Public Document Pack

Audit and Risk Management Committee

Date:	**Wednesday, 20 July 2022**
Time:	**6.00 p.m.**
Venue:	Wallasey Town Hall

Contact Officer: Joe D'Henin, Democratic Services Officer
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Website: http://www.wirral.gov.uk

Please note that public seating is limited therefore members of the public are encouraged to arrive in good time.

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

AGENDA

1. WELCOME AND INTRODUCTION

2. APOLOGIES FOR ABSENCE

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. MINUTES (Pages 1 - 4)

To approve the accuracy of the minutes of the meeting held on Monday 27th June 2022.

5. PUBLIC AND MEMBER QUESTIONS

Please telephone the Committee Services Officer if you have not received an acknowledgement of your question/statement by the deadline for submission.

5.1 **Public Questions**

Notice of question to be given in writing or by email by 12 noon, Friday 15th July to the Council's Monitoring Officer (committeeservices@wirral.gov.uk) and to be dealt with in accordance with Standing Order 10

5.2 **Statements and petitions**

Petitions may be presented to the Committee if provided to Democratic and Member Services no later than 10 working days before the meeting, at the discretion of the Chair. The person presenting the petition will be allowed to address the meeting briefly (not exceeding three 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. If a petition contains more than 5,000 signatures, it will be debated at a subsequent meeting of Council for up to 15 minutes, at the discretion of the Chair. Please give notice of petitions to committeeservices@wirral.gov.uk in advance of the meeting.

5.3 **Questions by Members**

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

6. EXTERNAL AUDIT ANNUAL AUDIT REPORT 2020-21, AUDITORS REPORT COMPANY GOVERNANCE 2020-21 AND MERSEYSIDE WASTE VALUE FOR MONEY REPORT 2020-21 (Pages 5 - 126)

Terms of Reference

The terms of reference for this committee can be found at the end of this agenda.

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AUDIT AND RISK MANAGEMENT COMMITTEE

Monday, 27 June 2022

Present:	Councillor	S Mountney (Chair)	
	Councillors	S Kelly	T Cox
		Jason Walsh	S Powell-Wilde
		A Davies	
	Independent Persons		J Byrne
			P McAlister

1 **WELCOME AND INTRODUCTION**

The Chair opened the meeting and reminded everyone that the meeting was being webcast and a copy was retained on the Council's website.

2 **APOLOGIES FOR ABSENCE**

There were no apologies for absence.

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

Members were asked to consider whether they had any disclosable pecuniary interests and/or any other relevant interest in connection with any item(s) on this agenda and, if so, to declare them and state what they were. There were no declarations of interests.

4 **MINUTES**

Resolved –
That the minutes of the meeting held on 15 March 2022 be approved.

5 **PUBLIC AND MEMBER QUESTIONS**

There were no questions, petitions or statements received for this meeting.

6 **INTERNAL AUDIT UPDATE**

The Chief Internal Auditor presented his report which identified and evaluated the performance of the Internal Audit Service and included details of any issues arising from the actual work undertaken during the period 1st March to 31st May 2022.

Members noted the counter-fraud training and campaign being undertaken and that further reports were to follow on particular matters and that the level of detail in the reports would be reviewed.

Resolved –
That the report be noted.

7 **ANNUAL ARMC REPORT 2021-22**

The Chief Internal Auditor presented a report on behalf of the Chair which summarised the work undertaken by the Committee in the previous year. Reporting this annually
complied with best professional practice.

Resolved –
That the Annual ARMC Report for 2021-22 be approved and submitted to Council.

8 **CHIEF INTERNAL AUDITORS ANNUAL REPORT AND OPINION 2021-22**

Mark P Niblock Chief Internal Auditor presented his report which he was required to present annually and which provided assurance about the controls. It had been a challenging year with pandemic related activities.

In answer to Members' questions, it was established that:

- Audit staffing had been static to date
- Hybrid working had worked well but was being closely monitored
- The audit of Section 106 agreements had shown risks around the collection of monies and record keeping and there were actions to improve the process from start to finish. Follow up audit work to evaluate progress on actions had been scheduled for later in the year and the outcomes from this would be reported to Committee
- There was staff training around the 'no PO no pay' policy as well as improved controls and there had been a marked improvement in the figures
- data centre security had been an issue as the data collection centre was used by non-Council staff but most data had now been moved to a specialist data warehouse.

Resolved –
That the report be noted.

9 **CORPORATE RISK MANAGEMENT UPDATE**

The Risk, Continuity and Compliance Manager presented the report of the Director of Resources which was a regular risk management update report, looking at looking at corporate risks and the efforts to identify and manage

risks. It was noted that the list was dynamic as environments and situations changed over time. It included the Council's risk management arrangements and areas of risk management focus over the following year.

Members were interested in data security and would be sent information on this outside of the meeting.

Resolved –
That the report be noted.

10 **EXTERNAL AUDIT PLAN WIRRAL COUNCIL 2021-22**

The Senior Finance Manager Strategy, Policy & Financial Accounts presented the report of the Director of Resources which detailed the plan for the audit of the Council's financial statements by the Council's appointed auditors, Grant Thornton, which was to take place during the Summer, to be reported back to the Committee in October 2022. The complexity of finances during the year was noted

Members discussed the detail and the harshness of the reports as well as the timeframe.

Resolved – That
(1) the proposed Audit Plan be noted and it be confirmed that the arrangements set out will meet the Committee's expectations with regard to providing independent scrutiny.
(2) the report provided by the auditors be noted.
(3) the update of the Statement of Accounts be noted.

11 **EXTERNAL AUDIT PLAN MERSEYSIDE PENSION FUND 2021-22**

Sarah Ironmonger from Grant Thornton presented the report of the Director of Resources which informed Members of the plan for the external audit of the Merseyside Pension Fund's Statutory financial statements for 2021/22. The results of this audit will be reported back to the Committee.

Members queried some of the terms in the report.

Resolved –
That the external audit plan for 2021/22 as prepared by Grant Thornton be noted.

12 **REVIEW OF CONTRACT PROCEDURE RULES**

The Committee's Solicitor presented the report of the Director of Law and Governance which detailed proposed changes to the Contract Procedure Rules following a review of the provisions. They had to be reviewed every two

years. Some of the changes were technical regarding change of rules such as those caused by leaving the EU. Others derived from a report by CIPFA which recommended that the limits for contracts being allowed by officers be changed to speed up contracts where there was little risk and the value for money was recognised.

Members queried the detail in the report and expressed reservations regarding the level and route for reporting of breaches in section 3.2.3. They felt the new version weakened the controls.

Councillor Tony Cox proposed that for section 3.2.3 the original text be preserved.
This was seconded by the Chair and agreed by assent.

Members also clarified the procedures around the opening of tenders and requested a process map to help people unfamiliar with the process.

Resolved –
That the changes to the Contract Procedure Rules that are highlighted in the appendix to this report be approved with the exception of section 3.2.3 where the original text is to be preserved, and Constitutional and Standards Committee be asked to recommend their adoption by the full Council as part of the Council's Constitution.

WIRRAL

AUDIT AND RISK MANAGEMENT COMMITTEE

Wednesday, 26 July 2022

REPORT TITLE:	**EXTERNAL AUDIT ANNUAL AUDIT REPORT 2020-21, AUDITORS REPORT COMPANY GOVERNANCE 2020-21 AND MERSEYSIDE WASTE VALUE FOR MONEY REPORT 2020-21**
REPORT OF:	**DIRECTOR OF RESOURCES**

REPORT SUMMARY

The Council's external auditors (Grant Thornton) completed the Council's main audit 2020-21 Accounts in January 2022 with the exception of the Whole of Government Accounts which are due to be audited in July 2022, following a delay from HM Treasury in issuing access to the portal for completion and submission. The audit findings for the Statement of Accounts were reported to the Committee in the form of the Audit Findings Report in January 2022.

The auditors are also under a duty to provide an Annual Audit Report of the key issues/findings from their audit for consideration by a wider audience across the Council, Pension Fund, and its key stakeholders.

That report, the Annual Audit Report, is attached to this paper as Appendix 1, including two further reports, Value for Money review Governance of Company and Other Investments as Appendix 2 and Merseyside Waste Value for Money report on Merseyside Councils as Appendix 3. Once approved by this Committee, these reports will be taken to Policy and Resources Committee for approval and then onto Full Council from where they will be placed on the Council's website.

The Annual Audit Report and the Value for Money review of Governance of Company and other Investments contain a set of recommendations for the Council to Implement. These recommendations are included as Appendix 4 which provides the action the Council is taking or will take to implement those recommendations and when.

As the two reports highlighted above relate to the financial year 2020/21, much time has passed, and significant progress has already been made in addressing these recommendations. Indeed, some of the recommendations link to the External Assurance Review reports published by Department of Levelling Up, Housing and Communities for which the actions are almost completed.

RECOMMENDATION/S

The Audit and Risk Management Committee is recommended to consider and comment on the reports and appendices and approve them for onward approval to Policy and Resources Committee, Full Council and then publication on the Council website.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 The Audit and Risk Management Committee has responsibility for approving the Statement of Accounts and the Annual Governance Statement (AGS) on behalf of the Council, which is a requirement under The Accounts and Audit Regulations 2015 and The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020.

1.2 The Annual Audit Report and associated reports are an essential element of the independent external audit process. These reports are to be presented to a Committee of the Council for their consideration.

2.0 OTHER OPTIONS CONSIDERED

2.1 Option to not submit to Committee for comment and approval, however, this would not comply with the audit regulations and would be at the detriment of the Council.

3.0 BACKGROUND INFORMATION

3.1 Grant Thornton undertook their annual audit of the Council's financial reporting and activities. These reviews are intended to give assurance to both Members, residents and external stakeholders that the Council's financial activities have been appropriately reported in its Accounts.

3.2 The detailed findings from this audit were reported to the Audit Risk and Management Committee on 24 January 2022 in the form of the Audit Findings Report. This confirmed that the Council's and Pension Fund Accounts for 2020-21 were unqualified and fairly stated the Council's finances and as a result the Committee approved their publication.

Annual Audit Report and Value For Money Reports

3.3 Grant Thornton has now produced its Annual Audit Report and two value for money reports, as appended to this paper, which contains a summary of the relevant findings from their work and any key issues which arose. This document reports their findings in a form which is more readily accessible to members of the public. These reports will be made available alongside the Accounts on the Council's website.

3.4 The Annual Audit Report reconfirms the audit findings previously reported to this Committee:

- The Accounts presented a true and fair view and were unqualified.

- Their concerns as to the Council's financial resilience, planning and sustainability with respect to the value for money work undertaken.
- There is evidence of financial planning to address ongoing funding and budget concerns of the Council.

3.5 In January 2022, the value for money work was still on-going and is now concluded as set out in the two appendices to this report. The auditors assess our arrangements under three headings within the Annual Audit Report.

1. Financial Sustainability, how the Council plans and manages its resources to ensure it can continue to deliver its services
2. Governance, how the Council ensures that it makes informed decisions and properly manages its risks; and
3. Improving economy, efficiency, and effectiveness, how the Council uses information about its costs and performance to improve the way it manages and delivers its services.

3.6 The report has made ten recommendations and rated financial sustainability and governance as having significant weaknesses, and improving economy, efficiency and effectiveness as having no significant weaknesses. As this report is looking at the financial year 2020-21 a number of the recommendations have already been introduced during 2021-22 following the reports from CIPFA and Department of Levelling-up Housing and Communities. The Council has agreed with the report's findings, but also recognises the progress the Council has made during 2021-22 and to date implementing improvements. The full list of recommendations can be found in Appendix 4 along with the actions the Council is taking and has already taken to implement them

Value for Money Review Governance of Company and other Investments

3.7 Grant Thornton as part of auditing economy, efficiency, and effectiveness reviewed the governance of the Council companies and investments. This includes group companies, joint ventures and partnerships, including any significant investments. Grant Thornton findings of this audit are set out in appendix 2 of this report and the recommendations including the actions the Council is taking and has already taken to implement them is included within Appendix 4.

Value for Money Report - Merseyside Waste Management with Merseyside Councils

3.8 A further report was also undertaken looking at the arrangements the Council has in place for Wirral Waste Management Services and this has provided twelve recommendations for the Waste Management operation to take forward. See appendix 3 of this report.

Council responses to the external audit reports

3.9 Included within the Annual Audit Report are three main themes for the Council to consider its monitoring and reporting to Members to raise awareness of the liability for risk associated with these areas. These are:

- Minimum Revenue Provision (MRP) and the risk associated with taking the Annuity method of repayment
- Public Sector Impact Investment Fund lock in and the potential for the anticipated high return from investment not to materialise
- Regeneration schemes where the Council has provided a guarantee for future payment which, if not mitigated could present a significant liability for the Council in future years. These being:

    - Wirral Waters
    - Birkenhead Commercial District
    - The Hythe

To ensure that Members of the Committee are sighted on the risks and mitigations associated within these three areas. It is proposed that individual reports are presented to the Committee to provide further detail on these, and that an update on the risks are provided to the Committee on an annual basis. This will be built into the Committee work programme with the first report being presented at its next meeting in October

4.0 FINANCIAL IMPLICATIONS

4.1 The cost of the report is part of the audit fee and variations to that fee for additional work are notified to the Council. The contracted audit fee was previously approved by the Audit and Risk Management Committee.

4.2 The audit fees for the year 2020/21 have increased from the contracted fees under the contract with Public Sector Audit Appointments Ltd (PSAA) of £123,095 to £234,515. The increase is due to the additional audit work now required to be undertaken by the external auditors since the contract was awarded which includes Value for Money Audits and additional testing for specific elements of the accounts as set out in the Audit Findings Report brought to the Committee in January 2022. The increase in the fee has been approved by the PSAA and discussed with the Director of Resources.

LEGAL IMPLICATIONS

5.1 There are no legal aspects related to this matter.

5.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 None arising directly from this report.

6.0 RELEVANT RISKS

7.1 The Local Government Act 2003 and the Local Government and Housing Act 1989 require the Statement of Accounts to be produced in line with recommended accounting practices. Failure to do so could result in qualification of the accounts, which may lead to further audit costs.

7.2 If any concerns identified by Grant Thornton are not addressed by the Council then there is a risk that the Council will not be able to meet its statutory requirements in respect to the Statement of Accounts as well as impacting upon the Value for Money and Financial Resilience of the Council and the Council's reputation.

7.0 ENGAGEMENT/CONSULTATION

7.1 None arising directly from this report.

8.0 EQUALITY IMPLICATIONS

9.1 Wirral Council has a legal requirement to make sure its policies, and the way it carries out its work, do not discriminate against anyone. An Equality Impact Assessment is a tool to help Council services identify steps they can take to ensure equality for anyone who might be affected by a particular policy, decision or activity.

9.2 There are no equality implications arising specifically from this report. The PDF files attached may not be suitable to view for people with disabilities, users of assistive technology or mobile phone devices. Please contact Diane Grisdale if you would like this document in an accessible format.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 No direct implications. The content and/or recommendations contained within this report are expected to have no impact on emissions of Greenhouse Gases.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 The content and/or recommendations contained within this report have no direct implications for community wealth.

REPORT AUTHOR: **Diane Grisdale**
Senior Finance Manager Strategy, Policy & Financial Accounts
email: dianegrisdale@wirral.gov.uk

APPENDICES

Appendix 1 – Wirral Council - External Auditors Annual Audit Report 2020-21
Appendix 2 – Wirral Council – Value for Money Review Governance of Company and other Investments 2020-21
Appendix 3 – Waste Value for Money Report on Merseyside Councils 2020-21
Appendix 4 – Council report on the value for money findings by Grant Thornton 2020-21

BACKGROUND PAPERS

External Audit Findings Report 2020-21
Statement of Accounts 2020-21
External Audit Plan 2020-21

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
External Auditors Annual Audit report 2019/20 External Auditors Annual Audit report 2018/19 External Auditors Annual Audit report 2017/18	09/03/21 27/01/20 11/03/19

Grant Thornton

Auditor's Annual Report on Wirral Council

2020-21

5 July 2022

Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive summary

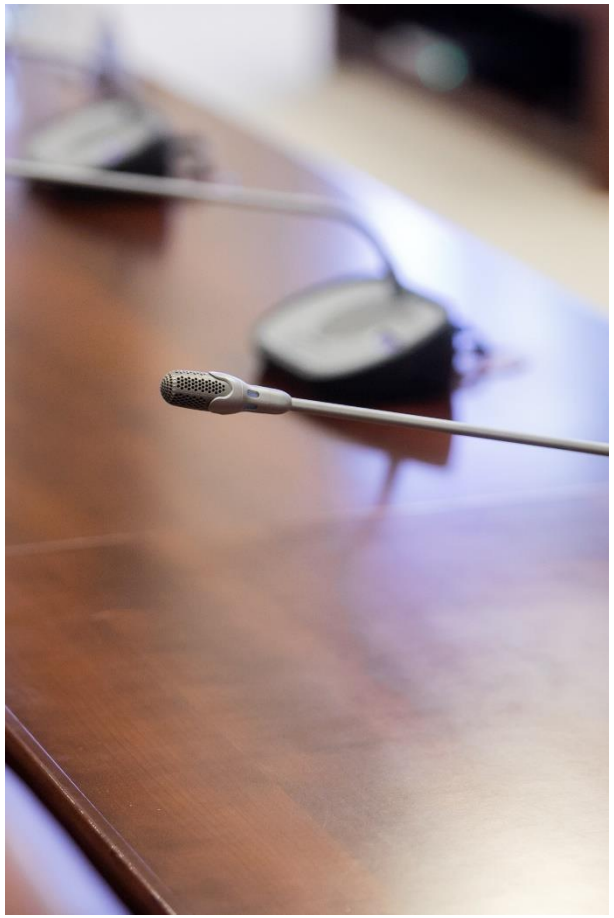
Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the overall arrangements, as well as key recommendations on any significant weaknesses in the Authority's arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under specified criteria. As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks in respect of:

- Financial sustainability - effectiveness of arrangements to identify and deliver required savings.
- Governance arrangements for those entities in which the Council holds interests in.
- Waste partnership – effectiveness of partnership governance arrangements in Merseyside for waste management
- Improving economy, efficiency and effectiveness – arrangements for the evaluation of service provision and implementing improvements

Criteria	Risk assessment	Finding
Financial sustainability	Risk of significant weakness identified	Significant weaknesses in arrangements identified, key recommendations made
Governance	Risk of significant weakness identified	Significant weaknesses in arrangements identified, key recommendations made
Improving economy, efficiency and effectiveness	Risk of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendations made.



Executive summary

Financial sustainability

The Council is in a difficult position financially and was only able to manage its 2020/21 financial position through the capitalisation of revenue expenditure. In 2021/22, the Council has also been reliant on exceptional financial support in the form of a capitalisation directive to achieve a year end balanced position. We note that at month 9 the amount of support required was reduced to £6.5m due to additional funding received by the Council during quarter 3.

The Council has set a balanced budget for 2022/23 without reliance on the use of reserves. This is a positive improvement. We note that there is a challenging savings target for 2022/23 based on current assumptions and that the Council has been unable to deliver significant savings in prior years. General fund reserves remain comparatively low compared to other metropolitan borough councils and therefore there is limited scope for non-delivery of saving in future. However, we note that the Council has established a £3m contingency reserve to support any shortfalls in savings. Again, this is a positive improvement,

Its capital programme is ambitious. This will result in increased revenue pressure on the Council in future years via Minimum Revenue Provision (MRP) and interest payments. We also note that the Council is currently benefiting from a reduction in its MRP payments which will unwind in future years. These costs have been included in the current Medium Term Financial Plan (MTFP) and will need to remain in future MTFPs to protect the Council's financial position.

As part of the regeneration programme the Council has issued significant guarantees to developers. Approved business plans are in place that if achieved will ensure that the guarantees are not triggered. However the guarantees are significant. We discuss this in the governance section of the report and note that the Council will need to monitor these plans and ensure that these guarantees do not impact negatively on its finances.

Overall, we consider that there are significant weaknesses in the arrangements in place during 2020/21 to ensure the Council managed the risks to its financial sustainability and have made key and improvement recommendations. These risks continued throughout 2021/22 but we note that improvements have been made for 2022/23.

Governance

The recent Government "External Assurance Review – Governance Wirral Metropolitan Borough Council" (September 2021) identified weaknesses in the Council's governance, highlighting in particular that the new committee structure was not operating effectively and that appropriate decision making was being made worse by the regular elections for Council Members. It highlighted a distinct inability to make key decisions such as the approval of realistic savings plans . The Council has accepted these findings and is taking action to strengthen the committee structure and is moving to full elections from 2023. It has agreed an action plan with the Independent Assurance Panel it established following the External Assurance Review.

Risk management processes are in place at both a corporate and a directorate level. The Corporate Risk Register is updated annually with the risks being reviewed by the Strategic Leadership Team and Audit and Risk Management Committee throughout the year. The risks do not fully align with the Wirral Plan strategic vision and key priorities and are being updated. However, we note that the risk process did not adequately identify or respond to the Council's financial position. Similarly, while the risks relating to the regeneration contract guarantees were identified in the business case the risk has not been monitored at a member level. While processes are in place they do not appear to be sufficiently robust to identify or deal with some risks.

Business continuity management arrangements are in place and there is a good internal audit and investigations function.

The budget setting process is multi-layered and thorough. However, as already discussed within the Financial Sustainability section, the Council needs to become less reliant on use of reserves to balance its budget. We note that this has been achieved for 2022/23. Due to the need for a capitalisation directive we do not consider that adequate budget setting procedures were in place for 2020/21 and 2021/22 but note that the Council has not needed a capitalisation directive to balance the 2022/23 budget.

There are good systems in place for oversight budget delivery. The Council delivered its budget for 2020/21 and was able to reduce the level of revenue it needed to capitalise. This demonstrates an improved grip on the Council's finance. The Council's finance system will be replaced during 2022. This should improve the quality of financial information available to the Council.

Cont.

Executive summary

Governance

The Council has a number of investments, partnerships and group companies. We reviewed the Council's governance arrangements relating to these areas. We identified significant weaknesses in governance arrangements for aspects of these arrangements, specifically the accounting arrangements for and the level of understanding over the extent of the financial risks associated with the regeneration and other investments already in place. The Council is seeking to obtain external financial advice on the governance of these entities. We also noted underperformance in a number of the companies but note that the Council is taking action in these areas.

The Council is the administering body for Merseyside Pension Fund (the Fund). There is a Pensions Committee in place who meet quarterly to discuss a range of matters. Our Pension Fund Audit did not identify any significant issues with regards to the control environment or management of the fund.

Overall, the review identified that there are significant weaknesses in arrangements are in place, recommendations have been raised to improve these governance arrangements both at the entity level and within the Council overall.

Improving economy, efficiency and effectiveness

The Council has recently agreed a Council plan that sets out its vision and strategy to 2026. The plan has been agreed by members. Services do not have detailed plans that have been approved by members and this is an area of improvement for the Council. This is being addressed with a target date of July 2022.

The Council does not have an overarching set of corporate performance indicators that are reported to members. The Council has performance management processes in place to monitor its service provision and identify areas for improvement. However, these processes are at the individual committee level with the focus of the Policy and Resource Committee being on the financial management of the directorates. Currently there is no linkage to the Wirral Plan and the strategic objectives of the Council.

The Council utilises a number of different tools in order to benchmark its services including CFOi insights and Cipfa. We benchmarked the Council's costs against other councils as part of this review. It indicated that the Council's cost per head of population was high in comparison to other Council's. Areas of high or very high spend include adult social care, children's social care, housing services, cultural services, and public health services. Given the Council's current financial position it does not appear sustainable to continue with such high levels of spend across all services. The Council should utilise the benchmarking available to it to ensure that services provide value for money and that expenditure is both affordable and directed at statutory services. We note that for the 2022/23 budget the Council has used benchmarking and has made progress in reducing expenditure in areas such as culture.

The Council operates a centralized procurement. The Council's procurement strategy is not current but we note that it is currently under review. The Council has had significant issues with the number of services ordered without a purchase order. There also continues to be a number of contract waivers and contract extensions. This represents poor practice. Continued action is needed to strengthen procurement and contracting at the Council. We have raised an improvement recommendation relating to procurement.

The Council has effective partnership arrangements in place with the local Health Bodies and key agencies such as the Liverpool City Region and Homes England. However, we have identified that arrangements are not adequate in relation to the waste partnership governance arrangements across Merseyside. We consider that there needs to be a more joined up arrangement approach across the Region to improve waste management and recycling. We note that Wirral are currently leading a review of these arrangements.

In summary we have identified that there are significant weaknesses in arrangements in place for improving the way the Council delivers its services. It is now having to make tough decisions concerning service provision in the future in order to restore financial stability for the Council.

Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 8 to 36.

Financial sustainability

We considered how the Council:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

2020/21 Outturn

The Council set a budget of £304m for 2020/21. This included financial pressures of £37.5m, offset by savings of £29.9m. The Council anticipated using £6.4m of reserves to balance its financial position. Of this £2.4m was expected to come from earmarked reserves and £4m from capital receipts for transformational spend included in revenue budgets.

Achieving this balanced position for 2020/21 was dependent on demand for services remaining in line with the Council's latest assumptions – in key areas such as Adults' and Children's Social Care - along with an ability to achieve planned asset disposals at their forecast values. Given the Council's history with these services this presented a significant risk to the Council.

The July 2020 Cabinet report on the Council's financial position reflected a deficit financial position following the impact of COVID-19. In the report the Council sets out a forecast budget deficit of c.£30.4m for the 2020/21 financial year. The report to Cabinet states:

''The year-end forecast recorded as part of June's financial monitoring activity represents an adverse variance to revenue budget of £30.432m; this comprises:

£23.987m forecast variance in relation to revenue budget overspends (including a forecast increase to in-year, earmarked reserves of £0.546m), the adverse position has arisen largely due to matters arising through the COVID-19 pandemic.

