed with this in mind, however no formal plan/project is yet being undertaken.

Commercial Portfolio

The commercial portfolio has developed organically. No assets have been acquired specifically to generate a revenue income for the Council in over 10 years. Despite this, the rental income received by the Council has doubled since 2014, increasing from £1.4m to £2.97m. This is principally a result of the rent/lease of assets which have been vacated by the Council to external tenants.

Arrangements for Asset Disposals

The sale/disposal of assets and the capital receipts which are generated, are supported by a robust financial business case, with knowledge of the likely capital receipt each sale will generate.

Many of the sites which are disposed of have been transferred to Wirral Growth Company which is to play a key role in the re-development of Wirral and some of the Councils major schemes. Wirral Growth Company is a 50:50 joint venture partnership between Wirral Council and national urban regeneration specialists, Muse Developments and who are overseeing the construction of the new BCD building.

However, assets transferred to the company are slow to be developed once they have been transferred or earmarked for transfer. There needs to be robust governance, with a clear strategy informing which assets are to transfer and which are to be retained.

Officers have rejected some significant potential asset disposals including Wallasey Town Hall, Birkenhead Town Hall and Pilgrim Street despite a strong financial business case that supported their disposal on the basis that the premises might be utilised for other purposes.

More recently Members have delayed the disposal of key assets including -

- Oakland Outdoor Education centre in North Wales which was previously operated by a third sector company but has since been vacated. Members have requested the exploration of alternative options for usage, thereby deferring its potential sale
- Lidl Upton Site - one of the key assets to be disposed of over the course of 2020-22 was the Lidl Upton site. This disposal was given approval by committee, but significant objection was received following the statutory notice period, which has resulted in considerable delay.

Current Disposals Plans

The Capital Programme 2021-26 refers to projected capital receipts of £0.4 m in 2021-22 and £6.2 m in 2022-23. Our examination identified plans to sell 12 separate assets, which are expected to generate capital receipts of £3.315m. This would be considered relatively modest in terms of both volume and value considering the profile of assets which remain in the portfolio. There is concern over the delivery of £2.4m which is complicated, or which may meet political resistance. There is therefore some concern that the full receipts listed may not be generated.

Progress against the capital receipts target remains relatively modest at this stage due to the Service reviews, which are ongoing in the Neighbourhoods directorate and other directorates. We were not able to establish a clear co-ordination between the assets team responsible for the estate and the service directorates undertaking savings reviews. Without a co-ordinated asset management strategy that includes disposal plans, the existing portfolio risks being a drain on the Council's resources.

Previous Asset Sales

As part of this review, the Council supplied a list of all assets which had been disposed of between August 2016 and August 2021. This included the below:

Asset Type	Volume	Value
Built Asset*	10	£1,715,668
Car Park	1	£50,000
Freehold	21	£5,111,265
Land**	44	£20,017,353
School	7	£1,962,001
Total	**83**	**£28,856,287**

*It should be noted that these figures do not include the assets to be disposed of following the ACSR review discussed below.
**Two of the land assets sold account for £15.2m of the overall sale price for the land.

As per the above table, whilst the Strategic Assets Management team have been successful in generating an average of c£5.76m in capital receipts per annum, much of this is centred on the sale of two land assets.

The disposal of only 10 built assets (not including schools) is low, and suggests that there is significant scope to target this as an area of opportunity.

The office buildings identified for disposal in the ACSR project would however be in addition to the above, and when the project is completed should see the disposal of an additional 10 office buildings. However, this will not happen immediately as the Council will need to retain some of these assets until the lease expires and/or the BCD building opens in 2023.

<u>Provision for Maintaining and Developing Council Assets</u>

All capital receipts being generated on the operational portfolio from the 10 properties identified in the Asset Consolidation & Staff Relocation Programme are being re-directed to the funding of the new Birkenhead Commercial District development.

Most capital maintenance spend is therefore being funded from borrowing. For example, projected capital expenditure on operational assets appears to be c£2.811m (2021/22) all of which is to be funded by borrowing. It would appear efforts have been undertaken to curtail the programme in 21/22 with c£10.485m being slipped to 22/23m.

There is limited information available on the condition of the estate, with surveys primarily being completed on office buildings which were included in the ACSR project to inform the disposal strategy.

This is a significant risk and does not allow for a robust asset disposal strategy across the entirety of the Council's assets which is informed by building condition. This is likewise a key piece of information which should be feeding into the reviews being completed by Leisure and Libraries for example.

There is no set budget for the capital maintenance programme from year to year with the service often having to bid for Capital maintenance works for each individual project.

A key requirement in the management of assets is to baseline the size of the available capital budget. This assists in prioritising schemes and ensuring value for money is maximised. However, there has not been a consistent capital maintenance budget for some time which makes it problematic for the Service in developing a planned maintenance programme

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Asset Management Plan

The Council no longer has a current Asset Management Strategy with the most recent version expiring in 2019. The absence of such a strategy means that it is difficult to prioritise the maintenance of key assets and to determine those that might be sold. The Strategy should be underpinned by an Asset Management Plan and a schedule of potential assets for disposal.

The Council uses an in-house Schedule of Rates for repairs and compliance works. This should be reviewed to ensure value for money and compliance.

There is no recurring capital maintenance budget, and no up to date condition surveys. The Council therefore does not have adequate plans or budget provision to maintain its assets. Surveys should be undertaken to support the disposal of assets and the development of a formal planned maintenance programme.

The most up to date asset management strategy covered the period 2016-2019, and which provided a clear focus on working with public sector partners such as the Police and Fire as part of the wider Wirral Partnership Board.

In addition to this, was a requirement for the Council to begin to dispose of greater numbers of assets. A need for this was first cited by the LGA in 2013, which found it had

made limited progress on the disposals of assets up to that point. This was a view echoed by a financial peer review in 2015.

Since the initial strategy expired in 2019, the Council has not updated its strategy, however it is understood one is currently being developed. Following the completion of the Asset Strategy, no over-arching plan appears to have been developed, instead the project closest to this would be the ACSR, however this focused solely on the office estate, and therefore it is believed significant scope for further rationalisation remains.

The ASCR project was officially closed in March 2021, despite many of the assets still being held by the Council and which will also be used by office-based staff following re-opening post COVID.

There have been several successes in sharing of space with other Public Sector organisations, including the Police and Fire Service. For example, a Youth Centre is based at Wallasey Fire Station, whilst the Police have a presence in c3 of the Councils buildings. Likewise, following the recent exit from the Treasury Building, the Council have leased this asset to Wirral Metropolitan College.

Management of Assets

In total, the Asset Management Service manages a revenue budget of c£10.17m per annum. This is broken down as per below:

Spend Area	**Spend**
Employees	£3,975,277
Premises	£4,318,833
Transport	£84,300
Supplies	£801,400
Third Party	£239,200
Recharge - Other Revenue Accounts	£0
Recharge - Support, Management and Buildings	£760,300
Total	**£10,179,310**

Given the size of the portfolio which is being managed staff costs for the Service appear high, and a review would be recommended to ensure that resource is aligned to demand. Of particular note would be some of the administrative functions and also the Facilities Officers, with the Service employing c21 across its portfolio and who undertake a Caretaking type function.

This is important, given the intention to dispose of the 10 offices at which most of the Facilities Officers are based. It is understood that the Target Operating Model for Soft FM services is being reviewed.

Repairs and Maintenance works are undertaken by external suppliers, with several being used as dependent on the work requirement. It was flagged by the Service that much of the Hard FM and compliance works are delivered to a Schedule of Rates (SOR) and specification which has been developed in-house by Wirral and which has been developed organically.

Typically, an in-house SOR can take significant resource to manage and update as statutory requirements and maintenance practices are continually updating with new tasks to be added. Equally, if this is not done correctly, there can be a significant degree of compliance risk, with key tasks missed and leaving the Council exposed.

Likewise, it is understood that the Service do not have an accurate asset register across its buildings insofar as it does not know the volume of Fire Alarms, Boilers etc. across all of its sites. Whilst not uncommon, combined with the use of the in-house SOR, this may mean that the work performed by external suppliers are not representative of value for money.

Conclusions

The main findings of the review are as follows:

- The Council has rationalised a significant number of assets in recent years, but this has tended to focus on the office estate and land. Therefore, there remains opportunity to release further assets. Focus should be given to Library's, Leisure Centres, Golf Clubs, Public Conveniences.
- There have been several assets recommended for disposal by the Strategic Asset Management team which have been blocked and/or rejected by members, despite there being a strong financial case.
- Whilst several offices have, or are soon to be disposed of, in recent years, this should be further reviewed. This should be supported by a wider agile/hybrid working programme, where appropriate, to facilitate more flexible working arrangements for council staff.
- The Council does not have up to date stock condition surveys for Council buildings or an up-to-date Asset Management Plan. This means that there is no accurate assessment of the costs to maintain council buildings and indeed the potential risks from inadequate maintenance.
- The Council has made some provision for maintenance within the early years of the capital programme, but no provision is made for later years. This creates a substantial risk that either properties will not be maintained effectively or that there will be further pressure on the current capital programme.
- The Council has transferred considerable assets to Wirral Growth Company a joint venture with Muse. Any development of these sites may depend on income generated from other developments. This can mean that it could be many years before the Council realises the proceeds of the assets that are transferred.
- The focus for future asset disposals should be Wallasey, Birkenhead Town Halls in addition to Pilgrim Street. In total the sale of the sites could generate a significant capital receipt , reduce revenue spend by £685k, and avoid capital maintenance spend of £14.03m over a 10-year period.

7. Roadmap for improvement

Appendix 2 sets out a detailed roadmap for improvement with some suggested timelines. These are outline timelines and are likely to place considerable pressure on resources within the Council.

While it may be possible to review some of the timelines, depending on capacity, there is concern that this will only add to the financial risk and scale of the financial challenge. It will certainly increase the risk that the Council may require further financial support next year.

The roadmap highlights that there is a lot that the Council needs to do quickly if it is to make real progress in addressing the financial challenges that it faces. This will require considerable focus from both Members and council officers.

More importantly it will require members across all political parties to engage effectively with officers on the tough choices that they will need to make over the coming year to show leadership to address the considerable financial challenges that their council faces.

Appendix 1 – Summary of recommendations

A **On reserves:** Develop a mitigation plan for outturn variances in 2021-22

- Carry out a more realistic assessment of the current year savings and the extent to which they will be delivered in the current financial year
- Identify and pursue additional savings, such as in the Neighbourhoods directorate and in staffing efficiencies that, if necessary, can be used to offset current savings that are unlikely to be delivered in the current financial year

B **On reserves:** Develop a Plan to Rebuild General Reserves over the period of the Medium-Term Financial Strategy

- Undertake a review of financial reserves that considers increased risks in terms of savings delivery and those associated with Council's companies
- Review the level of earmarked reserves to determine whether they are still required for the purpose that they were established with a view to using any monies that are no longer required to rebuild general reserves to a level that adequately mitigates the risks to longer financial sustainability
- Build in an obligation to increase the General Fund reserve in line with the above risks assessment over the period of the MTFS

C **On future sustainability:** Prepare a more realistic Medium Term Finance Strategy that better reflects the challenges facing the Council

- Ensure that the Strategy is explicit about the challenges facing the Council and the tough choices that it will need to make
- Adopt a realistic approach to regeneration and prevention measures and the limited impact they may have on the MTFS in the short term.
- Seek member approval either through Council or Policy and Resources for the updated MTFS at the start of the budget process to set the framework for committees to consider outline spending plans or budget options.