£2.150m forecast capital receipts, which support the revenue budget position via flexible use of capital receipts and;

£4.296m gap in direct COVID-19 funding against forecast requirements.'

The shortfall was driven by a number of matters and relate to Neighbourhoods, Cross Cutting initiatives and COVID-19 funding. The shortfalls forecast were as follows: Neighbourhoods (£12.7m) – this is primarily due to leisure lost income, Cross cutting savings initiatives (£11.7m) (as the Council was unable to deliver these initiatives), and COVID-19 Funding (a projected shortfall in Government funding against the Council's COVID-19 related expenditure (c.£4.2m)).

Financial sustainability

2020/21 Outturn

On 7 October 2020 the Council issued a COVID-19 update report to the Policy and Resources Committee. The Council set out that it had received £99.7m Government funding to support the emergency response to COVID-19. This comprised funding directly for use by the Council in funding the Council's emergency response of £32.5m and funding to be passported to other organisations on behalf of the Government of £67.2m. The Council reported that further funding had been provided by Government which had allowed it to reduce the 2020/21 year-end deficit to £22m.

The Council reported 'The Council must take necessary remedial and urgent action to deal with the significant deterioration in the financial position and return to a balanced budget position. Failure to consider and adopt reduction measures to the 2020/21 budget or find further funding from Government or elsewhere within year, will result in the issuing of a s.114 notice before year end.'

The Council requested Exceptional Financial Support from the Government in 2020/21 to help balance its budget by raising capital borrowing to support some of its revenue expenditure. The Council was granted a Capitalisation Directive of £9m of which the Council required £6.5m in order to achieve a balanced position at the end of 2020/21. This need for additional support arose partially due to COVID-19 but also due to the Council avoiding making difficult financial decisions and using General Fund reserves to meet recurrent revenue expenditure.

Due to the exceptional financial support in the form of COVID-19 funding and the capitalisation the Council achieved a balanced position for the year ending 31 March 2021. The outturn position for the year of £304.7m was in line with the original budget set but is after the use of the capitalisation directive of £6.5m.

We remain concerned with regard to the Council's financial position and note the following financial pressures that will occur in future years:

- The Minimum Revenue Provision (MRP) (a statutory charge to revenue to borrowing repayment). MRP represented 3% of the Council's overall Capital Financing Requirement of £262.6m when including the charge for the Merseyside Residual Debt Fund. We note that the Council has approved the annuity method of MRP repayment and is currently benefiting from a reduction in its MRP payments which will unwind in future years. These changes are included in the MTFP presented to Full Council in February 2022, for future years. The impact of this is that for £170m of this balance the Council has made a reduced MRP provision of £7,000 in 2020/21 which takes into account an overpayment of the provision in previous years totalling £26m. The reduced MRP has been reprofiled over a 10 year period, effectively reducing the provision by £2.6m per year. We also noted that the MRP has been calculated using the annuity method of 2% on the historical supported borrowing. It should also be noted that the Council is forecasting a rise in its Capital Financing Requirement during 2021/22 of £75m, which will result in an additional £2.821m MRP charge for 2022/23. It is important that future capital plans take account of the impact on revenue of the related increases in MRP. Whilst the Council's policy on MPR complies with the statutory guidance we consider that the Council should reconsider whether its MRP policy is prudent.
- The Council's Business Rate Appeals. The Council is only making provisions against known appeals and then only for those that come from the 2005 and 2010 listings. This is a different approach to most councils and we asked the Council to revisit the provision. Following external advice received by the Council, we reported that the Council should increase its provision by up to £4m. The Council considers its likely liability to be £1.87m. The impact of this is to increase the appeals provision and reduce the amount payable to the Council in NDR. We understand that the Council has increased its provisions during 2021/22.

Financial sustainability

2020/21 Outturn continued

The Council approved the 2020/21 budget in February 2020 included significant savings for the year which totalled £29.9m, of which £24.5m were planned to be achieved through cross cutting and the corporate directorate. These savings were agreed in order to attempt to offset the increasingly large financial pressures facing the Council. For 2020/21 these pressures totalled £37.5m in addition to the £6m of unachieved savings carried over from 2019/20. Over 50% of the financial pressures directly related to Adult Care & Health and Child & Families Directorates both of which are subject to significant volatility in demand across services.

At the end of 2020/21 the Council had failed to deliver the planned savings and we note that it has failed to deliver over 25% of its savings in the last two years. This has increased to 33% for non delivered savings in 2020/21. The main areas where savings were not delivered included Council-wide re-organisation initiatives, reducing contract and supplies and services spend, raising fees and charges and services reviews. We note that the resources available to delivering planned savings were rightly diverted to COVID-19 activities. As such the reduction in savings delivered in not unexpected and is reflected at other councils.

There is evidence of a lack of widespread support from Members to commit to the savings proposals, particularly where non-statutory services are concerned. Original savings proposals included the transfer of two golf courses to external providers and full closure of the Europa Pools, these decisions were later reversed following subsequent scrutiny.

As highlighted in the CIPFA Local government financial review "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 it faces."

2021/22 forecast

The Council approved the following year's budget for 2021/22 in March 2021. The budget showed that in order to achieve a balanced budget, savings of £24.6m were required and that there was a need for exceptional financial support in the form of the capitalisation directive up to a maximum value of £10.7m. We note that Government conditions specified that the capitalisation directive could only be used to cover expenditure and pressures that have resulted from the indirect impact of Covid-19 and not inflationary pressures or demographic growth. The budget requirement also included £49.4m of pressures/investments which represented 15% of the total budget requirement for the year. The service pressures identified in the 2020/21 budget, particularly Adults and Children's Care continued into 2021/22. Similarly, the non delivery of savings in 2020/21 meant that these savings have were incorporated into the 2021/22 budget (although under different headings to reflect the changes to the way the Council expected them to be delivered).

The CIPFA local government finance review identified three key risks with the Council's 2021/22 budget:

- that the Council would not achieve all of its budgeted savings it has budgeted
- that directorates may overspend in the directorates, largely due to additional lost income.
- that there was uncertainty around the extend to which the pandemic had suppressed demand for Children's and Adults' services.

The Council reported in February 2022 that at the end of Quarter 3 the projected year end revenue outturn represented a favourable variance of £1.345m against the revenue budget. Also, that the Council had received £3m additional grant funding after it had submitted it's exceptional financial support request to DLUHC, reducing the value of the capitalisation directive it would need to utilise to £6.355m.

Financial sustainability

2022/23 budget

The approved its 2022/23 budget in February 2022. The budget is dependent on the financial position of the Council remaining stable throughout the year, with the unknown longer term impact of Covid 19 and any changes to the economy presenting risks to this position. The budget does not rely on the use of a capitalisation directive. The budget requirement for 2022/23 is £330.13m with forecast savings income and efficiencies of £18.29m. It is crucial that the Council secures the delivery of these savings if it is to retain a stable financial position. These includes savings of £3.89m by mitigating Adult Care demand and a capitalisation of £1.42m of regeneration salaries which will be subject to audit. Positively we note that there is no significant planned use of reserves to balance the budget. The planned budget of surplus of £0.44m is expected to be transferred to the General Fund in order to begin restoring the Council's financial resilience.

Following the change in the governance structure of the Council, Committees are now responsible for their specific budgets . It is important that they demonstrate challenge and scrutiny regarding the council's performance against these budgets. Overall collective responsibility is managed through the Policy and Resources Committee to ensure that the whole Council budget remains balanced and appropriate mitigating actions are taken where required. Quarterly revenue and capital monitoring reports are presented to the Policy & Resources Committee where there is evidence of improved scrutiny and challenge by members.

Level of General Fund Reserves

The Council has a relatively low level of General Fund Reserves which has arisen due to the Council avoiding making difficult financial decisions and using the General Fund reserves to meet unexpected events. This has led to General Fund reserves depleting from 8% of net revenue expenditure in March 2018 to anticipated 3.3% by March 2022. A generally acceptable prudent measure is a minimum of 5% net revenue expenditure to be held in General Fund reserves.

We acknowledge that following the Ofsted inadequate rating for Children's Services in 2016, the Council prioritised spend in this area by allocating more than £15m to fund improvements The impact of this focussed investment has resulted in the outcome of an improved rating to required improvements to be good with the Inspectors commenting that all areas had improved since the previous inspection.

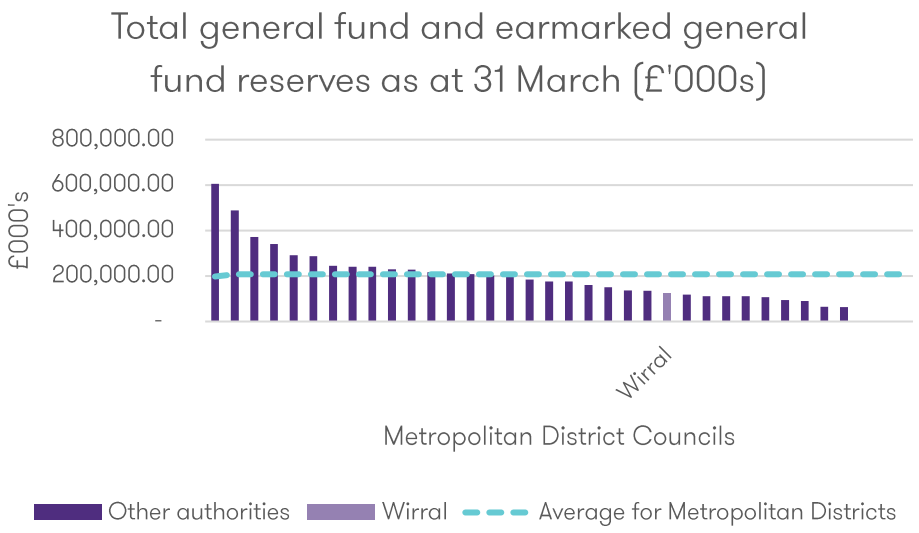
There has been no progress to replenish the General Fund reserve with the balance currently being maintained at £10.7m. This level is considered to be too low to protect against unforeseen spending pressures. The MTFS for 2022/23 – 2025/26 includes the recommendation that this is increased to £15m over the period.

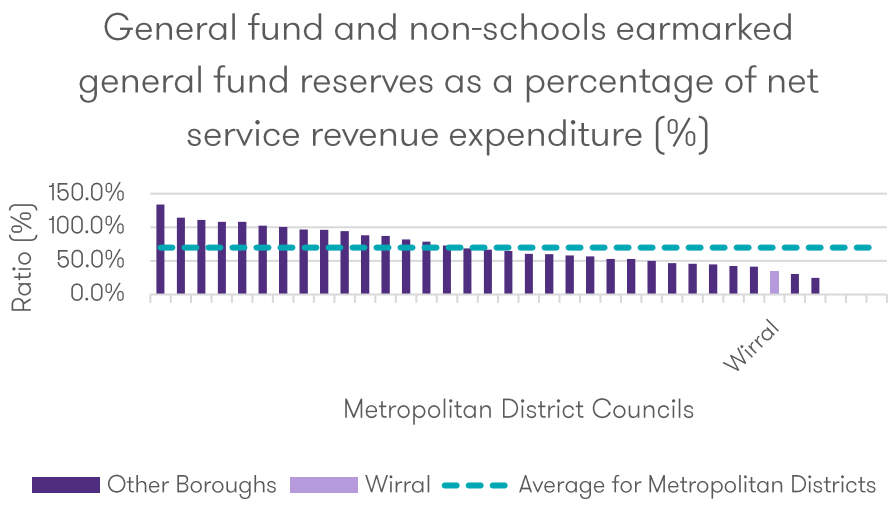
The tables overleaf shows that Wirral is ranked 24 out of 33 Metropolitan Councils when measuring the total general fund and earmarked general fund reserves as at 31 March 2021* with the positioning worsening to 31 when comparing the ratio of general fund reserves as a percentage of net service revenue expenditure.

See over.

Financial sustainability

Level of General Fund Reserves





*Data based on draft 2020/21 financial statements

Financial sustainability

Capital

2020/21

The Capital Strategy supports the Council's strategic visions and sets the plan for economic growth, digitalisation and the use of assets. The 2020/21 approved capital programme totalled £93.66m of which £45.78m was to be funded through borrowing. Significant areas of spend programmed for the year included the Enterprise Resource Planning System (ERP), Extra Care Housing and LED street lighting and column upgrade. The Council's actual capital spend for 2020/21 was £46.5m which represented only 54% of the forecast capital programme for the year with the impact of Covid-19 being the overriding reason for the slippage in the programme.

2021/22

The capital budget for 2021/22 correlates with the revenue budget with the main areas of spend as shown in the extract from the approved Capital Financing Strategy 2021/22. It can be seen that the significant proportion of the programme relates to the Exception Financial Support in the form of the Capitalisation Directive. Whilst this allows the Council to charge to capital certain revenue costs, it is only approved when Council's are facing extreme financial challenges.

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

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

2022/23 and beyond

The capital budget for 2022/23 is £113m with an additional £54m forecast for 2023/24. The vast majority of this expenditure (£66m and £45m respectively) is being spent on Regeneration and Place. The expenditure across all services in 2022/23 and 2023/24 is significant and we note that nearly £80m of borrowing is needed to support this expenditure. Looking at a longer period from 2022/23 to 2026/27 the Council anticipates capital spending £276m. Borrowing to support this will be £147m.

Officers have confirmed that the revenue consequence of this level of borrowing for the capital programme is significant and that that the full revenue growth has been included in the 22/23 budget and in future years MTFP'

Financial sustainability

Financial Planning

The Wirral Plan 2025 sets out the Council's strategic vision and key priorities for the Borough and these are referenced within the Council's financial planning. Whilst the plan has been revisited in order to address the recovery from Covid-19, the planning provides a framework to invest in the Plan's commitments to reducing inequalities and promoting opportunities for everyone, right across the Borough.

Annual planning

The Council incorporates into its financial plans assumptions around demand for services especially for Adult's and Children's social care with the Borough experiencing significant democratic growth. The assumptions for council tax and business rates growth and collection issues are also built into the financial plans having been reviewed on an annual basis by the finance team.

Whilst discretionary spending is subject to the same level of scrutiny when financial plans are being considered, it is not clearly distinguished from statutory service provision spend as demonstrated by the inclusion of the minimum national living wage for care staff through the incentivisation of care providers.

Medium term planning

The Medium Term Financial Strategy (MTFS) is based on a number of assumptions due to the uncertainty in relation to future medium-term local government funding. The MTFS presented to Members at the Policy & Resources Committee in February 2022 covered the period from 2022/23 to 2025/26 and sets out the forecast budget gap for each year.

The forecast figures assume that cost pressures will be much less severe in 2022/23 than the previous year with the impact of Covid expecting to lessen. There is also no expectation of any previous year non-delivered savings or cost overspend being carried forward. This places the Council in a better financial position.

The financial plans do include the Council's involvement with those entities for which it has interests in and fall with the group boundary (although none at present are individually material therefore group accounts are not prepared. The contributions from Wirral Growth Company through profits earned from the regeneration initiatives are included within the financial plans at present, however given the delays in projects, it would be prudent to exclude the income from the existing MTFS (as advised by the Government external assurance reports) whilst the business plan is under review .

The current projections do not set out clearly the impact of changes to key assumptions and how this may impact on the potential financial position. There is has also been a lack of any sensitivity analysis included in the financial plans presented to Members which makes it difficult to understand the level of risk if key assumptions prove to be too optimistic. Whilst there are arrangements in place to keep the council's financial plans under review, the CIPFA local governance finance review identified that the Council's "current financial plans do not address the prevailing culture, which prevailing culture, which avoids making tough decisions and are by no means certain of success.

The Council has responded to this and we note that for the 2022/23 budget plan that all the business cases presented to members in December contained RAG ratings. There was also a £3m contingency reserve established for those areas which were RAG rated red in that analysis, specifically to mitigate where savings with high sensitivity might not materialise . The Council has also made a number of difficult decisions, for example, it has closed 9 Libraries, 2 Leisure Centres and 2 Golf Courses were included for closure.

Financial sustainability

Overall Conclusion

The Council is in a difficult position financially and was only able to manage its 2020/21 financial position through the capitalisation of revenue expenditure. In 2021/22, the Council has also been reliant on exceptional financial support in the form of a capitalisation directive to achieve a year end balanced position. We note that at month 9 the amount of support required was reduced to £6.5m due to additional funding received by the Council during quarter 3.

The Council has set a balanced budget for 2022/23 without reliance on the use of reserves. This is a positive improvement. We note that there is a challenging savings target for 2022/23 based on current assumptions and that the Council has been unable to deliver significant savings in prior years. General fund reserves remain comparatively low compared to other metropolitan borough councils and therefore there is limited scope for non-delivery of saving in future. However, we note that the Council has established a £3m contingency reserve to support any shortfalls in savings.

Its capital programme is ambitious. This will result in increased revenue pressure on the Council in future years via MRP and interest payments. We also note that the Council is currently benefiting from a reduction in its MRP payments which will unwind in future years. These costs have been included in the current MTFP and will need to remain in place to protect the Council's financial position.

As part of the regeneration programme the Council has issued significant guarantees to developers. Approved business plans are in place that if achieved will ensure that the guarantees are not triggered. However the guarantees are significant. We discuss this in the governance section of the report and note that the Council will need to monitor these plans and ensure that these guarantees do not impact negatively on its finances.

Overall, we consider that there are significant weaknesses in the arrangements in place during 2020/21 to ensure the Council managed the risks to its financial sustainability and have made key and improvement recommendations. These risks continued throughout 2021/22 but we note that improvements have been made for 2022/23.

Key recommendation

Financial sustainability

1	**Recommendation**	The Council should implement the recommendations outlined in the CIPFA Local Government Finance report. Specifically, the Council should take steps to address issues with the Medium Term Financial Strategy in order to make it more realistic and reflective of the financial challenges facing the Council and should ensure it has appropriate arrangements in place to deliver its savings plans
	Why/impact	Should the Council not implement the recommendations outlined in the external assurance reviews, it will not be able to close the budget gap and move the Council finances back into a more sustainable position.
	Auditor judgement	Implementation of this recommendation would improve the existing arrangements in place.
	Summary findings	The Council has had to rely on exceptional financial support in the form of a capitalisation directive in 2020/21 and 2021/22 in order to achieve balanced budgets. The Council continues to face a significant challenge to close the projected MTFS funding gaps and restore a more financially sustainable level of general fund reserves..
	Management Comments	Agreed. The Council is implementing the recommendations of the CIPFA Local Government Finance Report. These are being monitored by the Independent Assurance Panel and are reported through the Policy and Resources Committee and Full Council. The first formal reporting to the Committee was 8 June and 11 July at Council. which included the Chair of the Independent Assurance Panel's report to the Department of Levelling Up, Housing and Communities (DLUHC). The revised Medium Term Financial Strategy was taken and approved at the Policy and Resources Committee on 1 December 2021.

The range of recommendations that external auditors can make is explained in Appendix B.

Key recommendation

Financial sustainability

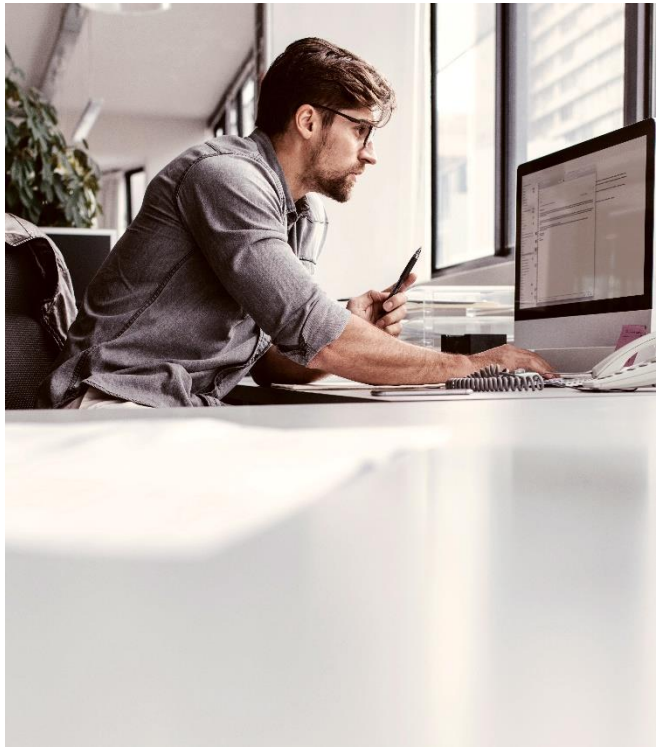
2	**Recommendation**	The Council should review its capital programme to ensure that the revenue implications of additional borrowing are affordable.
	Why/impact	The Council is planning a significant capital programme and to significantly increase its borrowing. This will place further pressures on the aim to achieve a more financially stable position for the Council.
	Auditor judgement	Implementation of this recommendation is critical to the Council's financial stability.
	Summary findings	The capital budget for 2022/23 is £113m with an additional £54m forecast for 2023/24. The vast majority of this expenditure (£66m and £45m respectively) is being spent on Regeneration and Place. This is a significant level of expenditure and we note that nearly £80m of borrowing is needed to support this expenditure. Looking at a longer period from 2022/23 to 2026/27 the Council anticipates capital spending £276m. Borrowing to support this will be £147m. The Council needs to ensure that it understands the revenue consequences (both MRP and interest) in setting this capital budget. This will present a significant financial pressure on its already stretched revenue resources.
	Management comments	Agreed. The Medium-Term Financial Plan (MTFP) 2022 to 2027 includes the full cost implication of the 5 year capital programme. The MTFP is updated on a rolling annual basis and will continue to include the full revenue impact of the capital programme on a annual basis.

The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendation

Financial sustainability

3	**Recommendation**	Risk and sensitivity analysis should be incorporated into financial forecasts
	Why/impact	The focus on risk is essential for the Council which needs to make substantial savings and cost reductions as this impacts on the service provision and the risk that these carries.
	Auditor judgement	Implementation of this recommendation would improve the existing arrangements in place.
	Summary findings	The budget is reviewed quarterly by the Policy and Resources committee and explanations for variance to forecasts are detailed. There is no evidence at present that the forecasts being subject to risk and sensitivity analysis.
	Management comment	Agreed. The 2021/22 and 2022/23 budget included sensitivity analysis of funding, pressures and savings on a pessimistic, mid-ground and optimistic basis to provide Members will a full overview of the three different scenarios. This is embedded now into our budget setting process from 2021/22. A part of the 2021/22 and 2022/23 budget setting process, all savings and pressures were RAG rated for risk and this has also been in place for in-year savings monitoring since 2021/22

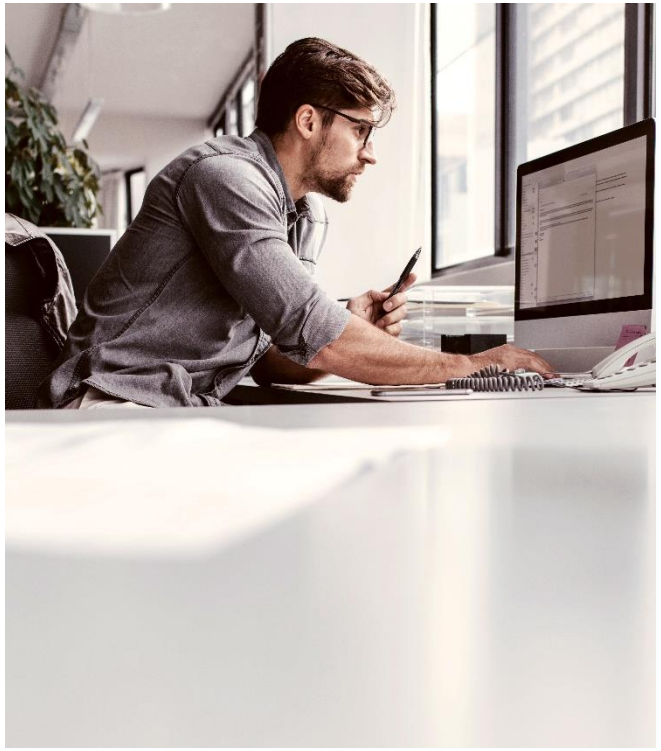


The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendation

Financial sustainability

4	**Recommendation**	Improvements are required to the quality and timeliness of financial data being used in the financial planning and monitoring process
	Why/impact	Poor quality of data will result in the inability to make effective decisions.
	Auditor judgement	Implementation of this recommendation would improve the existing arrangements in place.
	Summary findings	The corporate financial system in place for financial monitoring and management is out of date and has resulted in poor quality of financial data being provided and Members not receiving sufficient detail in order to fully consider the implications of savings proposals.
	Management comment	Agreed. For the 2022/23 budget process, a new evidence-based approach was used for business cases for savings and pressures. The content of which was internally independently assessed for viability, feasibility and deliverability. Where business cases lacked the relevant information, they were returned to the authors for further clarification and detail. The business cases were also externally assessed by Chartered Institute of Public Finance and Accountancy (CIPFA) to provide additional robust analysis. The internal process was embedded into the budget setting process in 2022/23 and the same process is being followed for 23/24. The 23/24 process commenced significantly earlier with draft proposals prepared by 6 May 2022.



The range of recommendations that external auditors can make is explained in Appendix B.

Governance

We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

Leadership

There has been a lack of stability both politically and managerially over the past decade which has brought about significant challenges to improvement and the financial sustainability of the Council. Whilst the unprecedented circumstances of the Covid-19 pandemic impacted on the Council's finances, there were already underlying governance issues that resulted in a failure to ensure a sustainable financial model. In particular, we note the Council's inability to deliver its savings plans and a history of reliance on balances and one-off funds and capital receipts to balance the budget.