D **On future sustainability:** Update the Medium-Term Financial Plan so that it provides a realistic assessment of the financial challenge facing the Council

- Use a sensitivity model to show the potential range of the funding gap over the period of the MTFP if various key assumptions e.g., inflation/pay/council tax are changed.
- Use a risk-based approach to the delivery of savings within the MTFP. Factor in the likelihood that a proportion of savings will not be delivered each year
- Revise the MTFP to correct the errors identified in relation to post Covid income
- Remove the assumed profit share from the Wirral Growth company as this cannot be relied upon for financial planning purposes

E **On savings plans:** Engage members at an early stage in identifying savings

- Task the P&R Committee with specifying the parameters, assessment criteria and targets for the savings required from each Committee as part of the process for agreeing the Medium-Term Financial Strategy at the outset of the budget process.

- Set challenging targets to identify additional savings in existing high-spend areas, such as the Neighbourhoods Directorate, for consideration by Members. (P&R Committtee).
- Set clear financial targets for any service reviews in line with the Medium- Term Financial Strategy. This should include a review of the benefits and costs of discretionary spend. (P&R Committtee).
- Task the SROs for each planned saving to develop detailed delivery plans that can be signed off by Members at the relevant Committee. (P&R Committtee).
- Establish a working group of the Executive Team and all Group Leaders to develop a robust Medium Term Financial Strategy and associated plans for a more fundamental reshaping of council budgets and service delivery to achieve a balanced budget.
- Task the P&R Committee with regularly reviewing progress with the delivery of savings so that any slippage can be identified and mitigated timeously.

F **On commercial practices and borrowing:** Maintain oversight over existing level of borrowing

- Review its capital programme and ensure that it has identified realistic capital programme pressures in 2023-26 so that it can assess the overall impact on Council borrowing.
- Consider setting tight limits on the level of future borrowing to ensure that the minimum revenue provision remains prudent.
- Dispose of sufficient assets to obviate the longer-term need for borrowing under the capital direction.

G **On assets:** The Council should develop a clear asset disposal strategy

- Review the condition of all Council assets to determine maintenance requirements over the medium term
- Engage with members at an early stage to develop a realistic asset disposal strategy that focusses on the disposal of assets that require significant maintenance and repair
- Identify asset disposals to offset the risk of increased council borrowing which could fund
    - the repair and maintenance of existing council assets
    - the cost of the capitalisation direction
    - future potential regeneration plans

H **On governance and oversight:** Prioritise the work required to build financial resilience

- Halt those initiatives, such as the development of a Community Bank, that would otherwise divert the focus of the organisation from addressing the Council's finances as well as exposing it to additional financial risk.
- Re-assign the non-financial responsibilities of the Section 151 Officer to enable the individual to focus on financial resilience. If the role is re-assigned, the Section 151 Officer should continue to be part of the executive leadership team.

I **On governance and oversight:** Strengthen financial governance

- Provide a mandatory annual training session for Members on local government finance and their core financial responsibilities as members
- Provide briefings on Council financial challenges to all Council managers.
- Provide a mandatory briefing to all Members on the key financial challenges facing the Council.
- Appoint shareholder representatives and task a senior manager in finance with responsibility for monitoring the resource needs of the Council's companies.
- Develop quality assurance arrangements, such as a peer-based improvement panel, to ensure written and oral briefings and other materials provided to Members clearly state the financial position and what actions are proposed

J **On governance and oversight:** Ensure that all key risks are identified

- Commission an independent review of the financial position of the Council's companies and other commercial ventures to ensure all potential risks are identified
- Ensure that all major Council risks in relation to financial resilience are scored
- Include risk management awareness, particularly in relation to financial risks as part of the member awareness training.

Appendix 2- Detailed improvement roadmap

	Road Map	October	November	December	January	February	March	April
	Strengthening Financial Sustainability							
A	**On reserves: Develop a mitigation plan for outturn variances in 2021-22**							
	Carry out a realistic assessment of the delivery of current year savings	■						
	Identify and pursue additional savings that can be used to offset current savings unlikely to be delivered	■	■					
B	**On reserves: Develop a plan to rebuild general reserves over the period of the Medium-Term Financial Strategy**							
	Undertake a review of financial reserves				■			
	Review the level of earmarked reserves to identify any that can be used to rebuild general reserves				■			
	Build in an obligation to increase the General Fund reserve				■			
C	**On future sustainability: Prepare a more realistic Medium Term Finance Strategy that better reflects the challenges facing the Council**							
	Ensure that the Strategy is explicit about the challenges facing the Council	■						
	Adopt a realistic approach to regeneration and prevention measures	■						
	Seek member approval either through Council or Policy and Resources for the updated MTFS	■						
D	**On future sustainability: Update the Medium Term Financial Plan so that it provides a realistic assessment of the financial challenge facing the Council**							
	Use a sensitivity model to show the potential range of the funding gap				■			
	Use a risk-based approach to the delivery of savings within the MTFP.				■			
	Revise the MTFP to correct the errors identified in relation to post Covid income	■						
	Remove the assumed profit share from the Wirral Growth company	■						
E	**On savings plans: Engage members at an early stage in identifying savings**							
	Task the P&R Committee with specifying the parameters, assessment criteria and targets for the savings	■						
	Set challenging targets to identify additional savings in existing high-spend areas,	■						
	Set clear financial targets for any service reviews in line with the Medium- Term Financial Strategy.	■						
	Develop detailed delivery plans that can be signed off by Members						■	
	Establish a working group of the Executive Team and all Group Leaders to develop a robust Medium Term Financial Strategy.	■						
	Task the P&R Committee with regularly reviewing progress and any mitigations required	■						
F	**On commercial practices and borrowing: Maintain oversight over existing level of borrowing**							
	Review its capital programme to identify capital programme pressures in 2023/26						■	
	Consider setting tight limits on the level of future borrowing to ensure MRP remains prudent						■	
	Dispose of sufficient assets to obviate the need for longer-term borrowing for the capitalisation directive						■	
G	**On assets: The Council should develop a clear asset disposal strategy**							
	Review the condition of all Council assets to determine maintenance requirements				■			
	Develop a realistic asset disposal strategy					■		
	Identify asset disposals					■		
	Strengthening Financial Governance and Oversight							
H	**On governance and oversight: Prioritise the work required to build financial resilience**							
	Halt those initiatives, such as the development of a Community Bank, that would otherwise divert focus		■					
	Re-assign the non-financial responsibilities of the Director of Resources				■			
I	**On governance and oversight: Strengthen financial governance**							
	Provide a mandatory annual training session for members on local government finance		■					
	Provide briefings on Council financial challenges to all Council managers.		■					
	Provide a mandatory briefing to all Members on the key financial challenges		■					
	Increase oversight of Council Companies including shareholder representatives and a finance lead						■	
	Develop quality assurance arrangements for finance briefings.						■	
J	**On governance and oversight: Ensure that all key risks are identified**							
	Commission an independent review the financial position of Council companies							■
	Score all major Council risks in relation to financial resilience				■			
	Include risk management awareness as part of the member awareness training		■					

Appendix 3 – List of those interviewed

- Cllr Tom Anderson, Conservative Group Leader
- David Armstrong, Assistant Chief Executive
- Nicki Butterworth, Director of Neighbourhoods
- Alan Evans, Director of Regeneration
- Mark Goulding, Senior Finance Manager
- Diane Grisdale, Senior Finance Manager
- Shaer Halewood, Director of Resources
- Graham Hodkinson, Director of Adults Care and Health
- Cllr Kathy Hodson, Chair of Audit and Risk Committee
- Cllr Tony Jones, Chair of Economy, Regeneration and Development Committee
- Daniel Kirwan, Assistant Director, Finance
- Peter McCann, Head of Revenue and Benefits
- Phil McCourt, Director of Law & Governance and Monitoring Officer
- Steve McMorran, Estates Manager
- Peter Molyneux, Senior Manager, Treasury Management
- Mark Niblock, Chief Internal Auditor
- Paul Satoor, Chief Executive
- Mark C. Stocks, Key Audit Partner, Grant Thornton
- Helen Turner, Risk Management Lead
- Simone White, Director of Children's Services
- Cllr Janette Williamson, Leader

Appendix 4 – List of documents

Initial information request

A. Key Finance documents:
   1. Initial bid for Capitalisation, and any supporting papers
   2. The Revenue Budget Report 2021/22
   3. The Capital Programme 2021/22
   4. The Section 25 Statement for 2021/22
   5. Reserves Strategy
   6. Budget Strategy
   7. Capital Strategy
   8. Treasury Management Strategy
   9. Prudential indicators for 2020-21 and for 2021-22
   10. Out-turn Report 2018/19, 2019/20 and 2020/21
   11. Capital Out-turn Report 2018/19, 2019/20 and 2020/21
   12. Savings planned and delivered by Directorate for 2018/19, 2019/20 and 2020/21
   13. Financial statements for the Council and any companies owned/part-owned by the Council for 2018/19, 2019/20 and 2020/21
   14. Latest monitoring reports for 2021-22
   15. The Medium-Term Financial Plan
   16. Relevant reports to the Audit Committee
   17. Pension Fund report for 2018/19, 2019/20 and 2020/21
   18. Financial Regulations
   19. Finance Team Structure Chart - showing staff in post, interims and vacancies
   20. Business Plan for Finance

B. Other key documents:
   1. Council organisational chart – showing key staff in post, interims and vacancies
   2. Corporate Plan for 2018-19, 2019-20, 2020-21 and current
   3. Council Risk Register (showing position at end of 2018-19, 2019-20, 2020-21 and current)
   4. Annual Governance Statement for 2018-19, 2019-20, and 2020-21
   5. Report of External Auditors to Audit Committee
   6. Annual Report of Internal Auditors
   7. Log of IA recommendations and actions
   8. Asset register, including any assessment of assets that may be surplus
   9. Book value of assets, including valuation strategy
   10. MRP calculations
   11. Schedule of asset rental/income streams and how they contribute to budgets.

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Appendix B

ADA BURNS RECOMMENDATIONS		
1	Within the next three months (and by the end of Quarter 3) **develop a financial recovery plan for the three years 2022/23 to 2024/25;** a) the plan to be developed with the active engagement of Members, built from robust data, and following a **training programme on local government finance**; b) all Group Leaders to engage constructively with the plan and support a dialogue with the public;	A Programme Management approach is being developed to support the implementation of the Financial Recovery Plan (FRP). The Chief Executive has appointed Stuart Fair to provide additional capacity in relation to the Council's section 151 duties. Stuart will lead on pulling the FRP together by the end of December and this will dovetail with the Council's Medium Term Financial Plan which will be agreed alongside the budget for 2022/23 in February. The FRP will address all the financial recommendations in both reports and will form a discrete element of the Council's wider Improvement Plan which will be updated to reflect the recommendations from the External Assurance reports and the Peer Challenge scheduled for January 2022. The FRP will also be supported by an organisational development plan of Member and officer training. Sessions for Members will commence with an all-Member briefing 15 November and a first training session on Local Government Finance for members of the P&R Committee 24 November.
2	Suspend all work on new initiatives which do not directly contribute to the Development or implementation of the plan or are otherwise required to meet statutory obligations	Wirral has suspended its proposal to implement a Community Bank (see CIPFA recommendation 8). Officers have developed an approach to prioritisation and we will put all live projects through this to determine which can be halted. New project proposals will be subject to this prioritisation process which will feature as part of a new corporate project approvals process to ensure projects only progress where the business case determines that the planned benefits merit the required investment.
3	**Appoint an independent Panel**, with appropriate legal and financial expertise, to: (a) advise and scrutinise the plan to provide assurance to the Council that it is robust and deliverable; (b) monitor delivery of the plan and report to the Council on performance against the plan twice a year	Officers are in dialogue with the LGA with a view to getting an Independent Panel established as early as possible. Draft Terms of Reference are in place and we are now assessing appropriate candidates from which to form the Panel membership. Officers are also reviewing the approach taken by other local authorities that have been granted exceptional financial support. The intention is to have a first panel meeting soon after we have responded to the Secretary of State. It is anticipated, the Panel will meet intensively for the first 3 months to ensure progress through budget setting and the approval
4	The Ministry of Housing, Communities and Local Government should consider the Panel's report on progress against the Plan to seek assurance that the Council is moving effectively towards financial sustainability.	