The Council currently has 66 councillors in 22 electoral wards, with one councillor in each ward standing for election in three out of every four years. The recent Government reports highlights that the election cycle has resulted in regular changes in political control and in group leadership. It notes that this has also reduced members willingness to make difficult decisions and has worked against the stability needed to make and carry though long term strategies. Combined with these factors or perhaps as a result of them there has been little evidence of political groups working together to build political consensus on medium term financial strategies that would lessen the financial pressures on the Council.

The Government review identified that on the managerial side persistent weakness in corporate culture and capacity that have both contributed to serious service failings and to a current situation where much of the architecture if a well-run Council is being established or re-established.

We note that these issues pre-date the current Chief Executive who has been in place since July 2019 and that improvements are starting to be made to the structure of the Council to ensure better alignment with its services and the Wirral Plan.

Committee Structures

The Council moved to a committee system form of governance arrangements in September 2020 to support better Member engagement and joint decision making. However, this system is not without issues as it is somewhat cumbersome and has increased the administrative burden on officers. Savings due to be realised from the change in structure have not materialised during 2020/21. There is a lengthy lead -in time for reports to be submitted for Committees which can result in decisions being made using non-current data or information.

The work of the Council's committees is governed by the constitution. This constitution is regularly reviewed and updated. The constitution is shared with all staff members on joining and is openly available on the Council's website. It sets out how the Council operates, how decisions are made and the policies which are followed to ensure that these are efficient, transparent and accountable to local people.

There is a good suite of policies in place, covering anti-fraud and corruption, and the Council has an established anti-fraud culture.

Governance

Monitoring and assessing risk

The Corporate Risk Register is updated annually with the risks being reviewed by the Strategic Leadership Team and Audit and Risk Management Committee throughout the year. In November 2020 there were 25 risks on the Corporate Risk Register each with a named Director taking ownership. There has been an acknowledgement that the risks do not fully align with the Wirral Plan strategic vision and key priorities. This is being addressed in the current financial year with Member Risk Management training and workshops taking place and an Audit and Risk Management Committee Risk Sub Group meeting regularly to discuss the evolving outcomes from the Strategic Leadership Team meetings. This corporate register is informed by the Directorate's individual risk registers with the Chief Executive and Director of Resources holding frequent performance sessions with the Directors to discuss the relationship with Corporate and Directorate Risks and to review whether the risks are relevant and mitigations have been correctly identified. **However, we note that the risk process did not adequately identify or respond to the Council's financial position. Similarly, while the risks relating to the regeneration contract guarantees were identified in the business case the risk has not been monitored at a member level.** While processes are in place they do not appear to be sufficiently robust to identify or deal with some risks.

Business continuity management arrangements also exist within the Council, with all critical services having business continuity plans in place. Internal Audit identified that improvements could be made to the arrangements following the experiences of the Covid-19 pandemic in areas such as the development and implementation of a more effective structure and the development of training and awareness sessions. These improvements are still in progress in the current year.

There is a good audit and investigations function operating at the Council and we are satisfied with the standard of work being carried out by Internal Audit. It has demonstrated itself to be a dynamic service capable of reacting and responding to changing circumstances. 53 audit assignments were completed during the year, with all recommendations accepted and implemented (or in the process of being implemented) by management. Progress on recommendations raised are reported to Audit and Risk Management Committee through the regular Internal Audit Progress Reports. Internal Audit provided appropriate challenge of the Council's revised Covid 19 governance arrangements which were implemented during the pandemic. The Chief Internal Auditor was a member of the Tactical Command Group, overseeing operations and providing advice and guidance on risk and control.

The Counter Fraud Specialists within the Internal Audit Service carries out an appropriate programme of proactive and investigatory anti fraud work. Findings are reported appropriately.

The payment of COVID grants to businesses, together with the urgency with which these grants were required to be paid, presented a new risk during the year. Payments were approved under emergency powers to ensure businesses in need were given immediate assistance. There was an appropriate appreciation of the risk posed by this situation, with internal audit involved from the start. We are satisfied the Council put in place procedures to review these payments. Subsequent internal audit reviews have also investigated these payments and further work is currently being undertaken to review any payments deemed inappropriate. We consider that the Council should also review whether any related parties were in receipt of these grants, and if so, whether any additional declarations should be made by members in respect of these grants.

Governance

Budgetary Setting Process

The budget-setting process is multi-layered and extremely thorough, with several stages. The draft budget is then presented to Policy & Resources Committee for review in December, with additional papers presented to Council to approve the budget in February. There is also a quarterly review of budget to outturn position by Policy & Resources Committee.

The budget and MTFS are considered concurrently. There was not a separate, stand alone MTFS in 2020/21, but the longer-term projections and any risks to the medium term are incorporated into the reports accompanying the budgetary information considered by Policy & Resources quarterly. A standalone MTFS was introduced for 2021/22.

As already discussed within the Financial Sustainability section of this Report, it has been highlighted that Members need to take more responsibility for managing the budget setting process at the outset with no use of reserves to balance the budget. There needs to be realistic and achievable savings targets which will inevitably require tougher decisions to be made and not subsequently reversed which has previously been common practice amongst members. We note that the Council has established, for members and budget holders as part of the improvement plan, further improved training is set to commence in 2022

Due to the need for a capitalisation directive we do not consider that this was in place of 2020/21 and 2021/22 but note that this has improved for the 2022/23 budget.

Budgetary control

There are good systems in place for oversight of the budget at Officer level. The Finance Department engages at least monthly with budget holders. However, in 2020/21 there was no mandated training for Members on local government finance which, combined with the electoral cycle as described earlier, can lead to a low levels of financial literacy amongst Members. The Council have recognised this as an issue and a mandatory programme has been introduced from 2021/22.

The Council's finance system will be replaced during 2022. In recent years it has not been able to provide Members with the quality of financial data which would provide them with the level of detail required to make effective decisions in respect of budget and savings proposals. This has also created issues for the conduct of out financial statement audit. It is anticipated that the new system will produce more relevant and up to date data and information going forward. Due to the introduction of the new finance system we have not raised recommendations in this area. However, it is clearly an area that requires improvement.

Standards and response to regulators

The annual governance statement is compliant with the CIPFA code. An appropriate level of care is taken to ensure the Council's policies and procedures comply with all relevant codes and legislative frameworks.

There is evidence of review and follow up of both internal and external audit recommendations with regular reports to the Audit and Risk Management Committee on the progress in implementing these recommendations. Our 2019-20 Audit Findings Report included four recommendations (relating to IT controls and the Fixed Asset Register) which have been implemented or progressed at the time which we concluded our 2020-21 audit.

Governance

Companies and investments

The Council has used alternative structures including companies, partnership, and guarantees to support its corporate plan delivery. These types of structures are beneficial in supporting change but can be complex and increase the risks faced by the Council.

There are three active companies operated by the Council. These are: Edsential Community Interest Company (ECIC), a joint venture with Cheshire West and Chester Council ; Wirral Evolutions Limited (WEL), a wholly owned subsidiary company; and Wirral Growth Company LLP (WGC), a joint venture Limited Liability Partnership with Muse Developments Ltd. In addition there are two dormant entities, Wirral Holdings Limited and Wirral Growth Company Nominee Limited.

The Council has considered three other significant investments during the current audit period. These are a multi-council owned Community Bank which the Council did not proceed with, and investments in a Public Sector Social Impact Fund (PSSIF) and Wirral Waters One (a house building programme) which it did proceed with.

Investment decisions

The Council has made a significant investment in the companies and arrangements set out above. All of the investments have been reported to and approved by members. While we note that appropriate governance procedures have been followed some of the decisions result in significant potential liabilities and losses to the Council.

We note in particular that the Council has issued a guarantee with regard to the Wirral Waters One project. The project build commences in 2023/24. While this would only be activated if the project was unsuccessful the potential liability over a 40 year period is £100m. This would impact from 2034/35 (ie in 11 years). We note that this is the worst case scenario and that mitigations can be put in place to prevent this scenario. For example, by creating a risk reserve or the sale of the properties. On a lesser scale we note that the Council cannot exit the PSSIF and is committed to the fund for 10 years. The Council has also underwritten other projects such as Wirral Growth Company commercial offices.

A recent CIPFA report recommended that the Council halt initiatives, such as the development of a Community Bank, to avoid diverting the focus of the organisation away from addressing the Council's finances, and in order to avoid unnecessary financial risk. The Council has taken on board this advice and decided not to pursue its planned investment in a Community Bank.

We consider that the decision on the community bank is appropriate and that future investment decisions should be made in the context of the Council's limited financial resilience.

Governance arrangements

The Council has a number of appropriate governance structures in place.

Under the current arrangements the subsidiary companies report into a Shareholder Board that centrally oversees the entities. The Shareholder Board operates as corporate shareholder of each company and is represented by a mix of members and officers, and reports into the Policy & Resources Committee, which provides governance over Council decisions related to the allocation of its financial resources.

Specialist select committees provide operational scrutiny of the three active companies and the services they provide: ECIC services are monitored by The Children, Young People and Education Committee; WEL services are overseen by the Adult Social Care and Public Health Committee; and Wirral Growth Company are held accountable by the Economy, Regeneration and Development Committee.

Each of the active companies have a client officer whose role is to monitor the contractual obligations and operational performance of the company with respect to services provided in the region or to the Council specifically.

There is also a regular business planning requirement and review that occurs at company level as well as with Committees and Members showing good governance and understanding of the commercial entities.

Given the potential risks to the Council, these monitoring arrangements need to be enhanced. In particular:

- We note that Edsential (ECIC) has direct officer involvement on the Board. Wirral Evolutions has no Officer or Member involvement due to a request by the company. Wirral Council has two members and two officers on the Board of Wirral Growth Company. There is no external Non Executive Director
- Risk assessments are also not formally shared with members, making it difficult for the Council to assess the effectiveness of management in managing risk in the external environment within which each company performs.
- Monitoring arrangements are not in place over some significant risks such as guarantees
- Accounting advice is not obtained prior to entering into complex financial arrangements.

Governance

Companies and investments

Company and investment performance and oversight

We considered the financial performance and risks relating to the companies and investments. Despite the governance arrangements in place, while financial performance is not uniform, the commercial entities have not performed strongly and there are significant risks that the Council will need to manage. We comment on these below.

ECIC's balance sheet is wholly supported by the Council and Cheshire West and East Council. In the year to 31 May 2021 it made a net loss of £2.132 million on turnover of £10.144 million, contributing to net liabilities of -£11.3 million. We understand that as well as the equity investment in ECIC, the Council also guarantees the Merseyside Pension Fund element of ECICs' pension liability, which equates to £1.6 million. We understand that the business made a small profit in the years prior to the pandemic, and Officers expect the business to return to profitability in the next reporting year.

WVEL provides adult social care services. The company's VfM has been under scrutiny within the Council. It was noted by Members that the costs associated with day services had increased beyond the contract value leading to a review of the service. A review was therefore commissioned on the operational efficiencies surrounding this entity. The review concluded that Wirral Evolutions does not demonstrate value for money and a decision has been made to bring the services back in house by September 2022. We consider that this decision is appropriate.

WGC was originally set up as a vehicle to unlock the regeneration of Birkenhead through a strategic joint venture with Muse Developments. The Council has recently reviewed the effectiveness of WGC and determined that there was a lack of delivery pace and that the project could be delivered more effectively and at a lower cost using other routes. Officers reported that the expected returns of both the Council and Muse meant that WGC was significantly more expensive (30%) than the market.

Officers therefore decided to wind back WGC to deliver only the Phase 1 piece of work. Negotiations with Muse Developments then took place and an agreement was reached, whereby there will be a 50:50 split of site profits and a 60:40 split on the remaining forward funding balance and sale proceeds of smaller sites. We have not seen the business case to determine whether this represents Value for Money to the Council, but it has been represented to us verbally as cost neutral and we understand it was approved by the Policy and Resources Committee, although we do not have evidence of such approval.

Company and investment performance and oversight

The WGC phase 1 development is complex.

- The Council purchased additional land in Birkenhead town centre (Milton Pavements) and leased this land leased to Canada Life on a 250 year lease.
- The land is leased back to the Council for a 43-year term to enable the development by WGC.
- Phase 1 of the development will result in the construction of circa 150,000 sq.ft of Grade 'A' office accommodation in two buildings referred to as A1 and A2 with associated quality public realm.
- The larger of the two buildings A1 will be occupied by Council employees while the second building A2 will be let on the open market to commercial occupiers. Work on site started in October 2021 and is anticipated to be completed in October 2023.
- The Council have guaranteed rent to Canada Life at £15 per sq ft, which is c.£2.25 million per annum for 35 years.
- After 35 years of rental, the Council can buy back the interest and buildings for £1 or Canada Life can force the Council to acquire it for £1 (an arrangement known as a "Put and Call" option that allows either party to exit the arrangement cleanly).
- Canada Life have agreed to fund the construction costs of the project, under a forward funding / income strip agreement , to WGC of £75.3 million.
- Build costs are estimated to be c.£56 million with a profit to WGC of £5.6 million.
- There is c.£11 million of available funding [after interest]. It is unclear as to whether the remaining balance of £11m will be taken as 'superprofit' by the Council and its partner or whether it will be used on other residential projects across the region.

We requested details of the proposed accounting treatment for this arrangement, particularly with regard to the substance of the forward funding and lease for building and the distribution of the £11m of available funding as 'superprofit'. This has not been provided to us and we are continuing to review these transactions.

Governance

Companies and investments

Company and investment performance and oversight

The Public Sector Social Impact Fund is an external fund established by Atlanta Wealth in late 2019 in partnership with Warrington Borough Council. The Councils investment into the fund was a commercial decision to return profits to the Council over the 10 year life of the fund. There appears to have been appropriate governance surrounding the decision to invest into the fund, as well as the ongoing financial monitoring.

The fund had an original timeline of two years to find investment opportunities. However, progress has been slow in terms of investment with Atlanta being undercut on a number of opportunities and due to COVID-19 impacting on the opportunities available. As at the date of this report Atlanta have made no investments and the fund money is held in UK corporate bonds until invested.

External Due Diligence was undertaken on the fund that concluded that it was a viable and credible investment. As a result and after its own internal review and a member workshop the Council entered into the investment.

The Council appears to have limited control over how investments are made by the fund manager, which may lead to additional risk to the Council's monies. However, discussions with officers indicate that they are satisfied that the fund is run by suitably experienced and qualified fund managers. The fund also has an investment advisory committee made up of 8 members with 2/3 representatives from local government. The Council is not represented on this committee (although it was invited to sit on the committee). We note that the Council cannot exit the fund until 2032.

Given the Council's uncertain financial position it is not clear that this was an appropriate investment and the Council will need to monitor its success closely.

Wirral Waters One/Legacy is a project to build 500 apartments at Wirral Waters in Birkenhead. The primary Lessor is developer Peel Land and Property. The Council takes an underlease of the 500 apartments carrying a fixed rent and service charge fee to Peel Legacy for the first 50 years. The Council will grant a sub-underlease to a Peel Management Company who will manage the apartments for years 0-10 and take on the Council's rental obligations. **The project build commences in 2023/24.**

There was scrutiny in making the decision to approve the Full Business Case. However, the accounting for the arrangement were not confirmed before entering into the arrangement and should be confirmed to ensure that arrangement does not create assets or liabilities for the Council.

The potential liability to the Council if the project is unsuccessful is c£100m. **This would impact from 2034/35 (ie in 11 years).** We note that this is the worst case scenario and that mitigations can be put in place to prevent this scenario. For example, by creating a risk reserve or the sale of the properties.

Due to the material risk to the Council from years 11-50 we recommend that the project is closely monitored to ensure the development remains attractive to prospective tenants at least up until the point of handover.

Summary

We consider that the oversight, governance and financial arrangements for the management of regeneration, partnerships and companies require improvement. We have issued a separate report on this area to the Council.

Merseyside Pension Fund

The Council is the administering body for Merseyside Pension Fund (the Fund). There is a Pensions Committee in place who meet quarterly to discuss a range of matters relating to the Fund including budget, investment performance, governance and the risk register. A significant function of the committee is to review the performance of the Northern LGPS who provide pooled investment services to the Fund as well as for Manchester Pension Fund and West Yorkshire Pension Fund. Under legislation for pooled investments funds are required to seek to benefit from economies of scale. Northern LGPS operates as a joint committee and not separate legal entity has been set up at present. (This is currently out for consultation to determine whether a separate FCA regulated company is required to house pooled funds. The Fund is monitoring this closely.

While the Fund is not technically a separate legal entity is does have its own governance arrangements and controls which sit within Wirral Council's overall governance framework. The Fund's Governance Compliance Statement is contained within the Annual Report and no significant issues in the governance arrangements at the Fund were reported on for 2020/21. All statements demonstrate compliance.

A significant part of Fund's portfolio is invested in alternative / private market asset classes such as real estate, infrastructure and private equity. These asset classes are unable to be managed passively due to their lack of liquidity and active management (undertaking operational improvements, for example) is a key driver of returns. These asset classes are managed within the Fund with the internal fund managers which are employed at the Fund - as well as via the external fund managers (with over 200 level 3 investment funds).

Governance

Merseyside Pension Fund

The Fund also holds directly held property for which CBRE are the engaged property manager and Savills are engaged as the external valuer of the investment properties. Investment managers have specific benchmarks against which performance is measured and monitored. Comprehensive details of the Fund's investment managers, mandates and advisors are set out in the Investment Strategy Statement. There appears to be appropriate governance arrangements in place for the managing of investments at the Fund.

As a pension fund, the Fund's investment horizon is long-term. The investment strategy is outlined in the Investment Strategy Statement which was updated in 2021. The statement describes the high-level principles governing the investment decision-making and management of the Fund and the policy that has been developed to ensure their implementation. The Fund's primary investment objective is to ensure that over the long term the Fund will have sufficient assets to meet all pension liabilities as they fall due. The Fund pursues a policy of Responsible Investment (RI), arising from the belief that environmental, social and corporate governance (ESG) factors will materially affect investment performance over the long term.

The Fund considers that a holistic approach to investing must consider ESG factors from the outset and at all stages of the decision-making process: from investment beliefs and strategy, across all asset classes and in the strategies selected. Such an approach is consistent with the Fund's view of its fiduciary duty to seek optimal investment outcomes that are in the best interests of all its scheme participants, having regard to a prevailing public service ethos and to the long-term stability of the wider financial system. In setting its high level strategic framework, the Fund will take a forward-looking view of the strategy's sustainable characteristics (for example, by using techniques such as climate scenario analysis).

The latest Funding Strategy Statement (FSS) was approved by the Pensions Committee on 2 Feb 2021 with effect from 1 July 2021. It is updated annually. The long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period. Contributions are set in relation to this objective which means that once 100% solvency is achieved, if assumptions are borne out in practice, there would be sufficient assets to pay all benefits earned up to the valuation date as they fall due. The FSS is one of the Administering Authority's key governance documents for the Fund. In essence, the FSS sets out an overview of the approach to be used for the actuarial valuation. Amongst other things it outlines the assumptions, both economic and demographic, to be used in calculating the value of the liabilities built up, the contributions required to correct any funding shortfall or surplus, and the contribution rate required to fund the benefits for future service. It also sets out the strategy for making good any funding shortfall, in particular how any shortfall is expected to be financed in terms of the balance between future contributions and future investment returns, and the period over which any surplus or shortfall is expected to be recovered.

The Pension Fund Audit for 2020-21 did not identify any significant issues with regards to the control environment at the Fund or any significant issues with the logistics of the audit. The only audit findings were an amendment due to the increase in the value of investments as a result of the uncertainty due to Covid causing the value of the investments to increase significantly from Dec 2020 valuations (used to prepare the draft accounts) to the March 2021 valuations - the increase of £136m was amended for. There were no other significant matters reported.

Cont.

Governance

Overall conclusions

The recent Government External Assurance Review identified weaknesses in the Council's governance, highlighting in particular that the new committee structure was not operating effectively and that appropriate decision making was being made worse by the regular elections for Council Members. It highlighted a distinct inability to make key decisions such as the approval of realistic savings plans . The Council has accepted these findings and is taking action to strengthen the committee structure and is moving to full elections from 2023. It has agreed an action plan with its Independent Assurance Panel.

Risk management processes are in place at both a corporate and a directorate level. The Corporate Risk Register is updated annually with the risks being reviewed by the Strategic Leadership Team and Audit and Risk Management Committee throughout the year. The risks do not fully align with the Wirral Plan strategic vision and key priorities and are being updated. However, we note that the risk process did not adequately identify or respond to the Council's financial position. Similarly, while the risks relating to the regeneration contract guarantees were identified in the business case the risk has not been monitored at a member level. While processes are in place they do not appear to be sufficiently robust to identify or deal with some risks.

Business continuity management arrangements are in place and there is a good internal audit and investigations function.

The budget setting process is multi-layered and extremely thorough. As already discussed within the Financial Sustainability section, the Council needs to become less reliant on use of reserves to balance its budget. We note that this has been achieved for 2022/23. Due to the need for a capitalisation directive we do not consider that adequate budget setting procedures were in place for 2020/21 and 2021/22 but note that the Council has not needed a capitalisation directive to balance the 2022/23 budget.

There are good systems in place for oversight budget delivery. The Council delivered its budget for 2020/21 and was able to reduce the level of revenue it needed to capitalise. This demonstrates an improved grip on the Council's finance. The Council's finance system will be replaced during 2022. This should improve the quality of financial information available to the Council.

The Council has a number of investments, partnerships and group companies. We reviewed the Council's governance arrangements relating to these areas. We identified significant weaknesses in governance arrangements for aspects of the these arrangements, specifically the accounting arrangements for and the level of understanding over the extent of the financial risks associated with the regeneration and other investments already in place. We also noted underperformance in a number of the companies but the Council is taking action in these areas

The Council is the administering body for Merseyside Pension Fund (the Fund). There is a Pensions Committee in place who meet quarterly to discuss a range of matters. Our Pension Fund Audit did not identify any significant issues with regards to the control environment or management of the fund.

Overall the review identified that there are significant weaknesses in arrangements are in place, recommendations have been raised to improve these governance arrangements both at the entity level and within the Council overall.

Key recommendation

Governance

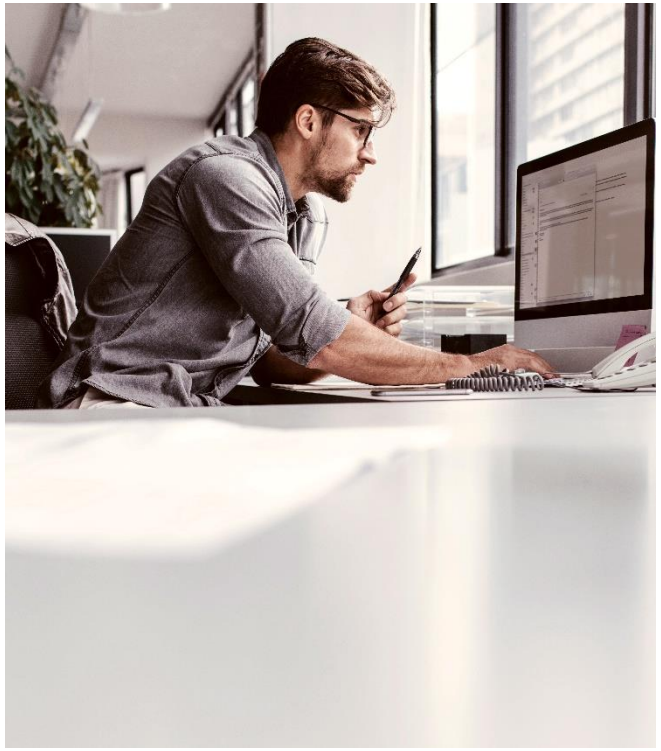
5	**Recommendation**	Governance arrangements for the oversight of the regeneration agenda and in issuing financial guarantees for leases and acquisition of assets should be significantly strengthened. Accounting advice should be received prior to entering into transactions
	Why/impact	There is an increased risk of exposure to financial losses for the Council from its involvement in regeneration developments and the issuing of financial guarantees for leases and acquisition of assets. This could place further pressures on the aim to achieve a more financially stable position for the Council.
	Auditor judgement	Implementation of this recommendation would improve the existing arrangements in place.
	Summary findings	The Council's regeneration programme exposes the Council to higher levels of risk and it is no clear whether the Council fully understands these risks or has appropriate governance in place to manage these risks. See pages 20 – 24 for further details
	Management comments	Agreed. A new Regeneration Governance Board has been introduced that is chaired by the Chief Executive and has the Section 151 Officer and Monitoring Officer attending. No further financial guarantees for leases have been made since those reported in this report and there are, at present, no intention to do so for the future. Where there may be the potential to enter into such transactions in the future, accounting advice will be received in advance and the outcome reported to Members as part of the decision-making process before any transactions are entered into

The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Governance

6	**Recommendation**	The Council should review its risk management arrangements to ensure that they are identifying the significant risks impacting the Council.
	Why/impact	A good understanding and response to risk is needed if the Council is going to make effective decisions and manage the risk impacting on it.
	Auditor judgement	While risk management processes are in place they have not been effective in responding to all significant risks
	Summary findings	Risk management processes are in place. However, we note that note that the risk process did not adequately identify or respond to the Council's financial position and did not adequately identified the risks with regarding the regeneration contract guarantees. While processes are in place they do not appear to be sufficiently robust to identify or deal with some risks.
	Management comment	Agreed. Following the issuing of the two DLUHC reports in 2021, the risk management arrangements have been reviewed and improved. There has been an all member risk workshop and the Corporate and Directorate Risk Registers have been fully reviewed and revised and reported through to the Audit and Risk Committee. The Corporate risks are also shared with the Policy and Resources Finance-Sub Committee.