		of the Financial Recovery Plan. Following that, meetings and reporting on progress will be quarterly and will continue for the 3 year life of the plan.
5	The Wirral Metropolitan Borough Council should move to implement a four year, “all out” electoral cycle at the earliest opportunity.	The earliest opportunity to implement a whole Council election scheme (all-out elections) will be 2022 or 2023. A report setting out the statutory requirements and a timeframe to implement this will be presented to Policy & Resources Committee on 30 November.
6	Prioritise income from growth to support the re-building of reserves.	This recommendation will be incorporated into the Financial Recovery Plan. A 15-year model is available that identifies recurrent funding from council tax and business rates as a result of regeneration growth. This funding has been discounted for associated expenditure growth. The model has been validated by CIPFA and deemed to be robust. This income is included in the funding assumptions in the MTFP as would be expected. Non-recurrent income from regeneration growth i.e. Wirral Growth Company income has been removed from the MTFP and will be used to contribute to reserves.
7	The Director of Resources to ensure that all reports include explicit financial implications.	A programme of finance training will be provided to officers as part of the wider organisational development piece that supports the implementation of the FRP. This will be developed in draft by the end of December 2021. Arrangements for the clearance of committee reports specifically any financial implications will be reviewed and refreshed by the Head of Democratic & Members Services.
8	The Chief Executive to review the portfolio of the Director of Resources to ensure that she has the capacity and support to develop and manage delivery of the financial recovery plan.	The Chief Executive has agreed additional financial capacity to support the Director of Resources in the development and management of the recovery plan. An external assessment will be commissioned by 30 November to review and consider capacity, reporting and accountabilities in relation to Resources, Assets and Legal Services.
9	Undertake an LGA Corporate Governance Peer Review at an appropriate point to further underpin broader improvement in governance and outcomes.	A Corporate Governance Peer Review is scheduled for 24-27 January 2022. The scope for this has been agreed with the LGA and planning is under way.

10	Consider commissioning an LGA Peer Review of its arrangements for regeneration.	A number of commissions are already underway to review the Council's regeneration capabilities and refresh our Asset Management Plan. An assessment of the progress with this work will be undertaken to inform a decision on whether to progress a Peer Review of Regeneration at this stage.
11	Strengthen its approach to management of corporate risk and ensure better visibility on key risks.	Zurich are finalising their work following a review in relation to the Council's risk appetite. A wider review of the Council's risk management arrangements will be undertaken at the point this work is completed. Consideration will be given to strengthening the role of Audit & Risk Management Committee. It is proposed that regular reporting of the Council's key risks to Policy and Resources committee will feature as part of quarterly performance reporting in the New Year.
12	Consider the Annual Audit letter at Policy and Resources Committee.	This will be reported at the next available opportunity and no later than 31 March 2022.
13	Members to work with the Director of Law and Governance to review the Committee system to reduce the number of Committees, assign authority to the Policy and Resources Committee in respect of financial recovery, and significantly reduce the related administrative burden.	Two reviews, one by officers and one supported by the LGA are underway and the outcome of both will be reported to Constitution and Standards Committee in January 2022 to inform new committee arrangements in the new municipal year. A report setting out proposals to delegate authority to Policy & Resources committee in respect of Financial Recovery, increased thresholds for delegation and other opportunities for reducing the administrative burden will be brought to Policy and Resources Committee in due course.
CIPFA RECOMMENDATIONS		
1	**STRENGTHEN FINANCIAL SUSTAINABILITY** **(A) On reserves:** Develop a mitigation plan for outturn variances in 2021-22. (i) Carry out a more realistic assessment of the current year savings and the extent to which they will be delivered in the current financial year (ii) Identify and pursue additional savings, such as in the **Neighbourhoods directorate and in staffing efficiencies** that, if necessary, can be used to offset current savings that are unlikely to be delivered in the current financial year.	This recommendation has been completed and the in-year position and level of mitigation required is monitored monthly by officers and is being reported through Policy and Resources Committee as part of regular financial reporting.

2	**(B) On Reserves:** Develop a plan to rebuild general reserves over the period of the Medium-Term Financial Strategy (i) Undertake a review of financial reserves that considers increased risks in terms of savings delivery and those associated with Council's companies (ii) Review the level of earmarked reserves to determine whether they are still required for the purpose that they were established with a view to using any monies that are no longer required to rebuild general reserves to a level that adequately mitigates the risks to longer financial sustainability (iii) Build in an obligation to increase the General Fund reserve in line with the above risks assessment over the period of the MTFS.	A review of financial reserves and risks in terms of saving's delivery has been completed. A further review of reserves and the risks associated with Council companies will be undertaken and reported through Policy and Resources Committee in the New Year. It is proposed that in future, all reserves will be held centrally, and a reserves strategy will be brought forward as part of quarter 3 monitoring as a deliverable of the FRP. The 2022/23 and 2023/24 budget proposes an increase in the General Fund balance.
3	**(C) On future sustainabilit**y: Prepare a more realistic Medium Term Finance Strategy that better reflects the challenges facing the Council (i) Ensure that the Strategy is explicit about the challenges facing the Council and the tough choices that it will need to make (ii) Adopt a realistic approach to regeneration and prevention measures and the limited impact they may have on the MTFS in the short term. (ii) Seek Member approval either through Council or the Policy and Resources Committee for the updated MTFS at the start of the budget process to set the framework for committees to consider outline spending plans or budget options.	A more realistic MTFS has been produced which aligns financial planning with the Council's strategic priorities as set out in the Wirral Plan. The MTFS also includes principles that will support the Council's financial decision-making. The MTFS will be reported to Policy and Resource Committee on 1 December for approval. Officers are reviewing the approach to regeneration and prevention. Assumptions in respect of returns from regeneration activity have now been removed from the MTFS and will be held for reserves and investment.
4	**(D) On future sustainability:** Update the Medium-Term Financial Plan so that it provides a realistic assessment of the financial challenge facing the Council. (i) Use a sensitivity model to show the potential range of the funding gap over the period of the MTFP if various key assumptions e.g., inflation/pay/council tax are changed. (ii) Use a risk-based approach to the delivery of savings within the MTFP. Factor in the likelihood that a proportion of savings will not be delivered each year (iii) Revise the MTFP to correct the errors identified in relation to post Covid income (iv)Remove the assumed profit share from the Wirral Growth company as this should not be relied upon for financial planning purposes	A sensitivity model has been incorporated into the Budget Preparation Report that went to Policy and Resources committee on 25 October. A risk-based approach to the delivery of savings in the MTFP will be brought forward in the supporting business cases as these are produced. Errors identified have been corrected in the MTFP reviewed by CIPFA and an updated position was reported to Policy and Resources committee on 25 October. To reflect a more prudent approach, the profit share from the Wirral Growth Company has now been removed from the MTFP and will be held in a regeneration reserve.

5	**(E) On savings plans:** Engage Members at an early stage in identifying savings (i) Task the P&R Committee with specifying the parameters, assessment criteria and targets for the savings required from each Committee as part of the process for agreeing the Medium-Term Financial Strategy at the outset of the budget process. (ii) Set challenging targets to identify additional savings in existing high-spend areas, such as the **Neighbourhoods Directorate**, for consideration by Members of the P&R Committee. (iii) Set **clear financial targets for any service reviews in line with the Medium-Term Financial Strategy**. This should include a review of the benefits and costs of discretionary spend. (P&R Committee). (iv) Task the Senior Responsible Officers for each planned saving to develop **detailed delivery plans** that can be signed off by Members at the relevant Committee. (P&R Committee). (v) Establish a **working group of the Executive Team and all Group Leaders** to develop a robust Medium Term Financial Strategy and associated plans for a more fundamental reshaping of council budgets and service delivery to achieve a balanced budget. (vi) Task the P&R Committee with regularly reviewing progress with the delivery of savings so that any slippage can be identified and mitigated timeously.	The Policy and Resources Committee has established a Finance Sub-Committee which will define the savings required from the Policy and Service Committees. The MTFS puts forward a set of principles to support financial decision-making including reviewing spend in high-cost service areas. Officers have developed a Change Programme which will bring forward a schedule of service reviews to be delivered through the Financial Recovery Plan. Service reviews will have Senior Responsible Officers allotted and detailed delivery plans with clear targets set. Regular briefings are provided by the Executive Team to Group Leaders and these sessions will be re-focussed to ensure dedicated time is allocated to developing the MTFS. The Finance Sub-Committee will maintain oversight of the implementation of the MTFS and will review progress on savings delivery.
6	**(F) On commercial practices and borrowing:** Maintain oversight over existing level of borrowing (i) Review its capital programme and ensure that it has identified realistic capital programme pressures in 2023-26 so that it can assess the overall impact on Council borrowing. (ii) Consider setting tight limits on the level of future borrowing to ensure that the minimum revenue provision remains prudent. (iii) Dispose of sufficient assets to obviate the longer-term need for borrowing under the capital direction.	A review of the Capital Programme was conducted earlier in the year. The programme will be further reviewed with projects being put through the prioritisation process set out above. Prudential indicators are incorporated to maintain limits on future borrowing to ensure the MRP remains prudent. Updates on this are reported to P&R and full council. An Asset Management Plan is in production and work is being commissioned to deliver an accompanying Asset Disposal Strategy. We will bring forward a programme of assets disposals at pace to support the MTFS.

7	**(G) On assets:** The Council should develop a clear asset disposal strategy (i) Review the condition of all Council assets to determine maintenance requirements over the medium term (ii) Engage with Members at an early stage to develop a realistic asset disposal strategy that focusses on the disposal of assets that require significant maintenance and repair (iii) Identify asset disposals to offset the risk of increased council borrowing which could fund the repair and maintenance of existing council assets, the cost of the capitalisation direction and future potential regeneration plans	An Asset Disposal Strategy will be brought forward alongside our refreshed Asset Management Plan. A review of condition surveys will be conducted and conditions surveys commissioned where they are not up to date. Once the Asset Disposal Strategy has been approved, a programme of disposals will be brought forward and implemented.
8	**(E)On governance and oversight:** Prioritise the work required to build financial resilience (i) Halt those initiatives, such as the development of a Community Bank, that would otherwise divert the focus of the organisation from addressing the Council's finances as well as exposing it to additional financial risk. (ii) Re-assign the non-financial responsibilities of the Section 151 Officer to enable the individual to focus on financial resilience. If the role is re-assigned, the Section 151 Officer should continue to be part of the executive leadership team.	The Community Bank project has been halted and a detailed review of other Council initiatives will be subject to the prioritisation approach referred to above to identify other projects that it would be prudent to suspend or cease entirely. Additional capacity has been brought in to support the Section 151 Officer to ensure sufficient focus on financial resilience.
9	**(F) On governance and oversight:** Strengthen financial governance (i) Provide a **mandatory annual training session for Members on local government finance and their core financial responsibilities as members** (ii) Provide **briefings on Council financial challenges to all Council managers.** (iii) Provide a **mandatory briefing to all Members** on the key financial challenges facing the Council. (iv) **Appoint shareholder representatives** and task a senior manager in finance with responsibility for monitoring the resource needs of the Council's companies. (v) Develop **quality assurance arrangements, such as a peer-based improvement panel, to ensure written and oral briefings and other materials provided to Members clearly state the financial position** and what actions are proposed	A programme of Member training on local government finance will be developed. An all-Member briefing on the financial challenges facing the Council will provide the starting point for this on 15 November. A dedicated training session for Members of P&R will be delivered on 24 November. Further member training sessions will be specified as part of the organisational development plan for Members and officers that will be developed to support the implementation of the Financial Recovery Plan. Officer responsibilities in relation to monitoring Council companies will be assigned and shareholder representatives reviewed. The Corporate Governance Peer Review and Independent Panel will provide the quality assurance arrangements to ensure effective reporting of our financial position.