The range of recommendations that external auditors can make is explained in Appendix B.

Improving economy, efficiency and effectiveness

We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

Planning, Performance review, monitoring and assessment

The Council has recently agreed a Council plan that sets out its vision and strategy to 2026. The plan has been agreed by members. Services do not have detailed plans that have been approved by members and this is an area of improvement for the Council.

The senior leadership team receive regular insight reports that are used to identify service issues or areas of underperformance. The Council does not have an overarching set of corporate performance indicators that are reported to members. This reduces the ability of members to review and direct the overall performance of the Council. However, performance information for directorates is reported through the relevant committees. For example,

- Adult Social Care and Health performance monitoring is reported to the Adult Social Care and Health Committee. The performance against KPIs is monitored on a monthly basis and RAG rated.
- Children's, Young People and Education Committee receive the performance reports covering services such as the adoption and fostering services which use the adoption scorecard published data and measured against government set targets.
- The Environment, Climate Emergency and Transport Committee receive annual reports on the Council's Carbon budget performance which allows it to measure progress against the target of carbon net zero by 2030.

The individual committee reports are then included in agenda items at full Council meetings. There is at present no direct linkage between performance rand the Wirral Plan, this is due to the plan being under review during 2020/21 before being approved in September 2021.

Educational attainment continues at or about the national average. We note that the Council is developing an improvement strategy to drive up standards. As with other councils there is a cost pressure re SEND. The 2016 Ofsted report on Children's services rated services as inadequate. This was removed in 2019 and replaced by requires improvement. The recent Annual Conversation letter from Ofsted indicates that services continue to improved. We note that there has been an increase in Looked after children and that cost pressures remain in this service.

The Adult Social Care directorate is one of the smallest in the country as the social work team was transferred to Wirral Community Healthcare FT in 2017 and the Trust performs an all age social worker service. The Directorate works closely with the Trust but focuses on commissioning rather than delivery. The main areas of focus for the directorate are Assisted technology, Extra Care Housing, and the Better Care Fund with the NHS. Expenditure per head of population is high in comparison to other social care departments and the Council continues to invest in the service to meet pressures such as the living wage costs.

The Council has retained responsibility for professional standards and undertakes a number of Performance Management audits. Discussions with officers confirmed that there are no indicators of inadequate care in the Borough, although the Domiciliary Care service providers continue to face recruitment pressures. The Council considers that the service will continue to come under pressure due to incremental growth in demand.

We comment on regeneration, waste, and leisure services elsewhere in our report.

The Policy and Resources Committee receive quarterly revenue and capital budget monitoring reports covering all the directorates. These reports show detailed explanations for variances to budgets with mitigations and proposed actions to improve performance. We note that until recently that the committee has not proved effective in managing the Council's finances.

Improving economy, efficiency and effectiveness

Benchmarking

The Council utilises a number of different tools in order to benchmark its services including CFOi insights and Cipfa. For example, CIPFA recently benchmarked the cost of supported living, residential and nursing services.

We benchmarked the Council's costs against other councils as part of this review. It indicated that the Council's cost per head of population was high in comparison to other Council's. Areas of high or very high spend include adult social care, children's social care, housing services, cultural services, and public health services. Given the Council's current financial position it does not appear sustainable to continue with such high levels of spend across all services.

Our analysis is supported by the recent CIPFA Neighbourhoods Comparison review undertaken by the Council. The review reported that the Council had the third highest spend per population on Cultural and Related Services amongst Metropolitan Councils, spending £8.66m more on these services during 2019-20. Areas of particular high spending are sports, opens spaces and parks, street cleansing and waste collection. More recently, Members have made the decision make savings by closing certain leisure facilities in order to restore the financial sustainability of the Council.

The Council should utilise the benchmarking available to it to ensure that services provide value for money and that expenditure is both affordable and directed at statutory services. Regular service reviews should be carried out to ensure service provision meets the strategic priorities and are cost effective.

Procurement

The Council operates a centralized procurement function with multiple responsibilities: Purchasing team – purchasing set up and transactional processing, Payments team – payment approval and monitoring, and the Contract management performance team – implementation of contract monitoring performance measures.

The Council's procurement strategy is not current but we note that it is currently under review with the objective of ensuring it meets the national strategy and has clear links to social value and transparency. The Council has had significant issues with the number of services orderered without a purchase order. For the six month period from April 2020 to September 2020 the amount purchased without a purchase order was £27.4m with £18.1m being processed retrospectively. The equivalent for the same period in 2020/21 is £3.4m and £12.8m. While this shows a significant improvement this represents poor practice by Council departments and continued action is needed in this area. There also continues to be a number of contract waivers and contract extensions. This represents poor practice. The Audit and Risk Management Committee receive regular reports from the Head of Procurement on direct awards and retrospective purchase orders with clear evidence of monitoring. Continued action is needed in these areas.

The Head of Procurement confirmed that there were very few direct awards of contracts but that these were mainly around regeneration projects for specialist services. The Head of procurement confirmed that he was satisfied with the level of monitoring for regeneration projects. We reviewed a listing of recent regeneration development direct awards and these show that only contracts are only awarded to suppliers if they are already on the nationally recognised procurement frameworks. However, this is an area that the Council will need to continue to scrutinise.

The Council has arrangements in place for the management of subcontractors. These vary from department to department. Officer discussions indicated that the majority of contracts relating to Highways, Adult Social Care and Public Health have good monitoring in place. Other areas within Neighbourhoods such as parks and recreation and leisure services and Children's Services require improvement.

Continued action is needed to strengthen procurement and contracting at the Council. We have raised an improvement recommendation relating to procurement.

Improving economy, efficiency and effectiveness

Partnership working

The Council has a good track record of partnership working.

The Council works closely with its neighbouring authorities within the Liverpool City region on a number of initiatives. An example of this is the Worklessness Support Service contract which is part of the Wirral Ways to Work Programme. The Final report shows that across the region 96% of the target was achieved with 18,704 LCR residents being supported by the project. The positive economic impact of the project was also demonstrated as it generated a significant return on investment with a final social impact of £4.85 for every £1 spent on the project. Other areas of joint work include the Budgets for public health and Adult Health and Care which have been drawn up within the partnership with other regional authorities

The Council has a strong partnership with the local health system. A single commissioning partnership for health was formed in May 2018, with NHS Wirral Clinical Commissioning Group, Adult Care and Health and Public Health joining together as Wirral Health and Care Commissioning (WHCC). The purpose of WHCC is to jointly commission all health and care services for residents in Wirral. Through the WHCC, the Council will be an active partner in what will become the Integrated Health Board when the Cheshire and Merseyside Clinical Commissioning Groups cease to exist from 1 July 2022. The budgets for public health , adult health and care are produced within the partnership and in order to deliver financial balance, a range of savings programmes are also planned for 2022/23.

Partnership working - Waste Management Arrangements

The Council is responsible for municipal waste collection but waste disposal is undertaken by another entity, being Merseyside Waste Disposal Authority (MWDA). The MWDA manages waste disposal on behalf of the five Merseyside Councils.

The Council is seeing increases in municipal waste tonnages, leading to higher costs of waste disposal. There is also a challenge to improve recycling rates, which currently sit at 32%, 11% below the national average. Furthermore, national recycling targets have increased from 50%, to 65% by 2035. There are therefore significant challenges in achieving economy, efficiency and effectiveness for waste management services.

The cost of waste disposal (charged by MWDA) is the most significant element of waste management costs. This cost is governed by a levy mechanism which distributes the cost amongst the Merseyside Councils. This levy mechanism does not currently incentivise recycling and there could be improvements in the way it incentivises overall waste volumes. However, amending the levy mechanism would require ratification from all Merseyside Councils, some of which may not be supportive of making changes.

As the levy cost is pre determined, it always comes in 'on budget' so is unlikely to receive significant scrutiny at Members level through annual budget reporting. There appears to be a need for increased reporting, either from officers and / or the MWDA into Council meetings to ensure the overall performance is understood in the context of the costs.

The MoU which governs the relationship with the MWDA sets out performance reporting requirements from the Council to the MWDA and vice versa. However, it appears that these reporting requirements are not being followed by the parties.

It has been identified by the Chief Executives that there needs to be a more joined up approach to waste management across the Liverpool City Region. For this reason the LCR Strategic Waste Management Partnership has recently been established. This is a positive step to improve transparency and collaboration between the Merseyside Councils with the aim of improving economy, efficiency and effectiveness for waste management services. This partnership currently does not include the MWDA itself, however, there is a commitment to work with the MWDA on regional waste management issues.

We consider that the oversight, governance and financial arrangements for waste management require improvement. We have issued a separate report on this area to the Council.

Improving economy, efficiency and effectiveness

Conclusion:

The Council has recently agreed a Council plan that sets out its vision and strategy to 2026. The plan has been agreed by members. Services do not have detailed plans that have been approved by members and this is an area of improvement for the Council.

The Council does not have an overarching set of corporate performance indicators that are reported to members. The Council has performance management processes in place to monitor its service provision and identify areas for improvement. However these processes are at the individual committee level with the focus of the Policy and Resource Committee being on the financial management of the directorates. Currently there is no linkage to the Wirral Plan and the strategic objectives of the Council.

The Council utilises a number of different tools in order to benchmark its services including CFOi insights and Cipfa. We benchmarked the Council's costs against other councils as part of this review. It indicated that the Council's cost per head of population was high in comparison to other Council's. Areas of high or very high spend include adult social care, children's social care, housing services, cultural services, and public health services. Given the Council's current financial position it does not appear sustainable to continue with such high levels of spend across all services. The Council should utilise the benchmarking available to it to ensure that services provide value for money and that expenditure is both affordable and directed at statutory services.

The Council operates a centralized procurement. The Council's procurement strategy is not current but we note that it is currently under review. The Council has had significant issues with the number of services ordered without a purchase order. There also continues to be a number of contract waivers and contract extensions. This represents poor practice. Continued action is needed to strengthen procurement and contracting at the Council. We have raised an improvement recommendation relating to procurement.

The Council has effective partnership arrangements in place with the local Health Bodies and key agencies such as the Liverpool City Region and Homes England. However we have identified that arrangements are not adequate in relation to the waste partnership governance arrangements across Merseyside. We consider that there needs to be a more joined up arrangement approach across the Region to improve waste management and recycling.

In summary we have identified that there are significant weaknesses in arrangements in place for improving the way the Council delivers its services. It is now having to make tough decisions concerning service provision in the future in order to restore financial stability for the Council.

Improvement recommendations

Improving economy, efficiency and effectiveness

7	**Recommendation**	Key Performance Indicators should be linked to the Wirral Plan with performance monitoring reported to Policy and Resources Committee
	Why/impact	A strategic overview of performance linked to the objectives of the Wirral Plan would strengthen the Council's arrangements in improving economy, efficiency and effectiveness.
	Auditor judgement	Implementation of this recommendation would improve the existing arrangements in place.
	Summary findings	Key Performance Indicators are monitored by directorates and the relevant committees but there is no overall link to the strategic objectives of the Council contained within the Wirral Plan.
	Management comment	Agreed. The refreshed Wirral Plan was reported to full Council on 11 July. The plan includes indicators to measure the success of the implementation of the Wirral Plan and included the outturn from 2021/22

The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Improving economy, efficiency and effectiveness

8	**Recommendation**	Regular and thorough benchmarking reviews should be carried out to ensure service provision meets the strategic priorities and are cost effective.
	Why/impact	The service reviews would strengthen the Council's arrangements in improving economy, efficiency and effectiveness.
	Auditor judgement	Implementation of this recommendation would improve the existing arrangements in place.
	Summary findings	The Council utilises a number of different tools in order to benchmark its services including CFOi insights and Cipfa. We benchmarked the Council's costs against other councils as part of this review. It indicated that the Council's cost per head of population was high in comparison to other Council's. Areas of high or very high spend include adult social care, children's social care, housing services, cultural services, and public health services. Given the Council's current financial position it does not appear sustainable to continue with such high levels of spend across all services. The Council should utilise the benchmarking available to it to ensure that services provide value for money and that expenditure is both affordable and directed at statutory services.
	Management comment	Agreed. During 2021/22 benchmarking data was used to determine where the Council provided high-cost services and where they did, to build efficiencies from these into the forthcoming budget rounds. This was evidenced with the 2022/23 budget whereby Leisure and Cultural Services, who did benchmark high had significant budget savings. The Strategic Change Programme, to be delivered through a range of Service Reviews, includes the use of benchmarking when undertaking the service reviews. Benchmarking data was also used to determine the phasing of service reviews with the highest cost services being prioritised in the early phases.

The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Improving economy, efficiency and effectiveness

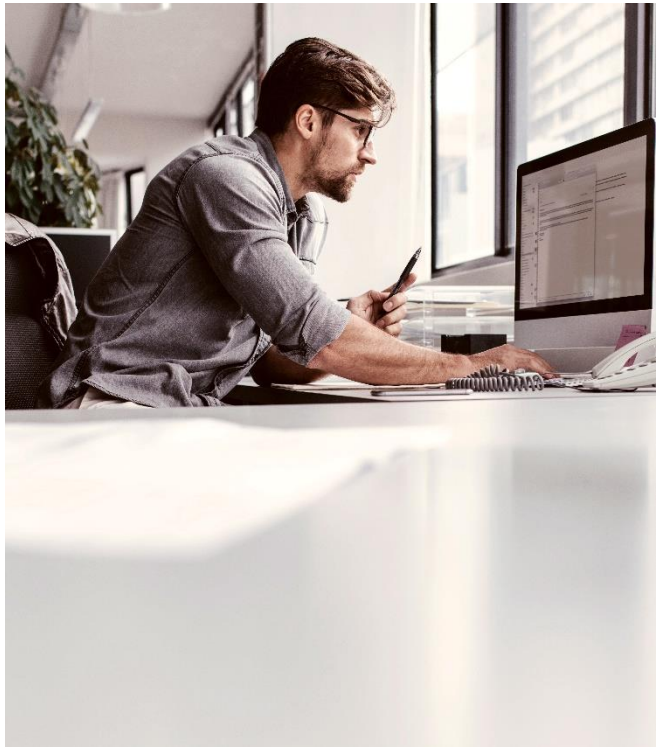
9	**Recommendation**	The Procurement Strategy should be updated to ensure it meets the requirements of the national strategy with clear links to social value and transparency. The number of purchases without a purchase order and contract waivers and extensions should be reduced.
	Why/impact	An extensive and detailed procurement strategy which is reviewed and updated regularly will contribute to the objective of improving the economy, efficiency and effectiveness of the Council
	Auditor judgement	Implementation of this recommendation would improve the existing arrangements in place.
	Summary findings	The current Procurement Strategy is under review and requires updating to ensure it meets current national strategy requirements. Improvements in the Council's procurement processes are already underway but there is still further work required to achieve a more complete process Council wide. The Council has had significant issues with the number of services orderered without a purchase order. For the six month period from April 2020 to September 2020 the amount purchased without a purchase order was £27.4m with £18.1m being authorised retrospectively. The equivalent for the same period in 2020/21 is £3.4m and £12.8m. While this shows a significant improvement this represents poor practice by Council departments and continued action is needed in this area. There also continues to be a number of contract waivers and contract extensions. This represents poor practice.
	Management comment	Agreed. During 2021/22 a project was launched to review Procurement and Commissioning functions. This project is continuing and is making good progress in change the culture of the organisation regarding procurement and commissioning activity. As part of the project, a new model for Procurement and Commissioning will be recommended along with a refreshed Procurement Strategy

The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Improving economy, efficiency and effectiveness

10	**Recommendation**	The Council should take action to improve recycling rates and should work with its partners to revise the levy mechanism to support this improvement.
	Why/impact	Waste recycling targets will increase in future years and the Council may face penalties or lost income.
	Auditor judgement	Waste disposal arrangements require strengthening in co-operation with other Merseyside councils.
	Summary findings	Arrangements for waste disposal require improvement. The Council is seeing increases in municipal waste tonnages, leading to higher costs of waste disposal. There is also a challenge to improve recycling rates, which currently sit at 32%, 11% below the national average. The levy mechanism for waste disposal is not effective in distributing costs fairly or in achieving improved recycling. We note that the Council is working with other local councils to resolve this matter but we consider that the oversight, governance and financial arrangements for waste management require improvement.
	Management comment	Liverpool City region (LCR) now has an established and functioning strategic waste partnership which is developing the region's 'Zero Waste Strategy' and as part of this make recommendations for future regional waste management governance. Clear reporting lines have been created between the region's Leaders and Mayors, Chief Executive's Group, the Strategic Waste Management Partnership and district Portfolio Holders. The LCR Zero Waste Strategy set out performance improvement measures for recycling, waste minimisation, reuse and upcycling. Wirral Council is using the Zero Waste Strategy to develop its own waste strategy and performance improvement plan. The LCR Strategic Waste Management Partnership is also working closely with the LCR finance director's group to review the waste levy mechanism.



The range of recommendations that external auditors can make is explained in Appendix B.

COVID-19 arrangements

Since March 2020 COVID-19 has had a significant impact on the population as a whole and how Council services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

Financial sustainability

Covid-19 impacted significantly across the Council, including Council Tax and Business Rates collection rates; and additional expenditure, most notably adult social care.

The Council received a total of £194m during 2020/21 to support the Council's work in responding to the pandemic. This funding was not only for specific areas of work or equipment but included funding passported directly to businesses and individuals in the form of grants in line with government guidance.

The Council has maintained a good oversight of its Covid-19 related costs and income losses. These were identified early on and subject to detailed monitoring and scrutiny. The MTFS was reviewed and updated during the year and detailed reporting against the budget to Policy & Resources Committee was maintained throughout the year.

A direct impact of the pandemic was the Council's inability to achieve the planned savings for the year. As such, as well as receiving additional Government funding to cover income losses and additional expenditure, the Council had to request the exceptional financial support in the form of the capitalisation directive in 2020/21. This is unusual and we note that this impact has only been seen in a small number of councils and reflects the inadequate financial position of the Council.

Governance

While the Council generally maintained a business-as-usual approach to its governance arrangements during the pandemic, significant adjustments were required. Delegated authority was given to the Chief Executive for all Covid-19 decision making. All other business as usual decisions (with the exception of the budget) were postponed to ensure that responding to Covid-19 was a priority. The Council also established a new set of internal governance with Strategic Command Group and Tactical Command Group and Individual Cells

The Council adjusted some of its internal control processes to support effective governance throughout the pandemic. As soon as these were lawful, the Council started holding members' meetings online.

All committees have maintained a keen interest in the Council's response to the pandemic.

Internal audit have had a key role in the governance arrangements adopted during the pandemic and acted in an advisory capacity throughout, where processes and systems have had to adapt to changed circumstances. Internal audit also demonstrated it can offer a responsive service, adapting its annual plan to accommodate new reviews required as a result of changed circumstances.

Despite this, internal audit still completed a wide range of audit reviews and Covid support activities including providing advice or guidance and direct involvement in systems designed to address challenges. Most notably on COVID grant payments. There has been a solid acceptance and implementation of internal audit recommendations .

Internal audit did not identify any serious weaknesses in internal controls over the course of the year.

COVID-19 arrangements

All office-based staff were provided with the necessary equipment to work from home, enabling a smooth transition to remote working where this was possible. Home-based working has continued throughout the pandemic and there has been a good level of continuity of service. Enabling staff to work from home also supported the Council in protecting its frontline staff and residents by reducing the risk of virus transmission. PPE was also sourced and provided to all Council staff where this was deemed necessary.

Improving economy, efficiency and effectiveness

The Council has been mindful of the impact on the pandemic on its most important resource, its staff. Actions have been put in place to support staff wellbeing and supporting staff remains a key priority for the Council. In aiming to maintain staff wellbeing, the Council has been able to maintain an efficient and effective delivery of its statutory services.

As an impact of the pandemic, the social, economic and political landscape in the borough has significantly changed during 2020/21. The Council has recognised this and has refreshed the Wirral Plan to take into account these changes. Performance against the existing Plan's visions and priorities has not been monitored in the usual way as the Council adapted to providing services differently and responding to new pressures. A structure was designed with interlinking Covid Cells to monitor and report of the Council's response to the pandemic and other emerging issues.

Partnership working is a key theme of the Wirral Plan and work with community partners increased during the pandemic, in particular taking the lead role in the Merseyside Local Resilience Forum to ensure a coordinated approach to the emergency took place across the City Region.

Funding has been received from the Government and the European Regional Development Fund to enable the Council to develop plans to respond to the impact of the pandemic on local economies and this will ties in with the other funding stream and regeneration plans for the Borough.

The Council has acknowledged the need to review the services it provides, its delivery models and the outcomes that are of the highest priority as a reaction to pandemic.

Conclusion

Our review has not identified any significant weaknesses in the Authority's VFM arrangements for responding to the Covid-19 pandemic.

Opinion on the financial statements

Audit opinion on the financial statements

We gave an unqualified opinion on the financial statements on 28 January 2022.

Other opinion/key findings

We did not identify any significant unadjusted findings in relation to other information produced by the Council, including the Narrative Report, Annual Governance Statement and Pension Fund Financial Statements. We issued unmodified opinions in respect of other information.

Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Audit and Risk Management Committee on 24 January 2022.

Issues arising from the accounts:

We identified 3 adjustments to the financial statements that have resulted in a £21.3m adjustment to the Council's Comprehensive Income and Expenditure Statement. These are the remeasurement of the Council's pension assets, and the correction of a depreciation and land/building error. These adjustments do not impact on useable reserves. All adjusted and unadjusted misstatements and disclosure amendments are disclosed in the 2020=21 Audit Findings Report at Appendix B.

We also reported issues with regard to the financial sustainability of the Council. These are covered in the financial sustainability section of this report and are therefore not repeated here.

Preparation of the accounts

The Authority provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

We reported to members that the audit had taken considerably longer than expected this year as a result of the following issues:

- the debtors balances included within the balance sheet contains transaction data dating back to 2006 due to the way in which the General Ledger and Control Accounts have been set up. This has resulted in challenges faced by the both the finance team and audit team in reconciling the debtors balance to the accounts and sample testing debtor transactions.
- the information produced by the financial system has not been of sufficient quality and detail to enable efficient sample testing of the material balances in the financial statements. This has led to numerous transactions listings being produced and the need to replicate work on a number of occasions in order to gain assurance over complete populations which reconcile to the financial statements

Opinion on the financial statements

Preparation of the accounts continued

- The inclusion of internal recharges within the gross income and expenditure for the provision of services as reported on in last year's Audit Findings Report has caused considerable additional work for both the finance team and the audit team to ensure sufficient assurance has been gained over the disclosures in the Comprehensive Income and Expenditure Statement and supporting notes.
- The capacity of the Council's finance team who have had considerable demands placed on them this year, not just from the increased level of audit challenge and requests but from internal pressures in relation to ERP and financial planning and monitoring.

We reported to members that these issues required resolving for the 2021/22 financial statements audit.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Authority. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

We are not able to complete the work required to issue the WGA Component Assurance until guidance is available from HM Treasury. We therefore continue to be unable to certify the completion of the audit for 2020-21.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation.

Appendices

Appendix A - Responsibilities of the Council

Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

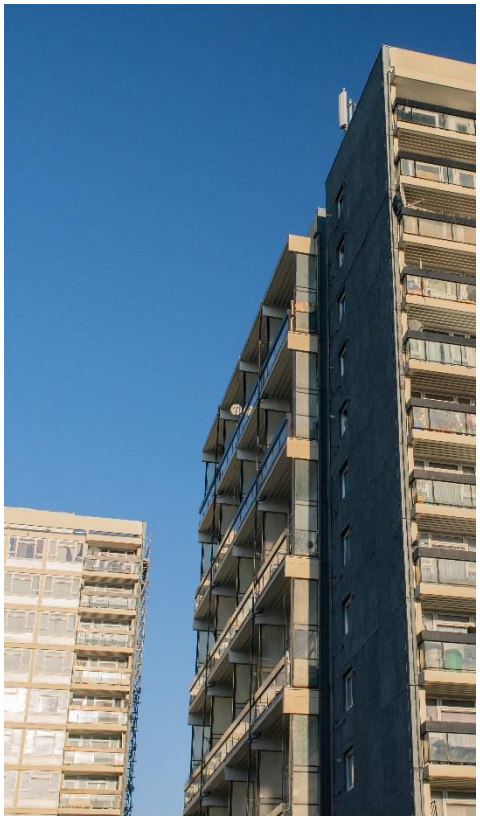
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	Yes	Financial sustainability p 13- 14 Governance p 25
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	Financial sustainability p 15 -16 Governance p 26 Economy, efficiency & effectiveness p 31 - 34

Appendix C - Use of formal auditor's powers

We bring the following matters to your attention:

Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly	We did not issue any statutory recommendation.
Public interest report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We did not issue any public interest reports.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We did not issue any applications to the Court.
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We did not issue any advisory notices.
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	We did not issue any judicial reviews.

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Grant Thornton

Wirral Council VfM Review Governance of Company and other investments

2021-22

12 July 2022

Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

This report is focused on the Governance arrangements in place at Wirral Metropolitan Borough Council

Section 1: Council Governance over its Commercial Entities and other investments – Introduction and Executive Summary

1.1 Scope and work undertaken

Key lines of enquiry

- As part of the annual statutory audit we carried out a Value for Money audit on the Council's commercial entities and investments.
- The Council has a small group of subsidiaries and joint ventures. It has recently determined (2022) not to make further investment in these companies or joint ventures.
- It has also invested in a Public Sector Social Impact Fund (PSSIF) and made considerations towards investing in a bank. It has also begun to purchase retail buildings as part of its redevelopment of the area.
- This report will outline our understanding of Council governance arrangements for each subsidiary company and how Council structures support decisions that support and underpin the financial sustainability of each entity.