10	**(G) On governance and oversight:** Ensure that all key risks are identified (i) Commission an **independent review of the financial position of the Council's companies and other commercial ventures** to ensure all potential risks are identified (ii) Ensure that **all major Council risks in relation to financial resilience are scored** (iii) Include **risk management awareness**, particularly in relation to financial risks as part of the member awareness training.	An independent review of our risk exposure in relation to all commercial investments will be commissioned by 31 December 2021. All Council risks in relation to financial resilience have now been scored. Risk management awareness will be included within the scope of local government finance training for officers and members.

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WIRRAL

POLICY AND RESOURCES COMMITTEE

Tuesday 30th November 2021

REPORT TITLE:	**CONSULTATION TO CHANGE SCHEME OF ELECTIONS**
REPORT OF:	**DIRECTOR OF LAW AND GOVERNANCE**

REPORT SUMMARY

A recommendation of the External Assurance Review is, published 2nd November 2021, was that the Council should move to implement a four year, “all out” electoral cycle at the earliest opportunity.’ This report brings forward a process to enable that change to begin to take place.

RECOMMENDATIONS

That the Policy and Resources Committee authorise commencement of a consultation process with a view to changing the Council’s scheme for elections by thirds to a scheme for whole-council elections and that the year for elections be set for the purposes of the consultation as 2022, 2023 or 2024.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 To commence a consultation process in accordance with the Local Government & Public Involvement In Health Act 2007 on whether the Council should change to whole council elections every 4 years.

1.2 The Council is responding to a recommendation made in the Minster of State's External Assurance Review that 'should move to implement a four year, "all out" electoral cycle at the earliest opportunity'.

1.3 The earliest practicable year for a change in electoral scheme to whole council elections is considered to be 2023, which provides the Council with the ability to consult and prepare for the change and is felt to best accord with the Boundary Commission's planned review.

2.0 OTHER OPTIONS CONSIDERED

2.1 The Committee may disagree with the recommendations contained within the External Assurance Review.
- The reasons for the recommendation are set out in the Review.

2.2 A different implementation date.
- The considerations of the different potential years to first hold whole council elections are set out in the body of the report below.

3.0 BACKGROUND INFORMATION

3.1 A condition of Wirral Metropolitan Borough Council's capitalisation direction for 2021/22 was an external assurance review. In undertaking the governance element of the review, Ms Ada Burns was asked to determine whether "the Council has effective mechanisms in place to ensure that savings are delivered and that the Council are fully committed to sustainable transformation".

3.2 A key finding in the Governance report, published with the Minister of State's letter to the Council on 2nd November 2021, was that

- 'Elections in thirds, changes in political control, and changes in political Group leadership have, since the first election to the Council in 1973, worked against the stability needed to make and carry through long term strategies'

3.3 This finding is supported in a number of references to a weakness of election by thirds in the running of the Council, but in particular that:

- 'There is no evidence of work from the Political Groups to build political consensus on medium term financial strategies that could cushion the impacts of the electoral cycle; and

- ‘The electoral cycle and the particularly volatile politics of some Council seats in Wirral is a barrier to continued improvement. While Members interviewed have expressed total support for the model, the advantages of securing a four year window to undertake the sort of radical remodelling of services and finances needed should be reconsidered.’

3.4 A recommendation of the Review is, therefore, that the Council should move to implement a four year, “all out” electoral cycle at the earliest opportunity.’

3.5 In her letter of 2nd November 2021, the Minister has asked that the Council set out in writing, within the next month, the steps it is taking in the immediate and longer term to respond to the Review and implement the recommendations’. The Minister goes on to state that she is ‘keen to understand the Council’s plans relating to the implementation of a four year “all out” electoral cycle’.

3.6 The power of the Council to change electoral schemes is contained in Part 2 (Electoral Arrangements) of the Local Government and Public Involvement in Health Act 2007, as amended by the Localism Act 2011. This allows the Council itself to decide whether to move to whole council elections, or back to elections by thirds (The Council cannot move to a ‘halves’ electoral cycle as it has not elected this way in the past).

3.7 There are a number steps a council must take when considering changing its electoral system. The Council cannot pass a resolution on whole council elections unless first:

(i) It has taken reasonable steps to consult with such persons as it thinks appropriate on the proposed change;

(ii) It holds a meeting which is specially convened for the purpose of deciding the resolution;

(iii) The resolution is supported by a majority of at least two thirds of the members voting on it; and

(iv) The resolution must specify the year for the first ordinary elections of the council at which all councillors are to be elected.