  We will also touch on the Council's access to the Public Sector Social Impact Fund (PSSIF), and its deliberations on investments decisions such as whether to join the Joint Community Bank and Wirral Waters.

Levelling up funding

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

Overview of our work

- The factual information presented in this report, and our opinions on the governance arrangements are based on information received from Council officers (see a detailed list of source data in Appendix F) as well as interviews with Council officers via Microsoft Teams.

Overview of our work (continued)

- As part of our work we conducted discussions with the following Council officers:
  - Steve Fox (Head of Democratic and Member Services)
  - Vicki Shaw (Head of Legal Service and Monitoring Officer)
  - Philip McCourt (Head of Law and Governance)
  - Alan Evans (Director of Regeneration and Place)
- These discussions took place across three meetings:
  - A detailed call with Steve Fox, Vicki Shaw and Philip McCourt on 14 December 2021 covering all of the entities and the existing and proposed governance structures.
  - A detailed call with Alan Evans on regeneration and place on 10 January 2022.
  - A follow up call with Alan Evans and Chris Ives focused on WGC 1 May 2022.
- On the following pages of this report we will lay out:
  - the current and historical legal structure of the Councils commercial investments.
  - the existing governance structure for each Commercial Entity.
  - our key findings and recommendations.

1.2 Overview of Wirral Council Group and other investments

Overview of subsidiary entities

- There are currently three active organisations that would fall under that description. These are: Edsential Community Interest Company (ECIC), a joint venture with Cheshire West and Chester Council ; Wirral Evolutions Limited (WEL), a wholly owned subsidiary company; and Wirral Growth Company LLP (WGC), a joint venture Limited Liability Partnership with Muse Developments Ltd.
- In addition there are two dormant entities, Wirral Holdings Limited and Wirral Growth Company Nominee Limited, which as a consequence are not discussed in this report. The full subsidiary structure is shown in Appendix B.
- In recent years the Council has invested in the Public Sector Social Impact Fund (PSSIF), administered by Altana Wealth Limited, and has considered two other significant investments. These are in relation to the Council's decision not to join a multi-council owned Community Bank; and its investment in Wirral Waters.

Recent governance changes at the Council

- On 28 September 2020 the Council voted to change the way it makes decisions. In place of a Leader and Cabinet Executive arrangement, the Council now makes its decisions through a Committee System, which is divided into four core committee categories, being Policy & Services, Review and Regulatory & Other. This structure, and the four areas as noted are shown in Appendix C.
- Under the new arrangements the Shareholder Board centrally oversees the entities. The Shareholder Board sits as a sub-committee of Policy and Resources and comprises only Members. An informal advisory panel made up of officers and members meets on an ad hoc basis. Any shareholder decision is made by Shareholder board (committee) after receiving advice from relevant officers. Officers do not make decisions other than within the scope of powers delegated to them in specific committee decisions. This provides governance over Council decisions related to the allocation of its financial resources.
- Specialist committees provide operational scrutiny of the three active companies and the services they provide: ECIC services are monitored by The Children, Young People and Education Committee; WEL services are overseen by the Adult Social Care and Public Health Committee; and Wirral Growth Company are held accountable by the Economy, Regeneration and Development Committee. The committee reporting structure is shown in Appendix D.
- Each of the active companies have a client officer whose role is to monitor the contractual obligations and operational performance of the company with respect to services provided in the region or to the Council specifically.
- The client officers are as follows: Edsential CIC (Director of Children and Young People); Wirral Evolutions Ltd (Director of Adult Social Care); Wirral Growth Company LLP (Director of Economy and Regeneration).

References

Our source data is organised in the Appendix to this report as follows:

- Appendix B: Current Legal Structure
- Appendix C: Wirral Council Committees
- Appendix D: Current Governance Structure.
- Appendix E: Financial Context
- Appendix F: Source documentation

1.3 Summary conclusions on Council governance of subsidiary companies and other investments

Topic	Finding	Recommendation
Investment decisions	• A recent CIPFA report recommended that the Council halt initiatives, such as the investment in a Community Bank, to avoid diverting the focus of the organisation away from addressing the Council's finances, and in order to avoid unnecessary financial risk. The Council has taken on board this advice and decided not to invest in a Community Bank. • The Council's investment in the PSSIF is over a period of 10 years from the final closure date (which has yet to be confirmed). To date it has resulted in a financial return of c£40,000. External Due Diligence was undertaken on the fund that concluded that it was a viable and credible investment. As a result and after its own internal review and a member workshop the Council entered into the investment. The Council appears to have limited control over how investments are made by the fund manager, which may lead to additional risk to the Council's monies. However, discussions with officers indicate that they are satisfied that the fund is run by suitably experienced and qualified fund managers. The fund also has an investment advisory committee made up of 8 members with 2/3 representatives from local government. The Council is not represented on this committee (although it was invited to sit on the committee). We note that the Council cannot exit the fund until 2032. Given the Council's uncertain financial position it is not clear that this was an appropriate investment and the Council will need to monitor its success closely. • We note that the investment in Wirral Waters potential creates a £100m liability for the Council if it is unsuccessful. We note that this is the worst case scenario and that mitigations can be put in place to prevent this scenario. For example, by creating a risk reserve or the sale of the properties. • We note that the Wirral Growth Company partnership has been reviewed and revised arrangements have been put in place for a number of reasons. This was reported to the Policy and Resources Committee in March 2022. • We note that the company has made a substantial profit but it is unclear whether the profit made is due to over funding and whether it is distributable. The Council consider that the amount above the build and interest costs is not over funding but is part of the forward contract deal and price. The Council is currently seeking legal and financial advice in this area.	• The Council should consider all future investment in terms of its financial reliance

1.3 Summary conclusions on Council governance of subsidiary companies and other investments

Topic	Finding	Recommendation
Oversight of financial performance	Financial performance is not uniform, but on the whole the commercial entities are not performing strongly. Our review has noted the following issues: • Edsential has been more impacted (than other Council companies) by the Covid-19 pandemic resulting in losses. • The Council has determined that it will transfer Wirral Evolution services back to the Council. In its value for money report the Council states: 'During the length of the contract (2015 – present) the additional amount of money provided equals 49.9% of the original contract price. For context, the national inflation within this period was 8.6%. The annual cost pressures/cost envelope equates to 10% of the agreed contract price of £5.015m and Wirral Evolutions have not proactively addressed this position, despite an approximate 25% reduction in people accessing the services in the period to November 2021 (314 compared to 410). Whilst caution should be applied to one year's data, particularly given the situation with Covid 19, it does not demonstrate value for money for Wirral Council'. Services are now being transferred back to and will be operated by the Council. • The Wirral Growth Company (WGC) arrangement has not delivered to the original planned time frame (partially due to COVID-19). Revised arrangements have been put in place. WGC will complete the Birkenhead Commercial District and Birkenhead market. Other planned projects will now be delivered by the Council. In terms of governance: • There is evidence of scrutiny of company performance from both Officers and Members formally through the Council's committee structure. Each entity's financials are reviewed by the relevant sector committee as well as at the Shareholder Board providing oversight. • There is limited member oversight of PSSIF (see earlier comments on page 6). • Arrangements for the oversight of the Wirral Waters One guarantee are unclear. • Board membership arrangements differ between companies. We note that Edsential (ECIC) has direct officer involvement on the Board. Wirral Evolutions has no Officer or Member involvement due to a request by the company. Wirral Council has two members and two officers on the Board of Wirral Growth Company. There is no external Non Executive Director.	• Given the financial position of the Council it will need to monitor the finances of Edsential closely. We note that the Council has determined that it will face greater costs if it were to exit the Company. This decision should be revisited annually given the losses made by the company. • We consider that further scrutiny is needed of the profit recognition and distribution from the Wirral Growth Company. • Monitoring arrangements should be put in place for the Wirral Waters One guarantees. We note that the project is operational from 2023/24. • We consider that the Council should have officer representation on the Board of Edsential. We consider that the Board for each company or related investment should be supplemented by Non Executive Directors with business experience, in order to better protect the Council's commercial interests.

1.3 Summary conclusions on Council governance of subsidiary companies and other investments (Cont.)

Topic	Finding	Recommendation
Oversight of financial forecasts and business planning	• There is a regular business planning requirement and review that occurs at company level as well as with Committees and Members showing good governance and understanding of the commercial entities. • Risk assessments are not formally shared with members, making it difficult for the Council to assess the effectiveness of management in managing risk in the external environment within which each company performs.	• There should be ongoing assessment of risks relating to the entity, supported by processes to ensure that risks are highlighted in the business plan and managed as part of the Council's overall risk management approach, with appropriate escalation and reporting.
Reporting	• We can see clear evidence of reporting both at the Shareholder Board, as well as the Children, Young People and Education committee, Adult Social Care and Public Health Committee and Economy, Regeneration and Development Committee. • We have been able to see a number of the committee meeting minutes online through the Council's public portal which demonstrate scrutinty of company performance.	• The Council should continue to record evidence of formal periodic shareholder/Chair/CEO meetings with effective supporting papers to inform subsequent company Board meetings.
Skills	• Whilst we can see evidence of Member scrutiny, we have not assessed whether they have the right skills to offer challenge to the officers of the Council or the subsidiary entities. • We can however see evidence that the Director of Law and Governance continually provides training to Officers and Members on their responsibilities as directors of Local Authority entities.	• The Council should continue to run robust training for Officers and Members on their roles and responsibilities. • Fit and proper persons tests should be performed to ensure there are no conflicts of interest arising from the appointment of Officers to Boards or Members to panels and committees.
Continuity of service	• We note due to the Council's election schedule that historically there has been a high turnover of councillors at WMBC. • Whilst we note that there is a plan to move to less frequent elections, there is a short term risk that some councillors may have only short tenures on governance bodies and committees.	• The Council should monitor the training of new members to ensure they have the skills to participate in commercial discussions as part of their legal duty to act in the companies interest. • The Council should provide detailed minutes and papers presented at committees to new members to absorb as part of their orientation.
Continuous improvement	• There is evidence that current officers are operating with professional oversight at a commercial entity-level. • There is also evidence that the Council has a continual improvement plan in place in relation to the maintenance of governance standards.	• The Council should also maintain a record of how it is operating against the Local Partnerships checklist in the paper: "Local Authority Company Review Guidance – A toolkit for undertaking strategic and governance reviews of wholly or partly owned council commercial entities."
Accounting	• The Council did not obtain accounting advice for the Wirral Waters One project or the Wirral Growth Company Birkenhead Commercial District Office Building project in advance of entering into the agreements • Accounting advice is being sought but has not been received	• The Council should ensure that accounting advice is received before entering into any complex or substantial contract • The Council should obtain accounting advice for Wirral Waters One project and the Wirral Growth Company Birkenhead Commercial District Office Building project as soon as possible

1.4 Summary conclusions by subsidiary company and other investments

Summary Conclusion by Company/Investment

Our conclusions specific to each subsidiary company are captured in Section 3 of this report and are summarised as follows:

Edsential Community Interest Company (ECIC)

- ECIC's balance sheet is wholly supported by the Council and in the year to 31 May 2021 it made a net loss of £2.132 million on turnover of £10.144 million, contributing to net liabilities of -£11.3 million. We understand that as well as the equity investment in ECIC, the Council also guarantees the Merseyside Pension Fund element of ECICs' pension liability, which equates to £1.6 million. The Council shares liability for the company with Cheshire West and Chester Council.
- ECIC was significantly impact by Covid-19 with a number of services being closed. This impacted on both **revenue and profitability. We understand that the business made a small profit in the years prior to the pandemic, and Officers expect the business to return to profitability in the next reporting year.**
- The Council appear to have a strong grasp of the companies financial and operational performance, with both the Shareholder Board and the Children, Young People and Education Committee providing periodic review. Given the issues that ECIC has faced, the Council should continue with the increased scrutiny until future results demonstrate a more stable financial position.
- We note that the company distributed profits as grants. Until ECIC return to profitability all grants should have Council s151 Officer approval or via an equivalent delegation of authority mechanism.
- There is a difference between the actual make-up of the Board of Directors and that prescribed in the Shareholder Agreement. Although this does not pose any legal issues it is not considered to be in the interests of good corporate governance. We note that this has been flagged to the Shareholder Board as part of a meeting that occurred on 28th October 2021. The Council should look to address this matter as a priority.
- We can see clear evidence of oversight of the company through the Shareholder Board and the Children, Young People and Education Committee.
- We consider that the Board should consist of executives and non-executives who are experienced in business. Representation from service users is helpful but this should be balanced with business experience. We note the presence of a Non-Executive Director with experience working as a chartered accountant in schools, who may offer helpful independent commercial challenge as ECIC seeks a return to profitability.
- Given the financial position of the Council it will need to monitor the finances of Edsential closely and determine whether it continues to support the company.

Wirral Evolutions Limited (WEL)

- Wirral Evolutions Limited (WEL) is a wholly owned entity incorporated in 2015. It provides adult social care services. It is trading as a Local Authority Trading Company (LATCo) as it predominantly provides its services to the Council. The company has not been successful in winning new clients outside of the Council.
- There are no Officers or Members on the Board of Directors. Operational and financial performance of this entity was undertaken via the Shareholder Board Level or the Adult Social Care and Public Health Committee.
- The company's VfM has been under scrutiny within the Council. It was noted by Members that the costs associated with day services had increased beyond the contract value leading to a review of the service. A review was therefore commissioned on the operational efficiencies surrounding this entity.
- The review concluded that Wirral Evolutions does not demonstrate value for money for the Council and a decision has been made to bring the services back in house by September 2022.
- We consider that this decision is appropriate.

1.4 Summary conclusions on company governance by subsidiary company and other investments Cont.)

Summary Conclusion by Company/Investment (Cont.)

Wirral Growth Company LLP (WGC)

- Wirral Growth Company was originally set up as a vehicle to unlock the regeneration of Birkenhead through a strategic JV with Muse Developments. The establishment of the vehicle was framed around the commercial benefits that could be unlocked through input from both the Council and Muse.
- We can see clear evidence of Officer and Member involvement, both in the decision making of the running of the entity, as well as the decisions to get a third party review of the Growth Company. We note that WGC has operated without independent non-executives working to ensure that the anticipated regeneration goals are achieved. We have therefore concluded that the governance was not appropriate, although we acknowledge the other oversight mechanisms.
- We note that the pace of delivery of WGC was not as originally planned (although we acknowledge that this will have been impacted by COVID-19). We note that the Wirral Growth Company partnership has been reviewed and revised arrangements have been put in place for a number of reasons. This was reported to the Policy and Resources Committee in March 2022.
- We note that the company has made a substantial profit but it is unclear whether the profit made is due to over funding and whether it is distributable. The Council consider that the amount above the build and interest costs is not over funding but is part of the forward contract deal and price. The Council is currently seeking legal and financial advice in this area.
- We note that the Wirral Growth Company Birkenhead Commercial District Office Building project effectively received more forward funding than was needed to construct the offices. This funding along with other assets are to be distributed to the Council and its partner. Given that the Council has underwritten the lease on the office block (which enabled the over funding) it is not clear whether it is appropriate for it to recognise any profit from the arrangement. The Council consider that the amount above the build and interest costs is not over funding but is part of the forward contract deal and price. We also note that Advice is being sought on the exact timing of recognition and where in our accounts this is to be shown. We will review this advice when it is made available to us.
- We requested details of the proposed accounting treatment for this arrangement but the Council has yet to prepare an accounting paper.
- The Wirral Growth Company partnership arrangement will complete the Birkenhead Commercial District and Birkenhead market. Other planned projects will now be delivered by the Council due to the receipt of alternative grant funding. We could not reach a conclusion in the revised arrangements and whether proper scrutiny was given to its value for money because our questions on this topic were not answered within the available timeframe.

Wirral Holdings Limited (Dormant)

- Wirral Holdings Limited (WH) is a private company, wholly owned by Wirral Council since 2019. There is one director who is an officer of the Council, however we understand no meetings held as the company is currently dormant.
- From conversations with Officers, we understand that the company was set up as part of a property deal for several hundred flats funded by the pension fund. It will be dormant for a period of 10 years before becoming operational as a landlord run entity for a provisional 50 year period.

Wirral Growth Company Nominee Limited (Dormant)

- Wirral Growth Company Nominee Limited (WGCN) is a wholly owned private company since 2017 . There is one director who is an officer of the Council. We understand no meetings held as the company is currently dormant.
- We understand that there is currently no activity within each of the Dormant entities and as such there is no formal governance in the form of performance reporting or meetings. From our conversations with Officers, we understand that the company was set up as a name holder to protect the name 'Wirral Growth'.

1.4 Summary conclusions on company governance by subsidiary company and other investments (Cont.)

Summary Conclusion by Company/Investment (Cont.)

Public Sector Social Impact Fund (PSSIF)

- The Public Sector Social Impact Fund is an external fund established by Atlanta Wealth in late 2019 in partnership with Warrington Borough Council. It aims to raise £300m to invest in UK Social and Environmental projects. Other projects could be supported as long as they are UK based and meet the criteria of positive social/environmental impact. solar and wind energy projects, social housing, forestry and special needs schools. The Council invested £10m into the fund on 12 May 2020, which is a 10 year investment (possibly to extend for 2 years). This is roughly one quarter of the Council's total cash monies of £40m. The total fund value is currently around £46m, meaning that Wirral represents c.22% of the total fund.
- The Council were approached by Atlanta wealth who presented to the Councils CEO, Director of Finance and the Senior Finance Manager. The Council subsequently commissioned a number of due diligence reports from external advisors to review the proposal. Under the delegated authority of S151 officer (Director of Finance) the Council used their Treasury Management Policy to invest in the fund.
- The Councils investment into the fund was a commercial decision to return profits to the Council over the 10 year life of the fund. There appears to have been appropriate governance surrounding the decision to invest into the fund, as well as the ongoing financial monitoring.

The fund had an original timeline of two years to find investment opportunities. Progress has been slow in terms of investment with Atlanta being undercut on a number of opportunities. Covid-19 also impacted on the investment opportunities and ability to undertake necessary due diligence processes on investments. As at the date of this report Atlanta have made no investments and the fund money is held in UK corporate bonds until invested.

'The Council appears to have limited control over how investments are made by the fund manager, which may lead to additional risk to the Council's monies. Discussions with officers indicate that they are satisfied that the fund is run by suitably experienced and qualified fund managers. The fund also has an investment advisory committee made up of 8 members with 2/3 representatives from local government. The Council is not represented on this committee (although it was invited to sit on the committee).

- We note that the Council cannot exit the fund until 2032. Given the Council's uncertain financial position it is not clear that this was an appropriate investment and the Council will need to monitor its success closely.

North West Mutual Community Bank (Bank)

- The Council was previously considering investing in a joint community bank in collaboration with Preston and Liverpool as a Mutual. They took the decision not to invest in this operation.
- 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. Following two external reports the Council responded with an action plan which was presented to the Policy and resources committee.
- We also note that there is evidence of the Community Bank being on the capital report which was presented to members at the Policy and Resources Committee. We can see that the Bank has been removed from Capital Report which will be presented back to members on 15 February 2022 where the investment was removed. The investment will not be presented back again.
- Following the Cipfa report the Council has determined not to pursue this investment. We consider this decision to be appropriate.

1.4 Summary conclusions on company governance by subsidiary company and other investments (Cont.)

Summary Conclusion by Company/Investment cont.

Our conclusions specific to each subsidiary company are captured in Section 3 of this report and are summarised as follows:

Wirral Waters One

- Wirral Waters One/Legacy is a project to build 500 apartments at Wirral Waters in Birkenhead. The primary Lessor is developer Peel Land and Property. The Council takes an underlease of the 500 apartments carrying a fixed rent and service charge fee to Peel Legacy for the first 50 years. The Council will grant a sub-underlease to a Peel Management Company who will manage the apartments for years 0-10 and take on the Council's rental obligations.
- There was scrutiny in making the decision to approve the Full Business Case.
- The accounting for the arrangement were not confirmed before entering into the arrangement and should be confirmed to ensure that arrangement does not create assets or liabilities for the Council.
- The potential liability to the Council if the project is unsuccessful is c£100m. We note that this is the worst case scenario and that mitigations can be put in place to prevent this scenario. For example, by creating a risk reserve or the sale of the properties.
- Due to the material risk to the Council from years 11-50 we recommend that the project is closely monitored to ensure the development remains attractive to prospective tenants at least up until the point of handover.

Section 2: Council Governance of Subsidiary Companies

2.1 Current legal structure of Wirral Council Group

Overview of Wirral Commercial Entities and related Investments

The Council has historically considered each of their commercial entities separately from the perspective of legal structure and do not form part of a group (see Appendix [B] for the Council's legal structure).

- The Council has three wholly-owned subsidiary companies:
  - **Wirral Evolutions Limited (WEL)** - the company provides personalised Day Services and experiences for adults with a wide range of learning and physical disabilities;
  - **Wirral Holdings Limited (Dormant)** - the company was set up as part of a property deal for several hundred flats funded by the pension fund. It will be dormant for a period of 10 years before becoming operational as a landlord run entity for a provisional 50 year period;
  - **Wirral Growth Company Nominee Limited (Dormant)** - the company was set up as a name holder to protect the name 'Wirral Growth".
- The Council also has two joint venture companies:
  - **Edsential Community Interest Company** – the company provides services to the Education sector, supporting schools in four core areas; Health and Wellbeing, Leadership & Management, Teaching & Learning, and Aspiration & Achievement;
  - **Wirral Growth Company LLP** - The company was set up to deliver the long-term vision for regeneration, which benefits communities across the borough.
- We understand through discussion with the Council that each of these entities was acquired or invested in to meet a strategic goal and the entities are run commercially.
- The Council has also invested into a **Public Sector Social Impact Fund (PSSIF)**
- The Council has also invested in **Wirral Waters One/Legacy,** a development project in which the Council has agreed to sublease 500 apartments from the developer for Peel over 50 years.
- Owing to the overall financial position of the Council, WMBC made the decision not to invest in a joint-community bank. A review of this decision making process can be found later in this report.
- We have considered each entity in scope in detail in Section 3 this report.

Evidence base

In this section we have used the following evidence base:

- Appendix B: Current Legal Structure

2.2 Current governance structure of Wirral Council Group

Overview of Wirral Corporate Governance

- On 28 September 2020 Wirral Metropolitan Borough Council voted to approve a change from a Leader and Cabinet arrangement to a Committee System is divided into four core committee categories, being Policy & Services, Forum, Review and Regulatory & Other. See Appendix [B] for an overview of the committee structure.
- The revised governance structure has bedding down but several of the Officers we interviewed noted that the frequency of elections and turnover of Members may be having a negative effect on progress and decision making.
- There is a Shareholder Board which centrally manages the entities (this falls part of the Policy and Resources Committee). The Shareholder Board is responsible for the Council's functions as corporate shareholder of a company, or group of companies.
- The Shareholder Board is made up of;
  - Councillor Janette Williamson - Council Leader
  - Councillor Yvonne Nolan - Chair Adult Social Care and Public Health Committee
  - Councillor Jeff Green - Conservative Member (currently opposition party)
- The Shareholder Board is also supported by Officers;
  - Phil McCourt - Director of Law and Governance and Monitoring Officer
  - Vicki Shaw – Head of Legal Services and Deputy Monitoring Officer
  - Shaer Halewood - Director Of Resources and s151 officer.
- In addition to the Shareholder Board, there are individual committees which monitor the performance and provide scrutiny of the three active companies. The Children, Young People and Education Committee provide this for Edsential CIC; the Adult Social Care and Public Health Committee provide this for Wirral Evolutions Ltd and the Economy, Regeneration and Development Committee provide this for the Wirral Growth Company LLP.
- Each of the active companies have a client officer whose role is to monitor the contractual obligations and/or operational performance of the company with respect to services provided in the region or to the Council specifically. The client Officers are as follows: Edsential CIC (Director of Children and Young People); Wirral Evolutions Ltd (Director of Adult Social Care); Wirral Growth Company LLP (Director of Economy and Regeneration).
- The Director of Law and Governance at Wirral Council provides regular training to the Shareholder Board and directors of the corporate entities about the responsibilities associated with the various roles. We have seen evidence of the internal workshops run.

Evidence base

In this section we have used the following evidence base:

- Appendix C: Wirral Council Committees
- Appendix D: Current Governance Structure

2.2 Current governance structure of Wirral Council Group (Cont.)

Overview of Wirral Corporate Governance

- We understand that there is an internal debate regarding the appointment of Officers and Members to the Board of each of the corporate entities, with the prevailing view ~~is~~ that members should be involved in the monitoring and governance of these entities, with Officers conducting the Company Secretarial role and General Council role.
- We note that of the three core entities only Edsential (ECIC) has direct officer involvement on the Board, with the appointment of the Assistant Director of Education at Wirral Metropolitan Borough Council. Wirral Evolutions has no Officer or Member involvement due to a request by the company. Wirral Council is on the Board of the Wirral Growth Company.
- We consider that the Council should have officer representation on the Boards of its companies and that it should ensure that each company or related investment this should be supplemented by Non Executive Directors with business experience, in order to better protect the Council's commercial interests.

Evidence base

In this section we have used the following evidence base:

- Appendix C: Wirral Council Committees
- Appendix D: Current Governance Structure

Section 3: Company Governance – by Company

3.1 Operational Governance – Edsential Community Interest Company

Overview of the company

- Edsential Community Interest Company (ECIC) is a private company limited by shares, Registered in England and Wales (no. 09550258) and was incorporated on 20 April 2015.
- The company is jointly owned by Cheshire West and Chester Borough Council and Wirral Metropolitan Borough Council. The Council owns 50% of the shares in the company and provides governance oversight via a joint Shareholder Board with the other council
- ECIC provides services to the Education sector, supporting schools in four core areas; Health and Wellbeing, Leadership & Management, Teaching & Learning, and Aspiration & Achievement
- The entity provides catering and facilities management, governor clerking and training, tuition for sports, music, creative and performing arts, support for special educational needs and disabilities, learning outside the classroom and residential services
- ECIC financial and operational performance is monitored within the Children, Young People and Education Committee within the Council structure. The Shareholder Board, a sub-Committee of the Council's Policy and Resources Committee, provides further oversight and scrutiny on decisions like approval of annual reports, annual business plans, executive and non-executive director appointments, budgetary requests and remuneration packages.
- The business was negatively impacted by Covid-19, with schools being closed and leading to a reduced requirement for ECIC's services. We understand that the business made a small profit in the years prior to the pandemic, and Officers expect the business to return to profitability in the 2022/23 reporting year.
- ECIC has made operational changes to facilitate this return to profitability, including the expansion of ECIC's geographical footprint, for example by winning work with schools in the Halton area.
- ECIC is viewed as a strategic investment by Officers, because of its positive impact as a specialist local employer and due to the social impact of extra curricular activities for children in the local area. Schools travel from as far away as Oxford to benefit from the outdoor pursuits that ECIC are able to offer.

Composition of the board

- From the Shareholder Agreement we understand that shareholders can appoint and remove directors, the chair and the secretary. The Board of Directors should be made up of;
  - Two, but not more than three, Executive Directors (ED) who are not employed by or an elected member of the shareholders;
  - One Executive Director from Cheshire West and Cheshire Council and one from Wirral Council;

Evidence base

In this section we have used the following evidence base:

- 1.3.1 Edsential CIC- Articles of Incorporation
- 1.4.1 Edsential CIC- Shareholder Agreement
- 2.1.1 Edsential CIC Accounts 2021
- 3.1.1 Printed minutes 13092021 1800 Children Young People Education Committee
- 4.0 Meeting notes
- 5.0 Other reports
- 6.1.1 21.0 - Directors questions - Edsential (002)
- 6.1.2 Referral from Shareholder Board - Edsential Request for Funding
- 6.1.3 School Traded Services Separate Legal Entity
- 6.1.4 Schools Traded Services Joint Venture Known as Edsential

3.1 Operational Governance – Edsential Community Interest Company (Cont.)

  - Three Non-Executive Directors (NED) that are heads or deputy heads of schools in the Cheshire West & Chester, and Wirral areas; and
  - One NED who is a governor in the admin area of CWAC or WMBC.

- We note that this composition is focused on representation. In particular school heads and deputy heads may have the skills to run a school, but will normally have access to school governors who can offer external challenge and commercial experience. There are two NEDs with commercial experience including a chartered accountant who has worked in the Schools sector.
- At the time of this report we have identified the following differences between the current composition of the Board and that which was agreed in the Shareholder Agreement discussed previously:
  - There appears to only be one executive director who is not employed by, or is not an elected member of the shareholders (Ian McGrady the Managing Director) rather than the two designated;
  - There are no executive directors from Cheshire West & Chester Council, and Wirral Council. These are in fact NEDs on the Board. There is also an additional NED from Cheshire West & Chester Council and Wirral Council (Mark Parkinson who is acting as Chair of the Board);
  - Where there are meant to be three NEDS who are headteachers, the Board currently has four.;
  - There is an additional NED with a finance background who is not designated in the Shareholder Agreement.

It does appear that there is one NED who is a governor in the admin area of CWAC or WMBC Jane Owens MBE. See later for a further breakdown of the directors.

- The composition of the Board of ECIC is not currently in accordance with the provisions set out in the Shareholder Agreement. We note that this has been flagged to the Shareholder Board as part of a meeting that occurred on 28 October 2021.
- It was also noted that a review of the composition of the Board of ECIC would be completed to ensure that it is better aligned with the Shareholder Agreement and its Articles of Association. The outcome of this review would be brought to this Committee at a later date.
- There are no direct legal implications in the composition of the Board of ECIC not being in accordance with the provisions set out in the Shareholder Agreement or the Articles of Association, but the divergence is not considered to be in the interests of good corporate governance and may expose the Council to reputational risk. It may also lead to a culture of operating "outside the lines" which could lead to larger issues.
- Despite this, we can see clear evidence Shareholder Board is providing appropriate scrutiny and oversight over the appointments of directors to the company, for example;
  - In the 1 July 2021 Shareholder Board meeting, it was agreed that ECIC would appoint Mark Parkinson as Chair of the Board of Directors for a term of three years.
  - In the 1 September 2021 Shareholder Board meeting, it was agreed that the Director of Law and Governance be authorised to sign a written company resolution confirming appointment of Helen Elizabeth Brackenbury, the Council's Director of Children and Safeguarding, as an NED to provide additional insight and experience.
  - In the 28th October 2021 Shareholder Board meeting, the Head of Legal Services confirmed that there would be two head teacher representatives from Wirral and two from Cheshire West and Chester Council. This confirmed the appointment of Alison Ashley and Sharon Senn as Directors of ECIC.

3.1 Operational Governance – Edsential Community Interest Company (Cont.)

Council monitoring of business performance 2020/21 and 2021/22

- Per the Shareholder Agreement, the Shareholder Board are to approve the business plan and annual report of ECIC no later than 28th May in the immediately preceding Financial Year.
- As detailed in the overview section, in addition to the Shareholder Board, the monitoring and scrutiny of operational and financial performance is provided by the Children, Young People and Education Committee (CYPE). We noted that in the CYPE Committee meeting on 13 September 2021, a performance report detailed ECIC's achievements during 2021-22 including the delivery of the Holiday Activity Fund (HAF), Edsential at home service and free school meal parcels. It also outlined the current challenges being faced - specifically the impact of COVID-19 on the organisation's financial position, as well as the strategic business plan priorities for 2021–2022. Mark Parkinson, Chair of Edsential Board and Ian McGrady, Managing Director were in attendance to answer questions from Members. Members and Officers raised appropriate questions relating to the status of the company in terms of profit, as well as the liability for the loss of income during Covid-19 and the anticipated recovery. The status of the company as a CIC was outlined, as well as the use of any profits where it reported that the £100k of profits were reinvested into 12 Wirral schools through grant funding.
- We also noted that the Shareholder Board meeting (28 October 2021) acknowledged that ECIC had experienced significant trading and financial difficulties primarily as a consequence of the COVID-19 pandemic. The Company had been in negotiations with Officers of both the Council and Cheshire West and Chester Council with a view to obtaining additional financial support. We were satisfied that members asked pertinent questions including details of the loan such as whether the exact amount could be reduced if the Council felt that ECIC did not need the full amount, and whether they would have the facility to repay the loan early if they found that they could. The Shareholder Board agreed to authorise the Director of Resources in consultation with the Director of Law and Governance to approve financial support to be provided to the company over the forthcoming financial year, in the form of Covid related funding support grant of £643,000 and an interest-bearing loan of £857,000.
- From our discussions with Council Officers, the Head of Legal Services and the Director of Law and Governance, we understand that the Shareholder Board and the Children, Young People and Education Committee provide periodic review of the financial and operational performance of the ECIC and formally vote on key business decisions like director appointments, letters of financial support and approval of remuneration of non-executive and executive directors. This and the previous examples provide some evidence of effective challenge by the governance mechanism in relation to reported business performance.
- From our review of the Shareholder Board and the Children, Young People and Education Committee, we noted that there is no formal review of management accounts but there is evidence of financial review (including savings targets).

Financial performance

- We understand that as well as the equity investment in ECIC, the Council also guarantees the Merseyside Pension Fund element of ECICs' pension liability, which equates to £1.6 million.
- ECIC's balance sheet is wholly supported by the Council and Cheshire West and Chester Council. In the year to 31 May 2021 it made a net loss of £2.132 million on turnover of £10.144 million, contributing to net liabilities of -£11.3 million.
- We understand that the business made a small profit in the years prior to the pandemic, and Officers expect the business to return to profitability in the next reporting year.
- We are concerned that grants to schools have been made by ECIC at a point when it appears to have been technically insolvent and wholly dependent on funding from the teo councils.

3.1 Operational Governance – Edsential Community Interest Company (Cont.)

Conclusions

- ECIC's balance sheet is wholly supported by the two councils and in the year to 31 May 2021 it made a net loss of £2.132 million on turnover of £10.144 million, contributing to net liabilities of -£11.3 million. We understand that as well as the equity investment in ECIC, the Council also guarantees the Merseyside Pension Fund element of ECICs' pension liability, which equates to £1.6 million
- ECIC was significantly impact by Covid-19 with a number of services being closed. This impacted on both **revenue and profitability. We understand that the business made a small profit in the years prior to the pandemic, and Officers expect the business to return to profitability in the next reporting year.**
- The Council appear to have a strong grasp of the companies financial and operational performance, with both the Shareholder Board and the Children, Young People and Education Committee providing periodic review. Given the issues that ECIC has faced, the Council should continue with the increased scrutiny until future results demonstrate a more stable financial position.
- We note that the company distributed profits as grants. Until ECIC return to profitability all grants should have Council s151 Officer approval or via an equivalent delegation of authority mechanism.
- There is a difference between the actual make-up of the Board of Directors and that prescribed in the Shareholder Agreement. Although this does not pose any legal issues it is not considered to be in the interests of good corporate governance. We note that this has been flagged to the Shareholder Board as part of a meeting that occurred on 28th October 2021. The Council should look to address this matter as a priority.
- We can see clear evidence of oversight of the company through the Shareholder Board and the Children, Young People and Education Committee.
- We consider that the Board should consist of executives and non-executives who are experienced in business. Representation from service users is helpful but this should be balanced with business experience. We note the presence of a Non-Executive Director with experience working as a chartered accountant in schools, who may offer helpful independent commercial challenge as ECIC seeks a return to profitability.
- Given the financial position of the Council it will need to monitor the finances of Edsential closely and determine whether it continues to support the company.

3.1 Operational Governance – Edsential Community Interest Company (Cont.)

Director	Post held	Experience
Mark Parkinson	Chair - non executive director	• Previously the Director of Education at Cheshire West and Chester Borough Council
James Backhouse	WBC - non executive director	• Assistant Director of Education at Wirral Metropolitan Borough Council
Helen Brackenbury	CW&C - non executive director	• Director of Child Services at Cheshire West and Chester Borough Council
Ian McGrady	Managing Director	• Internationally experienced managing director whose experience spans the consumer goods and social enterprise sectors • Has held key commercial roles, including: sales director for a unit of Mars UK and commercial strategy partner for a global consultancy
Alison Ashley	Headteacher -non executive director	• Head Teacher Hebden Green Special School • Worked in the SEND sector for 21 years
Elaine McGunigall	Headteacher -non executive director	• Headteacher at Our Lady and St Edward's Catholic Primary School in Birkenhead
Nicola Wetton	Headteacher -non executive director	• Headteacher of J H Godwin Primary School in Chester
Adrian Whiteley	Headteacher -non executive director	• Headteacher of The Mosslands School in Wirral
Jane Owens MBE	Governor - non executive director	• Chair of Board of The Mosslands School • awarded an MBE in 2016 for services to education in Wirral
Sharon Senn	Finance – non executive director	• Chartered accountant at KPMG • Previously worked in finance within two schools

Evidence base

In this section we have used the following evidence base:

- List of Directors Edsential Community Interest Company (Companies House)
- Personal research online

3.2 Operational Governance – Wirral Evolutions Limited

Overview of the company

- Wirral Evolutions Limited (WEL) is a private company limited by shares, Registered in England and Wales (no. 09589953).
- It was incorporated on 14 May 2015 and is wholly owned by Wirral County Council. It is trading as a Local Authority Trading Company (LATCo).
- The company provides personalised Day Services and experiences for adults with a wide range of learning and physical disabilities.
- As a local authority trading company, WEL operates within the parameters of Teckal. In order to remain 'Teckal compliant there are criteria's in place, firstly its 'control' and secondly its 'function' as illustrated below:
  - The 'Control Test' - The local authority must control all the shares in WEL and must exercise its powers within an effective governance structure underpinned by its articles of associations;
  - The 'Functional Test' – At least 80% of its turnover must be for its public sector owners – Wirral Council. Although, changes to the EU procurement regulations in 2015 means that 20% of trading can be outside the 'Teckal' contract which is calculated based on three years turnover and in accordance with tendering and procurement legislation;
  - The Council passes the 'Control Test' as it controls all the shares in WEL and exercises its powers within a governance structure underpinned by its articles of associations. In our discussions with Officers (including the Head of Legal Services and Head of Governance, we understand that nearly all WEL's income derives from the services provided to the Council. This suggests that the Council also passes the 'Functional Test', which requires that at least 80% of its turnover must from be from the company's public sector owners, i.e. Wirral Council.
- WEL currently has no formal working capital loan facility, however, it does have a letter of comfort, provided by Wirral Council Finance Director dated 19 May 2019, on behalf of Wirral Council Shareholder Board. It was agreed WEL would pay for the buy back of services in arrears to alleviate the cash flow issues through the year. WEL did explore access to a working capital loan facility in 2021/22 but did not take it up.

Composition of the board

- The Board meets formally on a minimum of ten occasions annually and currently comprises
  - Four directors, of which, three are Non-Executive roles
  - One Executive role (Managing Director)
- There is no Officer or Member involvement on the Board of Directors at the request of the company. We note that previously the Leader of the Council sat on the Board. The Council provides oversight to this company through the Shareholder Board and Adult Social Care and Public Health Committee.

Evidence base

In this section we have used the following evidence base:

- 1.3.2 Wirral Evolutions Ltd- Articles of Incorporation
- 1.6.1 Wirral Evolutions- Draft Business Plan
- 1.8.1 Wirral Evolutions Ltd- Annual Report
- 2.2.1 Wirral Evolutions Accounts 2021
- 3.2.1 Printed minutes 18012021 1800 Adult Social Care and Public Health Committee
- 3.2.2 Printed minutes 02032021 1800 Adult Social Care and Public Health Committee
- 3.2.3 Printed minutes 07062021 1800 Adult Social Care and Public Health Committee
- 3.2.4 Printed minutes 16112021 1800 Adult Social Care and Public Health Committee
- 3.2.5 Printed minutes 23092021 1800 Adult Social Care and Public Health Committee
- 4.0 Meeting notes
- 5.0 Other reports
- 6.2.1 22.0 - Directors questions - Wirral Evolutions
- 6.2.2 Day Services WE Report John Campbell ARCC 180821
- 6.2.3 Review Of Day Services Contract For People With A Learning Disability Delivered By Wirral Evolutions
- 6.2.4 Review of Day Services WE 230921
- 6.2.5 WE Shareholder_agreement`
- 6.2.6 Wirral Evolutions Workshop 211203 PMc
- 6.2.7 Wirral Evolutions workshop agenda 3 December
- 6.2.8 Wirral Evolutions

3.2 Operational Governance – Wirral Evolutions Limited (Cont.)

Council monitoring of business performance 2020/21 and 2021/22

- The Annual Business Plan is reviewed by the WEL Board of Directors on a quarterly basis as part of the company's performance reporting schedule. Any significant changes that constitutes a reserved matter are reported to the Shareholder Board/Officers in accordance with the Shareholder Agreement
- The Annual Business Plan will be submitted to the Shareholder Board for approval no later than 28th May in any year. We noted that in the Shareholder Board meeting on 1 September 2021, WEL presented its Annual Business Plan to the shareholders and following review, this was approved by the Board.
- Company performance is reported to the Board and the Shareholder on a quarterly basis in accordance with this Governance Framework, Annual Audit Plan and Shareholder Planning Cycle
- The company produces an Annual Report to the Shareholder Board by 1st June of each Financial Year. The Annual Report is published in July of each year, demonstrating WEL, progress, impact and achievements. We noted that in the Shareholder Board meeting on 1 September 2021, Wirral Evolutions Ltd presented its Annual Report to the shareholders. The report set out the performance of WEL assessed against its Annual Business Plan for the previous financial year. The report was approved by the Board.
- Per the Shareholder Agreement, the Company shall provide to the Shareholder Board a set of annual accounts of the Company, prepared in accordance with all statutory requirements and good accounting practice, within 9 months of the end of the year to which the annual accounts relate. Also, a set of quarterly management accounts of the Company, within 40 Business Days of the end of each quarter to which the management accounts relate, which shall include a profit and loss account, a balance sheet and a cash flow statement. We noted that in regular Adult Social Care and Public Health Committee meetings, the revenue budget for the Council's Adult Social Care directorate was monitored; this included a review of the financial position of WEL.
- Per the Shareholder Agreement, the Company shall provide an annual summary and review of health and safety incidents and data protection breaches together with more specific information as may reasonably be required from time to time by the Shareholder Board. We did not note any evidence relating to the review of health and safety and data protection breaches at the Shareholder Board Level or the Adult Social Care and Public Health Committee.
- In the Adult Social Care and Public Health Committee meetings held between 18 Jan 2021 and 16 November 2021, we noted appropriate scrutiny provided by the committee members in relation to the contractual services provided by Wirral Evolutions Ltd to the Council. In the May 2021 meeting, it was noted that the costs associated with day services for 2020/21 had increased beyond the contract value leading to a review of the service as requested by Adult Care and Health Overview and Scrutiny Committee in May 2022, which included the potential for bringing services back 'in-house' to address the financial challenges currently facing the service.
- Wirral Evolutions had discussed a range of options to modernise the current operating model, and the recommendation was that they would present these proposals to a future meeting of the Adult Social Care and Health Committee. The committee acknowledged that the quality of service was high and requested that Wirral Evolutions be invited to the Adult Social Care and Health Committee to present the company's proposals to modernise the current operating model and reduce the operating costs to ensure delivery of the service within the existing contract at the current contract price of £5.015m for 2021 to 2022.

3.2 Operational Governance – Wirral Evolutions Limited (Cont.)

Council monitoring of business performance 2020/21 and 2021/22

- In the **June 2021** meeting, Jean Stephens, Managing Director of Wirral Evolutions presented the report which provided the Committee with the first quarterly report detailing the progress against Wirral Evolution's saving proposals and plans to modernise the Company's operating model to ensure the delivery of service was within the contract value of £5.015m for 2021/22.
- The Committee made clear that it wished to see how the consolidation, economies of scale and community hubs will be of genuine benefit to the users of the services, as well as how staff skills will be retained, and how service users view the future prospects. Wirral Evolutions was also requested to extend the consultation to wider members of the community and provide further detail on the community groups it was seeking to make links with, and their response.
- From July to August 2021, the Council commissioned an independent expert to meet with Wirral Evolutions to conduct a detailed assessment and review of the cohesiveness and deliverability of Wirral Evolutions' modernisation plans. The outcome of this external review was that there is an absence of detail in Wirral Evolutions documentation to fully assess the deliverability of the proposed service redesign. (John Campbell report entitled "Wirral Evolution's Plan for Service Modernisation" dated 18 August 2021).
- In the **September 2021** meeting, the members agreed to support the Shareholder Board's decision to hold a workshop with Wirral Evolutions to address governance issues be supported. In the **November 2021** meeting, it was reported that Wirral Evolutions had agreed budget savings of £0.5m for the 2021/22 financial year and had achieved savings of £0.3m to date. The forecast is that the company will achieve the £0.5m targeted savings.

On 23 September 2021 the Director of Adult Social Care, Graham Hodkinson, produced a report concerning the contract with Wirral Evolutions Limited entitled "Review of day services contract for people with a learning disability delivered by Wirral Evolutions Limited". In this it was proposed that the Council allows Wirral Evolutions more time to modernise the current operating model and reduce the operating costs. We can see evidence of Member scrutiny through the questioning of aspects of the review and potential options. Scrutiny should remain in place until there is clear evidence of the right balance between a quality service at an affordable cost, reflective of the savings plan entered into.

Council monitoring of business performance 2020/21 and 2021/22 (Cont.)

- We noted that requests for financial support and changes to remuneration packages were sufficiently scrutinised by the designated governance mechanism, the Shareholder Board. In the September Shareholder Board meeting, Wirral Evolutions Limited applied for transition funding of £230,707 across financial years 2021/22 and 2022/23. The funding was required to cover the costs relating to cost of transitional pay during 2022/23, change in rent costs and forecasted loss of income due to covid-19. Members expressed their disappointment that the savings that were set out for Wirral Evolutions were not achieved, and that there was now an additional request of the Council to help them achieve those savings. Despite this, the Board approved the funding as it will ultimately support the ability of Wirral Evolutions limited to work within the current contract price.
- Partially as a result of this funding request, the Shareholder Board denied an additional request to increase the remuneration of a non-executive director and increase the remuneration and number of contracted remunerated days of the Non-Executive Chair of the Board. The scrutiny of these key business decisions supports our view that the both the Shareholder Board and its native, Adult Social Care Committee are functioning effectively.
- Wirral Council conducted a Value for Money Review of the company between November 2021 and January 2022, following a request initiated at the Adults Social Care and Public Health Committee on 23 September 2021. The Value for Money report concluded that while day services are beneficial for people with learning disabilities, the delivery of the contract does not justify the additional costs of running an arms-length company.
- The Council subsequently concluded that Wirral Evolutions does not demonstrate value for money

3.2 Operational Governance – Wirral Evolutions Limited (Cont.)

for the Council and overall a decision has been made to bring the services back in house by September 2022.

Financial performance

- We could not pass comment on the financial performance of WEL as this was not provided by the Council prior to the release of this report. We note nevertheless that the company has net liabilities of £22k with £1.4 million of cash available in its bank account.

Conclusion

- Wirral Evolutions Limited (WEL) is a wholly owned entity incorporated in 2015. It provides adult social care services. It is trading as a Local Authority Trading Company (LATCo) as it predominantly provides its services to the Council. The company has not been successful in winning new clients outside of the Council.
- There are no Officers or Members on the Board of Directors. Operational and financial performance of this entity was undertaken via the Shareholder Board Level or the Adult Social Care and Public Health Committee.
- The company's VfM has been under scrutiny within the Council. It was noted by Members that the costs associated with day services had increased beyond the contract value leading to a review of the service. A review was therefore commissioned on the operational efficiencies surrounding this entity.
- The review concluded that Wirral Evolutions does not demonstrate value for money for the Council and a decision has been made to bring the services back in house by September 2022.
- We consider that this decision is appropriate.

3.2 Operational Governance – Wirral Evolutions Limited (Cont.)

Director	Post held	Experience
Jean Stephens	Managing Director	• Has over 25 years of experience operating as a Chief Executive and at Board level within the Public, Voluntary and Commercial sectors. • Qualified in leadership, management and marketing.
Michael Naden	Chair - non executive director	• Broad range of experience with of roles within banking, Finance, Retail, Utilities and Engineering. • Significant management experience at a senior level. • Non-executive role at the Ministry of Defence.
Pamela Williams	Non executive director	• Has a degree in Economics and is a qualified accountant. • Member of the Chartered Institute of Public Finance and Accountancy. • Over 20 years' experience operating at Board level in a wide range of local authorities, most recently as Executive Director of Finance at Tameside Metropolitan Borough Council. • Holds Non-Executive Director and Audit Committee Chair positions with Mersey Care. NHS Foundation Trust, Countess of Chester NHS Foundation Trust and Muir Group Housing Association.
Lisa Knight	Non executive director	• Has a clinical background in mental health care. • Over 20 years' experience of working with the public and voluntary sector within health and social care. • She is a Senior Lecturer in the School of Leadership & Organisational Development at Liverpool John Moores University. • Non-Executive Director for St Helens & Knowsley NHS Trust.

Evidence base

In this section we have used the following evidence base:

- List of Directors Wirral Evolutions Limited (Companies House)
- Personal research online

3.3 Operational Governance – Wirral Growth Company LLP

Overview of the company

- Wirral Growth Company LLP (WGC) is a Joint Venture with Muse Developments Limited in the form of a Limited Liability Partnership. It was incorporated on 26 June 2018 and is equally owned by Wirral Borough Council and Muse Developments Limited. Muse Developments Limited is declared to be 100% owned by Morgan Sindall Group PLC, which is a listed public company.
- The Limited Liability Partnership (LLP) was preferred over a limited company vehicle due to the preferred tax position that an LLP can achieve when a partner is a local authority. The primary purpose of the joint venture is the regeneration of the Birkenhead area and it is anticipated that some developments will be loss making whilst other developments will derive significant profits. It is expected that all profits are re-invested and will offset losses across the portfolio. Within the Joint Venture LLP, the Council's role is to provide interest bearing loans alongside Muse funds, which can be leveraged for financing. Muse's parent company, the Morgan Sindall Group, also provide additional expertise on the financing of the joint venture.

  As agreed in the Partnership Agreement, the Objectives of the WGC are:

  - to bring forward, in a timely manner and responding to market demand, the development of the indicative sites and potentially to undertake other site development;
  - to bring forward, responding to market demand, the development of sites which are considered more difficult to develop at a comparable rate with sites which are considered easier to develop;
  - to make strategic and opportunistic acquisitions, in particular interventions that support the implementation of the Council's Growth Plan or the development of an improved retail, commercial and public sector offer in Birkenhead and other Wirral town centres;
  - to secure an adequate return to the JV Partners commensurate to their investment and the level of risk in respect of such investment to maximise the profits made by the LLP; and
  - to support the Council in pursuit of its wider objectives by identifying and helping deliver favourable solutions that balance financial, economic and social returns.
- As a partnership, WGC is not bound by the rules pertaining to local authority ownership of a company. Conversely, it does not have the benefit of the financial and legal freedoms of a local authority interest company and must, instead, abide by the full set of limitations imposed by local government law on its powers and functions.