3.8 After passing a resolution there is required publication of notices.

3.9 Should the Council pass a resolution to move to all-out elections, it cannot pass another resolution (i.e., to move back to a system of thirds) before the end of five years beginning with the day on which the resolution is passed.

3.10 If the reasoning and principle of moving to whole council elections is accepted there are a number of considerations to be taken into account in setting the proposed year to hold the first whole council election.

3.11 The Council is due to have a Boundary Review in the coming period. In undertaking that review, the Commission will need to understand what electoral scheme the Council is to operate under and, therefore, what sort of review it is asked to undertake. It is consequently preferable that any new

scheme is adopted and in place for when that review starts, which as requested of the Boundary Commission is to commence in 2023/24. Holding the whole council elections before work is undertaken by the Boundary Commission would then allow a clear understanding of the ask and consequences of any changes. If the Council also then wished the Boundary Commission to consider a change in the number of councillors per ward, for example, then that may also then be undertaken. It would then allow for the resulting ward boundary changes to be implemented by Parliament in good time for the following election in 2027.

3.12 Under the current electoral scheme there is no election planned for 2025, otherwise known as a fallow year. Moving to a scheme of whole council elections in 2026 is therefore attractive because it will follow the fallow year and allow that time to be dedicated to organising the changes. Changing to whole council election in either 2026 or 2025, however, would be likely to conflict with the Boundary Commission's timetable for review of the Council's electoral wards and numbers, as explained above. It would also introduce a legal risk that would need to be explored because of the large gap between the date of resolution to change system and the year that that change is to be introduced. Most pertinently, it is not changing the electoral cycle from 'by-thirds' to 'all-outs' at the earliest opportunity as the Review recommends.

3.13 Conversely, a change in the electoral scheme to a whole council election in 2022, next year, it is possible but not without risk. An adequate consultation must be run with time to respond to then implement the change. In order for the first whole council election to be organised and run to a satisfactory standard for 2022, it would mean needing to re-prioritise staff and project planning from elsewhere which, at this time, may not be considered the best focus of the time and resources available to the Returning Officer.

3.14 2023 would allow for a full period for consultation and for the necessary legal and sensible administrative preparations to be made. Whilst considered to be the earliest date for any change with the minimum of risk, it would not strictly speaking be the earliest possible date for the changing the electoral scheme to whole council elections.

3.15 The elections to be held in 2024 are the intended date for the introduction of the provisions contained in the Election Bill currently going through Parliament, which will introduce Voter ID in polling stations and other new additional administrative burdens. These new requirements are to be overlayed on what is already felt will be a challenging prospect of combined Parliamentary (on new Constituency Boundaries), Police and Crime Commissioner and LCR Combined Authority Mayoral elections to deliver in that year. Whilst whole council elections in 2023 would assist by removing the combining of these elections with the local elections, holding whole council elections in 2024 will introduce an undue administrative burden.

3.16 These three years of 2022, 2023 and 2024 are, therefore, put to the Committee to choose as the year to add to the recommended consultation and then any resolution to change the Council's electoral scheme.

4.0 FINANCIAL IMPLICATIONS

4.1 A change to the Council's current electoral scheme from election by thirds to whole council elections would save an estimated £125,000 per year, averaged over the four year cycle.

5.0 LEGAL IMPLICATIONS

5.1 Consultation must give sufficient reasons for its proposals to allow consultees to understand them and respond to them properly, sufficient time for responses to be made and considered and responses must be conscientiously taken into account in finalising the decision.

5.2 A resolution for whole-council elections is made by the Council under s.32 of the Local Government and Public Involvement in Health Act 2007. The requirements associated with the making of that resolution are set out within the body of the report. If passed, a scheme for whole-council elections, will mean ordinary elections of the councillors of the council are to be held in the year specified in the resolution, and every fourth year afterwards.

5.3 Section 31A was later introduced into this legislation to ensure a minimum period exists between resolutions to change electoral schemes. If the year set for the change in electoral system in the resolution (also a requirement introduced later) is too far in the future, then there is a risk that this could be considered to be unlawfully undermining the intention of this provision to provide stability and a safeguard of time between changes in electoral schemes.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 A change to the scheme of elections will require a reorganisation of electoral staffing and resourcing, including communications. This will require some months to put into place.

7.0 RELEVANT RISKS

7.1 Should the Council not agree to move to a scheme of whole council elections, the Secretary of State holds the power to require a change by Order laid in Parliament. This is provided for under Section 86(A1) of the Local Govt Act 2000 as amended. As it requires governmental and Parliamentary resource, it has been used only a few times in recent years, all to councils with intervention of some sort (Stoke, Birmingham, Doncaster) and all to require whole council elections. The draft Liverpool Order has just been laid in Parliament, with rationale, to cancel their scheduled elections for Council in 2022 and mayor in 2024 and to introduce whole council elections as of 2023.

7.2 Not changing the scheme of elections will require the Council to carefully consider how the disadvantages of a scheme of elections by thirds, including

those set out in the Review and such matters as regular pre-election periods, might be mitigated.

7.3 Conversely, those matters that are considered an advantage in the current scheme would need to have consideration given as to how any advantages may be kept and how any disadvantages brought about, including the considerable increase in electoral administration required in an irregular cycle, might be overcome.

8.0 ENGAGEMENT/CONSULTATION

8.1 The council must not pass the resolution unless it has taken reasonable steps to consult such persons as it thinks appropriate on the proposed change.

9.0 EQUALITY IMPLICATIONS

9.1 An equality impact assessment in respect of the consultation process will be completed as part of the project and implementation plan.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 The individual considerations arising out of this report will have due regard to the Council's Environment and Climate Change Action Plan and the 'Sustainability' working principle.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are no community wealth implications arising out of this report.

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BACKGROUND PAPERS

External Assurance Review DLUHC 2nd November 2021

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Policy & Resources Committee	7th Oct 2021