Evidence base

In this section we have used the following evidence base:

- 1.3.3 Wirral Growth Company LLP- Articles of Incorporation
- 1.6.2 Wirral Growth Company
- 2.3.1 Wirral Growth Accounts 2020
- 3.3.1 Printed minutes 26072021 1800 Economy Regeneration Development Committee
- 3.3.2 Printed minutes 26102021 1800 Economy Regeneration Development Committee
- 3.3.3 Public reports pack 26012022 1800 Economy Regeneration Development Committee
- 4.0 Meeting notes
- 5.0 Other reports
- 6.3.1 20.0 - Directors questions - Wirral Growth Company
- 6.3.2 Delivering Wirral's Growth Report Cab 19 June 2017
- 6.3.3 In confidence
- 6.3.4 wbc wgc partnership agreement (002)
- 6.3.5 WGC Recommendations
- 6.3.6 WGC Review 9.7.21
- 6.3.7 WGC Timeline for External Auditor BEST VALUE REVIEW Feb 22

3.3 Operational Governance – Wirral Growth Company LLP (Cont.)

Overview of the company (Cont.)

- We can see evidence that the establishment of the JV partnership was approved by the Council at a Cabinet meeting held on 26 May 2018. We can also see good evidence of both Officer and Member involvement in decision making surrounding WGC including the approval of the business plan on 24 May 2020.

Initial development – Wirral Growth Company Birkenhead Commercial District Office Building project

- The resulting development was to be delivered in two phases and was originally designed to develop approximately 300,000 square feet of prime office space in Birkenhead.
- The Council approved the purchase of additional land in Birkenhead town centre (Milton Pavements) as part of its Strategic Regeneration Framework on 4th November 2019. This land is leased to Canada Life on a 250 year lease and leased back to the Council for a 43-year term to enable the development by WGC. After 35 years of rental, the Council can buy back the interest and buildings for £1 or Canada Life can force the Council to acquire it for £1 (an arrangement known as a "Put and Call" option that allows either party to exit the arrangement cleanly).
- Canada Life have agreed to fund the construction costs of the project, under a forward funding / income strip agreement to WGC of £75.3 million. As the build costs are estimated to be c.£56 million with a profit to WGC of £5.6 million there is c.£11 million of remaining funding [after interest]. It is unclear as to whether the remaining balance of £11m will be taken as 'superprofit' by the Council and its partner or whether it will be used on other residential projects across the region.

  We understand that the delivery of Phase 1 of the development will result in the construction of circa 150,000 sq.ft of Grade 'A' office accommodation in two buildings referred to as A1 and A2 with associated quality public realm. The larger of the two buildings A1 measuring 89,591 sq.ft will be occupied by Council employees while the second building A2 measuring 58,176 sq.ft will be let on the open market to commercial occupiers. Work on site started in October 2021 and is anticipated to be completed in October 2023.

  The Council have guaranteed rent to Canada Life for 35 years. The Council is in discussion with a public sector body, who may become the anchor tenant for building A2.
- We requested details of the proposed accounting treatment for this arrangement, particularly with regard to the substance of the forward funding agreement and lease for building and the distribution of the £11m of remaining funding as 'superprofit'. This has not been provided to us.

Revised agreement

- We note that the Wirral Growth Company partnership has been reviewed and revised arrangements have been put in place for a number of reasons. This was reported to the Policy and Resources Committee in March 2022.
- We note that the company has made a substantial profit but it is unclear whether the profit made is due to over funding and whether it is distributable. The Council consider that the amount above the build and interest costs is not over funding but is part of the forward contract deal and price. The Council is currently seeking legal and financial advice in this area.
- The Council was successful at raising >£100m external funds through the Town Deal Future High Street fund and Levelling Up. At this point the Council engaged Deloitte UK LLP to review the Optimum Delivery Model and commissioned a Local Partnerships report to review the Councils needs in the context of WGC.
- The review established that instead of needing to sell off the land owned in viable parts of the borough to subsidise the development of Birkenhead, the Council could now use grant funding to contribute to the development costs.
- The LLP will continue to deliver the Birkenhead phase 1 offices currently on site with fees and profit sharing as previously agreed. The development surplus at completion (estimated at £11.725m) will then be shared between the Council and Muse. Based on the current programme completion is due to occur in November 2023.

3.3 Operational Governance – Wirral Growth Company LLP (Cont.)

- Officers therefore decided to wind back WGC to deliver only the Phase 1 piece of work. Negotiations with Muse Developments then took place and an agreement was reached, on the split of site profits, the superprofit, and sale proceeds of smaller sites. We have not seen the business case to determine whether this represents Value for Money to the Council, but it has been represented to us verbally as cost neutral and we understand it was approved by the Policy and Resources Committee, although we do not have evidence of such approval.

Composition of the board

- The Board of the WGC is responsible for the management of the LLP accordance with the business plans to be approved by the Council and Muse. The Wirral Growth Company Board comprises of four representatives of the Council (currently 2 officers and 2 members) and four representatives of Muse.
- The Officer representation on the Board is;
  - Assistant Director of Finance;
  - Director of Children's Services.

We understand that the Council is looking at altering this role to change the Director of Children's Services to someone with more experience of real estate and development. A report went into the Policy and Resources Committee in August and following Member discussion it was agreed that the CEO would be given discretion to reappoint the new Officer.

The Member representation on the Board is;

  - Councillor Green (Conservatives)
  - Councillor Robinson (Labour)
- We note that there is only a light presence of Officers and limited input from Non-Executive Directors in a venture with such important ambitions for local regeneration.

Council monitoring of business performance 2022/21 and 2021/22

- The Director of Regeneration, performs the role of the client officer on behalf of the Council. The Economy, Regeneration and Development Committee (ERDC) perform a primary role in monitoring the work carried out by the LLP. Members are consulted through this committee. All appraisals and site development plans (SDP) are scrutinised by the ERDC. Following this, any property acquisitions and disposals with a value exceeding £100,000 have to be considered by the Policy and Resources Committee.
- The Council's monitoring arrangements of the business plan and monthly financial updates are carried out by the Policy and Resources Committee, the parent committee of the Shareholder Board. This reflects the need for an enhanced level of scrutiny for acquisitions and disposals of land and buildings. However, the additional layer of governance appears to add significant time delays to decision making within the joint venture and the Council and Muse (the parent entities) may need to review the LLP's existing governance arrangements in order to expedite decisions.

3.3 Operational Governance – Wirral Growth Company LLP (Cont.)

Council monitoring of business performance 2022/21 and 2021/22 (Cont.)

Conclusions

- Wirral Growth Company was originally set up as a vehicle to unlock the regeneration of Birkenhead through a strategic JV with Muse Developments. The establishment of the vehicle was framed around the commercial benefits that could be unlocked through input from both the Council and Muse.
- We can see clear evidence of Officer and Member involvement, both in the decision making of the running of the entity, as well as the decisions to get a third party review of the Growth Company. We note that WGC has operated without independent non-executives working to ensure that the anticipated regeneration goals are achieved. We have therefore concluded that the governance was not appropriate, although we acknowledge the other oversight mechanisms.
- We note that the Wirral Growth Company partnership has been reviewed and revised arrangements have been put in place for a number of reasons. This was reported to the Policy and Resources Committee in March 2022.
- We note that the company has made a substantial profit but it is unclear whether the profit made is due to over funding and whether it is distributable. The Council consider that the amount above the build and interest costs is not over funding but is part of the forward contract deal and price. The Council is currently seeking legal and financial advice in this area.
- We note that the Wirral Growth Company Birkenhead Commercial District Office Building project effectively received more forward funding than was needed to construct the offices. This funding along with other assets are to be distributed to the Council and its partner. Given that the Council has underwritten the lease on the office block (which enabled the over funding) it is not clear whether it is appropriate for it to recognise any profit from the arrangement. The Council consider that the amount above the build and interest costs is not over funding but is part of the forward contract deal and price. We also note that Advice is being sought on the exact timing of recognition and where in our accounts this is to be shown. We will review this advice when it is made available to us.
- We requested details of the proposed accounting treatment for this arrangement but the Council has yet to prepare an accounting paper.
- The Wirral Growth Company partnership arrangement will complete the Birkenhead Commercial District and Birkenhead market. Other planned projects will now be delivered by the Council due to the receipt of alternative grant funding but also due to high costs of delivery (due to the nature of the sites being redeveloped). We could not reach a conclusion ion the revised arrangements and whether proper scrutiny was given to its value for money because our questions on this topic were not answered within the available timeframe.

3.3 Operational Governance – Wirral Growth Company LLP (Cont.)

Director	Post held	Experience
Muse Developments Limited	Partner	• Muse Developments Limited is declared to be 100% owned by Morgan Sindall Group PLC
Wirral Borough Council	Partner	• Council

Evidence base

In this section we have used the following evidence base:

- List of Directors Wirral Growth Company LLP (Companies House)
- Please see p30 for a list of the Council nominated representatives in the Partnership

3.4 Operational Governance – Dormant companies

Overview of Dormant entities

- There are two more commercial entities related to the Council, both of which are currently Dormant.
- Wirral Holdings Limited (WH) is a private company limited by shares and was incorporated on 4 May 2019. The company is a 100% subsidiary of Wirral Borough Council and there is one director who is an officer of the Council. We understand no meetings held as the company is currently dormant.
- From conversations with Officers, we understand that the company was set up as part of the Wirral Waters property deal for several hundred flats. It will be dormant for a period of 10 years before becoming operational as a landlord run entity for a provisional 50 year period. We have performed no further work on these arrangements.
- Wirral Growth Company Nominee Limited (WGCN) is a private company limited by shares and was incorporated on 14 May 2017 . The company is a 100% subsidiary of Wirral Borough Council and there is one director who is an officer of the Council. We understand no meetings held as the company is currently dormant.

We understand that there is currently no activity within each of the dormant entities and as such there is no formal governance in the form of performance reporting or meetings. From our conversations with Officers, we understand that the company was set up as a name holder to protect the name 'Wirral Growth'.

Evidence base

In this section we have used the following evidence base:

- 1.3.4 Wirral Growth Company Nominee Ltd- Articles of Incorporation
- 1.3.5 Wirral Holdings Ltd- Articles of Incorporation
- 2.4.1 Wirral Holdings Accounts 2021
- 2.5.1 Wirral Growth Nominee Accounts 2021
- 4.0 Meeting notes
- 5.0 Other reports

Section 4: Other investments

4.1 Other Governance – Public Sector Social Impact Fund (PSSIF)

Overview of PSSIF

- The Public Sector Social Impact Fund is an external fund established by Atlanta Wealth in late 2019 in partnership with Warrington Borough Council. Its aims to raise £300m to invest in solar and wind energy projects, social housing, forestry and special needs schools. From discussion with the Council, we understand that the fund currently has five local authority investors, including Wirral. Atlanta are still looking for further investment in the fund, both from Local Authorities and private sector entities.
- The Council have invested £10m into the fund which is a 10 year investment (possibly to extend for 2 years). This is roughly one quarter of the Council's total cash reserves of £40m. The total fund value is currently around £35m, meaning that Wirral represents c.29% of the total fund.
- The fund had an original timeline of two years to find investment opportunities. Progress has been slow in terms of investment with Atlanta being undercut on a number of opportunities. As at the date of this report Atlanta has made no investments and the fund money is held in UK corporate bonds until invested.
- The Council were approached by Atlanta wealth who presented to the Councils CEO, Director of Finance and the Senior Finance Manager. The Council subsequently commissioned a number of due diligence reports from external advisors to review the proposal. Under the delegated authority of S151 officer (Director of Finance) the Council used their Treasury Management Policy to invest in the fund. We were not able to determine how investments made are communicated through Council's governance bodies.

Council monitoring of business performance 2022/21 and 2021/22

- The Council reports the fund based on its fair value in their accounts. The investment into the fund is reported into the Policy and Resources committee as part of the treasury reports.
- We understand that the Council receive a quarterly report back from fund manager. They have not been invited to sit on the fund committee and as such have no input as to the investment decisions of the fund. They also have limited control over how investments are made by the fund manager. It was noted that there is some LA representation from Warrington.
- The Council's Senior Finance Manager will be meeting with the fund manager in the weeks following this report and will report this conversation back to the Policy and Resources committee.
- Divesting from the fund is not possible with the £10m being exposed to upside and downside risk for the full 10 year period.

Conclusion

- The fund had an original timeline of two years to find investment opportunities. Progress has been slow in terms of investment with Atlanta being undercut on a number of opportunities. Covid-19 also impacted on the investment opportunities and ability to undertake necessary due diligence processes on investments. As at the date of this report Atlanta have made no investments and the fund money is held in UK corporate bonds until invested.
- The Council appears to have limited control over how investments are made by the fund manager, which may lead to additional risk to the Council's monies. Discussions with officers indicate that they are satisfied that the fund is run by suitably experienced and qualified fund managers. The fund also has an investment advisory committee made up of 8 members with 2/3 representatives from local government. The Council is not represented on this committee (although it was invited to sit on the committee).
- We note that the Council cannot exit the fund until 2032. Given the Council's uncertain financial position it is not clear that this was an appropriate investment and the Council will need to monitor its success closely.

Evidence base

In this section we have used the following evidence base:

- 4.0 Meeting notes
- 5.0 Other reports
- 6.5.1 PSSIF Slide Member Investment Risk Workshop 220208
- 6.5.2 Treasury Management Strategy 202122
- 6.5.3 Treasury Management Strategy Report 19-20 (Cabinet)

4.2 Operational Governance – North West Mutual Bank

Overview of decision not to invest in a Joint Community Bank

- The Council was previously considering investing in a joint community bank in collaboration with Preston and Liverpool as a mutual.
- 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.
- There were two reports commissioned;
  - "External Assurance Review – Governance Wirral Metropolitan Borough Council" by Ada Burns in September 2021
  - "Local Government Finance Review – Wirral Council" by CIPFA in November 2021

Taken from external Governance Review by Ada Burns we can see recommendations for the Council not to go ahead with the Community Bank. "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."

- There was a Policy and resources Committee meeting on 30 November 2021 to look at the external review. We note that the CIPFA report was an appendix to that meeting. This covered the recommendations in response to the letter from the government minister and emphasised the financial recovery plan the Council is implementing.
- The Council responded to the reports with an action plan, and following a review of these reports the Council decided not to move forward with a joint community bank.
- We also note that there is evidence of the Community Bank being on the capital report which was presented to members at the Policy and Resources Committee. We can see that the Bank has been removed from Capital Report which will be presented back to members on 15 February 2022 where the investment was removed. The investment will not be presented back again.

Conclusion

- We can see clear evidence of appropriate governance surrounding the decision not to invest in the Community Bank, both from Officers and Members within the Council. We can also see evidence that the Council are actively trying to improve the governance of its commercial entities and gain control over their financial plan.
- The Council should continue to focus on its internal capacity, with Officer time being spent on primary matters instead of the projects which may be considered nice to have.

Evidence base

In this section we have used the following evidence base:

- 4.0 Meeting notes
- 5.0 Other reports
- 6.4.1 CAPITAL MONITORING QUARTER 2 202122
- 6.4.2 CAPITAL MONITORING QUARTER 3 202122
- 6.4.3 Ministerial External Assurance Review
- 6.4.4 Printed minutes 30112021 1800 Policy and Resources Committee

4.2 Operational Governance – Wirral Waters

Overview of decision to approve the Full Business Case for Wirral Waters One/Legacy Development

- Wirral Waters One/Legacy Development is a project to build 500 apartments across Wirral Waters to rent out. There is no Council subsidiary involved in the development and the Council's role is one of lessor and lessee.
- The rationale behind the project is to develop brownfield sites to build homes for the Wirral residents, aligned with the governments house-building targets. The developer is Peel Land and Property who have secured forward funding from Pensions Investments Corporation (PIC).
- The head-lease to be granted by Peel Holdings Land and Property (UK) Limited to Peel Legacy (Wirral Waters) Limited is to be assigned for 250 years to PIC. The Council will then take an underlease of the 500 apartments and pay a fixed rent and service charge fee to Peel Legacy for the first 50 years. The agreement gives the Council the option to hold 350 units for the remainder of the head lease after 50 years.
- The Council will grant a sub-underlease to a Peel Management Company who will manage the apartments for years 0-10 and take on the Council's rental obligations. A Peel company of substance will provide a guarantee of the Company's rent payments to the Council. From Years 11-50 the commercial risks will be transferred to the Council with the Council's Management Company being responsible for letting out the properties, managing the apartments and for securing the rental payments for the Council. The commercial risk the Council will be exposed to during years 11-50 will be capped at £2,556,000 per annum, which represents a worst-case scenario of all apartments being left vacant ("void risk").
- We note that there is no service charge amount defined in the agreement, and this may represent an additional cost to the Council covering the activities of being a managing agent, currently undertaken by Peel Management Company.
- There is evidence of Member engagement in seeking approval of the Business Case. It is important to note that the decision to approve the business case was performed prior to the changes in the decision-making process and such there are no committee approval steps involved in this process. Members were engaged on the following dates:
  - 26 February 2018. Cabinet considered and approved a proposal to progress the development of the Wirral Waters One project.
  - 1 October 2018. Business Case and Report issued to the Cabinet for premeeting reading.
  - 10 October 2018. Business Case approved.
  - 2 August 2019. Conditional Lease Agreement approved.
  - 20 January 2022. Main contractor approved.
- The Members provided challenge in the decision, examining multiple scenarios and the commerciality of each to ensure viability. The report which described the opportunities, risks of the project and the implications for the council, was issued in a timely manner to allow for the Members to make an informed decision.

Evidence base

In this section we have used the following evidence base:

- 6.6.1 Wirral Waters One Cabinet Report
- 6.6.2 Wirral Waters-Legacy-Timeline
- 6.6.3 Wirral Waters One - Members Questions
- 6.6.4 Exempt Appendix 2 Agreement for Lease
- 6.6.5 Wirral Waters One - Legacy Project Cabinet Report Final
- 6.6.6 Decision - Wirral Waters One, Legacy Project _ Wirral Council

4.2 Operational Governance – Wirral Waters

Accounting arrangements

The accounting arrangements for the investment, leases and guarantee were not agreed prior to entering into the agreement. The Council should resolve this matter as soon as practicable. From our initial assessment:

- The Council will need to consider the substance of the lease and whether SIC27 Evaluating the Substance of Transactions in the Legal Form of a Lease applies
- we would expect the council to assess the risk of the guaranteed being activated on an annual basis and determine whether a charge should be made to the general fund.

Conclusion

- There was scrutiny in making the decision to approve the Full Business Case.
- The accounting for the arrangement should be confirmed to ensure that arrangement does not create assets or liabilities for the Council.
- The potential liability to the Council if the project is unsuccessful is c£100m. Due to the material risk to the Council from years 11-50 we recommend that the project is closely monitored to ensure the development remains attractive to prospective tenants at least up until the point of handover.

Evidence base

In this section we have used the following evidence base:

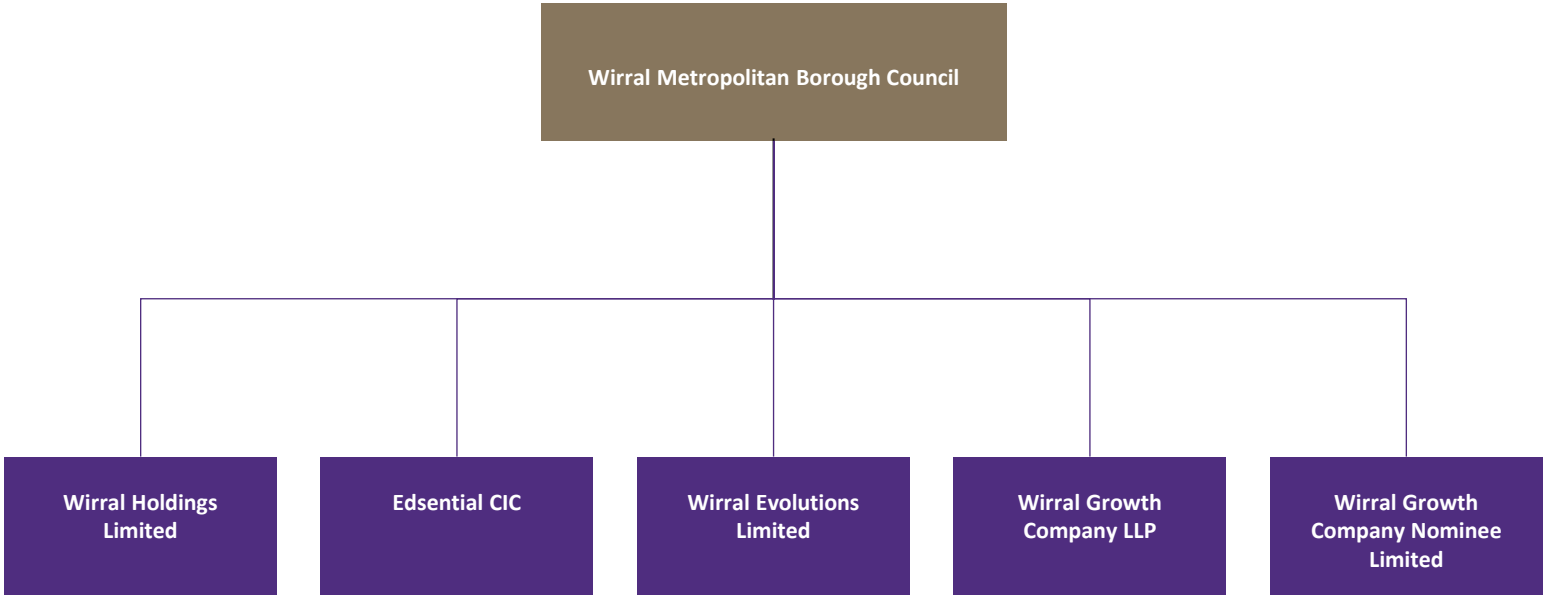
- 6.6.1 Wirral Waters One Cabinet Report
- 6.6.2 Wirral Waters-Legacy-Timeline
- 6.6.3 Wirral Waters One - Members Questions
- 6.6.4 Exempt Appendix 2 Agreement for Lease
- 6.6.5 Wirral Waters One - Legacy Project Cabinet Report Final
- 6.6.6 Decision - Wirral Waters One, Legacy Project _ Wirral Council

Section 5: Appendices

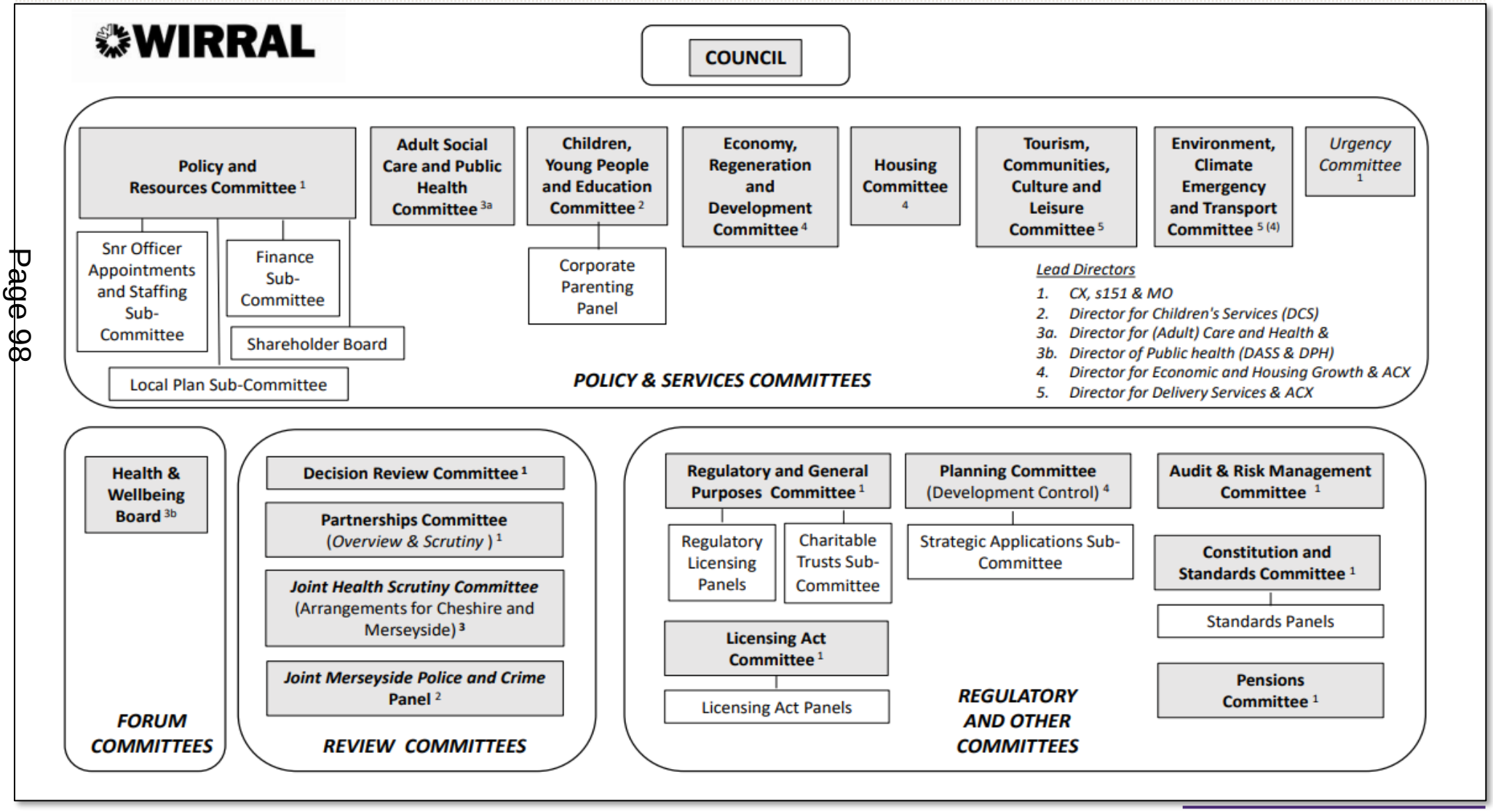
Appendix A - Glossary of terms

General terms	
Chartered Institute of Public Finance and Accountancy	CIPFA
Department for Levelling Up, Housing and Communities	DLUHC
Edsential Community Interest Company	Edsential, or; ECIC
GBP	British Pound Sterling
LLP	Limited Liability Partnership
Local Authority Trading Company	LATCo
Members	Elected members of the Council
Muse Developments Limited	Muse
Officers	Employees of the Council
Public Sector Social Impact Fund	PSSIF
Wirral Evolutions Limited	WEL
Wirral Growth Company LLP	Wirral Growth, WGC or; WGC
Wirral Growth Company Nominee Limited	WGCNL
Wirral Holdings Limited	WHL
Wirral Metropolitan Borough Council	the Council, WBC, or; Wirral

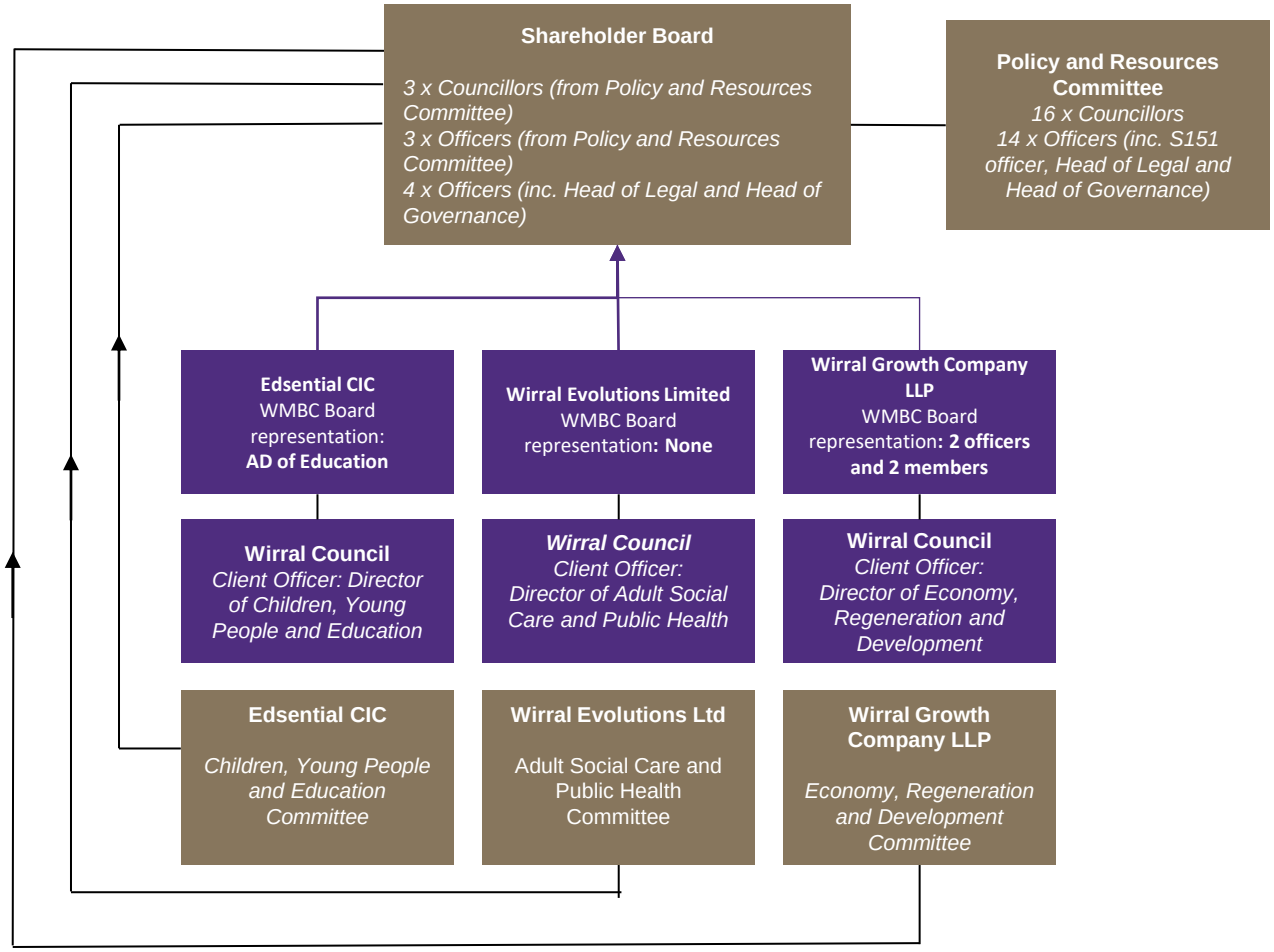
Appendix B – Current legal structure subsidiary companies



Appendix C – Wirral Council committees



Appendix D – Current Governance Structure



Appendix E – Financial Context

£ '000	Edsential Community Interest Company (ECIC)	Wirral Evolutions Limited (WEL)	Wirral Growth Company LLP (WGC)
Principal activities	Edsential provides services to the Education sector, supporting schools in four core areas; Health and Wellbeing, Leadership & Management, Teaching & Learning, and Aspiration &	The company provides personalised Day Services and experiences for adults with a wide range of learning and physical disabilities. It operates as Teckel company, with 95% of its services provided to the Council.	The company was set up to deliver the long-term vision for regeneration, which benefits communities across the borough.
Year End	31 May 2021	31 May 2021	31 December 2020
Turnover	10,144	N/A	Nil
Gross Profit	(2,410)	N/A	Nil
Net profit/(loss) (after Tax)	(2,132)	N/A – Movement in reserves is £130k (assuming that's just profit)	(65)
Total comp. income for the year	(7,407) (due to actuarial loss on defined benefit schemes)	N/A	(122)
Cash at bank	1,626	1,424	84
Total assets (inc. Cash)	4,707	1,676	3,366
Current liabilities	(4,110)	(1,697)	(621)
Net current assets/(liabilities)	275	(22)	2,745
Non current liabilities (inc. Pension)	(11,904)	Nil	Nil
Net Assets/ (Liabilities)	(11,337)	(22)	2,745
Notes	Negative balance sheet. Company was materially impacted by Covid-19 with residential service being closed Shareholders agreed to support the company for at least 12 months from the 16/12/2021	Negative balance sheet. Strong cash balance may offset potential losses	Positive balance sheet. Large stocks of development work in progress and a small cash balance. Not currently revenue generating

From Statement of Accounts, for latest available year end. Figures are in £'000s.

Appendix E – Financial Context (Cont.)

£ '000	Wirral Holdings Limited	Wirral Growth Company Nominee Limited
Principal activities	Wirral Holdings was set up as part of a property deal for several hundred flats funded by the pension fund. It will be dormant for a period of 10 years before becoming operational as a landlord run entity for a provisional 50 year period.	The company was set up as a name holder to protect the name 'Wirral Growth'. This entity is Dormant
Year End	31 May 2021	31 May 2021
Turnover	N/A	N/A
Gross Profit	N/A	N/A
Net profit/(loss) (after Tax)	N/A	N/A
Total comp. income for the year	N/A	N/A
Cash at bank	N/A	N/A
Total assets (inc. Cash)	N/A	N/A
Current liabilities	N/A	N/A
Net current assets/(liabilities)	N/A	N/A
Non current liabilities (inc. Pension)	N/A	N/A
Net Assets/ (Liabilities)	N/A	N/A
Notes	This entity is Dormant	This entity is Dormant

From Statement of Accounts, for latest available year end. Figures are in £'000s.

Appendix F – Source information

- 1.0 Information received
  - 1.1 Committee structure
    - 1.1.1 Committee System Structure V9
    - 1.1.2 Company information matrix for auditors (003) Draft
  - 1.2 Wirral Accounts
    - 1.2.1 Wirral Council Draft Statement of Accounts 2020-21 (1)
    - 1.2.2 Group Company Summary Accounts 2020-21
  - 1.3 Articles of association
    - 1.3.1 Edsential CIC- Articles of Incorporation
    - 1.3.2 Wirral Evolutions Ltd- Articles of Incorporation
    - 1.3.3 Wirral Growth Company LLP- Articles of Incorporation
    - 1.3.4 Wirral Growth Company Nominee Ltd- Articles of Incorporation
    - 1.3.5 Wirral Holdings Ltd- Articles of Incorporation
  - 1.4 Shareholder Agreements
    - 1.4.1 Edsential CIC- Shareholder Agreement
  - 1.5 Wirral Strategy
    - 1.5.1 Wirral Council Commercial Strategy
    - 1.5.2 Wirral Investment Strategy - May 2015
  - 1.6 Business Plans
    - 1.6.1 Wirral Evolutions- Draft Business Plan
    - 1.6.2 Wirral Growth Company
  - 1.7 Risk Management
    - 1.7.1 Corporate Risk Management Update
    - 1.7.2 Public reports pack (Risk Register in Appendix 1)
  - 1.8 Accounts
    - 1.8.1 Wirral Evolutions Ltd- Annual Report
    - 1.8.2 Wirral Evolutions Ltd- Summary of financial statement (page 85)
  - 1.9 Existing Board
    - 1.9.1 Wirral Evolutions Ltd- Annual Report
    - 1.9.2 Wirral Evolutions Ltd- Summary of financial statement (page 85)
- 2.0 Companies House Documents
  - 2.1 Edsential
    - 2.1.1 Edsential CIC Accounts 2021
  - 2.2 Wirral Evolutions
    - 2.2.1 Wirral Evolutions Accounts 2021
  - 2.3 Wirral Growth
    - 2.3.1 Wirral Growth Accounts 2020
  - 2.4 Wirral Holdings
    - 2.4.1 Wirral Holdings Accounts 2021
  - 2.5 Wirral Growth Nominee
    - 2.5.1 Wirral Growth Nominee Accounts 2021
- 3.0 Online resources
  - 3.1 Meeting minutes - Edsential
    - 3.1.1 Printed minutes 13092021 1800 Children Young People Education Committee
  - 3.2 Meeting minutes - Wirral Evolutions
    - 3.2.1 Printed minutes 18012021 1800 Adult Social Care and Public Health Committee
    - 3.2.2 Printed minutes 02032021 1800 Adult Social Care and Public Health Committee
    - 3.2.3 Printed minutes 07062021 1800 Adult Social Care and Public Health Committee
    - 3.2.4 Printed minutes 16112021 1800 Adult Social Care and Public Health Committee
    - 3.2.5 Printed minutes 23092021 1800 Adult Social Care and Public Health Committee
  - 3.3 Meeting minutes - Wirral Growth
    - 3.3.1 Printed minutes 26072021 1800 Economy Regeneration Development Committee
    - 3.3.2 Printed minutes 26102021 1800 Economy Regeneration Development Committee
    - 3.3.3 Public reports pack 26012022 1800 Economy Regeneration Development Committee
  - 3.4 Meeting minutes - Shareholder Board
    - 3.4.1 Printed minutes 01072021 1500 Shareholder Board
    - 3.4.2 Printed minutes 01092021 0930 Shareholder Board
    - 3.4.3 Printed minutes 28102021 1000 Shareholder Board
- 4.0 Meeting notes
  - 4.1 David Shaw notes
    - 4.1.1 Alan Evans (01.02.2022)
    - 4.1.2 PSSIF and Bank
    - 4.1.3 Wirral meeting 14.12.2021
  - 4.2 Robert Shaw notes
    - 4.2.1 Wirral Council 11.10.2021
    - 4.2.2 Wirral Council 24.11.2021
    - 4.2.3 Wirral Council 14.12.2021
    - 4.2.4 Wirral Council 10.01.2022
    - 4.2.5 Wirral Council 01.02.2022
    - 4.2.6 Wirral Council 07.02.2022

Appendix F – Source information (Cont.)

5.0 Other reports		
		5.1 Local_Partnerships_Local-authority_company_review_guidance_v1
		5.0.2 CIPFA_Report_Wirral
		5.0.3 Governance_review_Wirral_Metropolitan_Borough_Council
		5.0.4 Struggling council drops proposal to create community bank _ Public Finance
6.0 Information received by Email		
		Directors questions - Peter Molyneux Input
	6.1 Edsential	
		6.1.1 21.0 - Directors questions - Edsential (002)
		6.1.2 Referral from Shareholder Board - Edsential Request for Funding
		6.1.3 School Traded Services Separate Legal Entity
		6.1.4 Schools Traded Services Joint Venture Known as Edsential
	6.2 Wirral Evolutions	
		6.2.1 22.0 - Directors questions - Wirral Evolutions
		6.2.1 22.0 - Directors questions - Wirral Evolutions
		6.2.3 REVIEW OF DAY SERVICES CONTRACT FOR PEOPLE WITH A LEARNING DISABILITY DELIVERED BY WIRRAL EVOLUTIONS
		6.2.4 Review of Day Services WE 230921
		6.2.5 WE SHAREHOLDER_AGREEMENT`
		6.2.6 Wirral Evolutions Workshop 211203 PMc
		6.2.7 Wirral Evolutions workshop agenda 3 December
		6.2.8 WIRRAL EVOLUTIONS
	6.3 Wirral Growth	
		6.3.1 20.0 - Directors questions - Wirral Growth Company
		6.3.2 Delivering Wirrals Growth Report Cab 19 June 2017
		6.3.3 In confidence
		6.3.4 wbc wgc partnership agreement (002)
		6.3.5 WGC Recommendations
		6.3.6 WGC Review 9.7.21
		6.3.7 WGC Timeline for External Auditor BEST VALUE REVIEW Feb 22
	6.4 Bank	
		6.4.1 CAPITAL MONITORING QUARTER 2 202122
		6.4.2 CAPITAL MONITORING QUARTER 3 202122
		6.4.3 Ministerial External Assurance Review
		6.4.4 Printed minutes 30112021 1800 Policy and Resources Committee
	6.5 PSSIF	
		6.5.1 PSSIF Slide Member fnvestment Risk Workshop 220208
		6.5.2 Treasury Management Strategy 202122
		6.5.3 Treasury Management Strategy Report 19-20 (Cabinet)
	6.6 Wirral Waters	
		6.6.1 Wirral Waters One Cabinet Report
		6.6.2 Wirral Waters-Legacy-Timeline
		6.6.3 Wirral Waters One - Members Questions
		6.6.4 Exempt Appendix 2 Agreement for Lease
		6.6.5 Wirral Waters One - Legacy Project Cabinet Report Final
		6.6.6 Decision - Wirral Waters One, Legacy Project _ Wirral Council

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Waste VFM Report on Merseyside Councils

Wirral Council Audit - 2020-21

June 2022

Executive Summary

Across the four Merseyside councils we audit, the average recycling rate is 13.53% below the national average (in 2020-21 FY) of 43.1%. Significant improvements are required to ensure a trajectory that can match incoming legislation, which will mandate a target to recycle 65% of municipal waste by 2035.

As seen across the country, the Covid pandemic has led to increased waste volumes which has inevitably led to increased costs across all Merseyside councils for the provision of waste services. Costs are likely to continue to increase in the future as both the regulatory environment tightens requirements and broader inflationary pressures impact.

Tackling this dual challenge will require effective partnership working between collection authorities and the disposal authority. Yet our review identified weaknesses with the partnership governance arrangements that were in place during 2020-21. It is clear that some issues have persisted for a significant period of time, given that a Local Partnerships report identified similar issues in 2016. However, since the year ended, there have been a number of positive developments. A new Terms of Reference for a Liverpool City Region Strategic Waste Management Partnership was agreed in June 2021 and a revision to the Terms of Reference in January 2022 formally introduced Mersey Waste Disposal Authority into the strategic partnership – this is a welcome initiative and will help to address a number of the reporting and governance concerns which we established during the fieldwork for this assignment.

We note that, driven by the expectation of greater regulation and the wider move to Net Zero commitments by 2050, coordination has recently increased across key organisations in the region. The awareness of challenges pertaining to governance of the levy mechanism are now widely accepted. The challenge is to utilise improvements in coordination to drive through the necessary changes in a timely manner.

Taking into account the recent developments, we have identified three recommendations that will help to further improve the degree of coordination and quality of waste management services across the region. Realising these actions would deliver a fit for purpose governance model which can aide the clear communication to political leadership of the long term benefits to the citizens of the region of these changes.

Detailed findings

Local Partnerships' Strategic Review of Waste Management (2016)

In 2016, Local Partnerships[2] were commissioned to perform a Strategic Review of Waste Management across the Liverpool City Region. Key findings of this report were that:

- MWDA run an efficient waste disposal service (limited savings potential)
- Significant economies could be gained from 'joining up' the entire waste management system

In particular, there was a recommendation to consider the formation of a **Joint Waste Authority**, which would become part of the Liverpool City Region Combined Authority using a governance model similar to that already in place for Mersey Travel. Implementation of common collection practices and policies is noted at the first step for future innovation, including asset sharing and optimisation of vehicle rounds.

We note that the Liverpool City Region Strategic Waste Management Partnership (see later) Terms of Reference contain a commitment to review the recommendations contained in this report.

The Merseyside Councils and MWDA should work closely to review the recommendations of the Local Partnerships' Strategic Review of Waste Management (2016).

Recycling Rates across the Region

The table opposite describes the recycling rates across the Liverpool City Region, taken from *WasteDataFlow*.

It can be seen that across the four councils in scope, the average recycling rate is **13.53% below the national average (in 2020-21 FY).**

We understand that the MWDA runs a region-wide campaign 'Recycle-Right' to drive recycling, which includes education officers, community funds, and behavioural change campaigns).

[2] Local Partnerships LLP is a joint venture between HM Treasury, the Local Government Association and Welsh Government focused on supporting efficiency at the council and combined authority level.

Districts / recycling %	17-18	18-19	19-20	20-21
Sefton	29.00%	35.00%	33.70%	34.80%
Knowsley	24.60%	30.20%	30.70%	28.70%
Wirral	29.70%	32.50%	33.30%	31.90%
Liverpool	18.80%	23.60%	23.60%	23.50%
St Helens	30.70%	35.40%	37.40%	31.40%
Halton	43.50%	32.50%	37.50%	31.50%
Merseyside average	26.60%	31.30%	31.80%	30.10%
Councils in scope average	30.68%	31.00%	32.95%	29.58%
National average	37.50%	42.80%	43.50%	43.10%
Merseyside vs National difference	-10.90%	-11.50%	-11.70%	-13.00%
Councils in scope vs national difference	-6.83%	11.80%	-10.55%	-13.53%

Historically there has been an EU target for the UK to recycle at least 50% of household waste by 2020. More recently, The government's Circular Economy Package (July 2020) includes a target to recycle 65% of municipal waste by 2035. The legalisation to implement this has not been released by Defra.

In addition to the clear benefits of increasing recycling rates, an increase in recycling rates could reduce load on the Energy from Waste faciality, permitting the contractor to sell additional capacity which would in turn permit the councils to benefit, via a gain share mechanism, in the increased revenue flowing to the MRWA.

The Councils should consider its recycling rates in line with the national average and in the context of incoming national targets (65% by 2035). They should put in place plans for improving efficiency and effectiveness in this area, working with the MWDA.

Detailed findings

The Merseyside Waste Disposal Authority (MWDA) is responsible for waste disposal of waste collected by the five unitary authorities within the Ceremonial County of Merseyside:

- 1) Knowsley Metropolitan Borough Council
- 2) Liverpool City Council
- 3) Sefton Council
- 4) St Helens Council
- 5) Wirral Council

also manages waste disposal via a separately agreed partnership with **Halton Council.**

Mission Statement and Service Delivery Plan 2020/21

The MWDA's mission statement 2020/21 is : "To ensure that we reduce the impact of our actions on climate change and improve the sustainable management of waste and resources".

The Service Delivery Plan 2020/21 follows the Corporate Plan and is divided into four sections :

1. Improve the sustainable management of waste and resources
2. We will deliver effective waste services
3. Co-operate to improve working arrangements
4. Measure and report on climate change impacts and sustainability improvements

Waste disposal arrangements

Each of the Merseyside Councils deliver their municipal waste to nominated locations as which point the waste becomes the responsibility of the MWDA.

MWDA disposes of waste via two main contracts:

1. **Waste management and recycling contract** (WMRC) that provides management of the Household Waste Recycling Centres (HWRCs), Materials Recycling Facilities (MRFs) and transfer stations and any subsequent haulage of the waste to treatment or disposal. This contract is with Veolia and expires in 2029; and
2. The disposal of the **residual waste is via energy from waste** (EfW) and **landfill of untreatable wastes.** This contract is with Merseyside Energy Recovery Limited (MERL)[1] and expires in 2044.

We understand that tonnages collected by the Merseyside Councils were higher by around 70,000 tonnes as a result of **Covid-19** relating to behavioural changes (i.e. commercial waste becoming residential waste). This has meant that the MWDA has reached its maximum capacity within the MERL contact and is now required to find alternative outlets for residual waste, including direct to landfill.

MWDA should work with its board members (including any required consultations with the respective Merseyside Councils) to take decisions as to the long term treatment of rising waste tonnages, which cannot be treated within existing contracts. This includes consideration of the course of action on the impending expiry of the waste management and recycling contract in 2029.

Detailed findings

Internal Governance

MWDA is a local government body consisting of nine elected Members representing the five Merseyside Councils. The board of nine elected members include three from Liverpool City Council, two from Sefton MBC, two from Wirral Council and one each from Knowsley MBC and St Helens MBC. Halton Council has observer status. Members meet to consider high level matters such as policy, strategy and budget in relation to waste treatment/disposal. However, their decision making ability is limited and many decisions will need to be ratified separately by all five Merseyside Councils.

MWDA is responsible for approving the annual budget and the determination of the levy. Each Merseyside Council nominates its Member(s) to act on the board for varied periods of time. The Member is not necessarily the portfolio holder for waste. Those sitting on the board are not formally required to report back to their council but are authorised to answer questions in relation to waste disposal at council meetings.

It would be beneficial for the Members on the board of the MWDA to include the portfolio holder for waste to ensure that a high quality discussion is enabled during strategic discussions.

It could also be beneficial for these Members to have a formal requirement to report back to Members at their own council meetings on waste disposal matters – ensuring a feedback loop is enabled between councils and the MWDA.

External Governance (interaction with the Merseyside Councils)

Chief Executives Group

The Chief Executives Group is comprised of the Chief Executive from each of the Merseyside Councils. On an ad hoc basis, and when they discuss matters in relation to waste management and disposal, the Chief Executive of MWDA (Carl Beer) is requested to report to this group regarding disposal costs.

Members of the Merseyside Councils

Although there is no formal route for the MWDA to report directly to Members, we understand that, as an exception, the Chief Executive of MWDA was invited to attend a Leaders' meeting on 9 December 2021.

It would be beneficial for there to be a regular and formal briefing of the Chief Executives Group and/or Members by the MWDA on waste disposal matters (including provision of key performance indicators in the form of a regularly tabled dashboard so that trends can be considered).

It would also be useful to provide Members with the performance context alongside the cost of waste management, e.g. KPIs which include benchmarking with national average / targets in relation to recycling rates / cost of waste management.

Detailed findings

Liverpool City Region Strategic Waste Management Partnership (2021)

The Liverpool City Region Strategic Waste Management Partnership's purpose is to collectively address regional waste management issues and provide a single voice on waste management affairs. Areas of particular consideration include implications of new waste management legislation, housing growth, the environment and climate emergency and the financial pressures on regional waste management.

The partnership agreed Terms of Reference in June 2021, which have been signed up to by the Merseyside Councils plus Halton Borough Council and the MWDA. The partnership will meet quarterly. A revision to the Terms of Reference in January 2022 has introduced the MWDA into the partnership – this is a welcome initiative and will address a number of the reporting and governance concerns which we established during the fieldwork for this assignment (in Nov 2021).

A key area highlighted for "increasingly urgent" action is an update to the current levy mechanism. The Terms of Reference contain a commitment to review the recommendations contained in the Local Partnerships' Strategic Review of Waste Management (2016).

Leaders and Mayors will be provided with quarterly updates from the Liverpool City Region Strategic Waste Management Partnership. In the October 2021 briefing it is noted that there will be a £9m cost increase across the five councils in 2022/23 due to increases in household waste collected as a result of Covid-19 related shifts in behaviour.

The MWDA, Merseyside Councils and Halton Council should continue to work together to review and conclude upon the optimal governance model to ensure transparency and collaboration and to drive economy, efficiency and effectiveness for waste management services.

Memorandum of Understanding

There is a Memorandum of Understanding (MoU) (2014 - 2041) which governs the arrangement between the MWDA and the Merseyside Councils (i.e. excluding Halton Council). This MoU refers to the Joint Recycling and Waste Management Strategy (JRMWS) and commits all partners to review the JRWMS every five years.

Each partner is committed to produce and maintain an action plan which sets out interim targets that when considered collectively seek to achieve the shared JRWMS aims and objectives (e.g. 50% recycling by 2020). These targets should be reviewed in line with statutory national requirements as part of the 5 yearly review. We understand the latest JRWMS was agreed in 2011.

Each partner is committed to providing information to the MWDA in relation to their performance against their own JRWMS action plan, feeding into an annual performance report and letter of assurance to the September MWDA authority meeting.

We understand the MWDA does not receive an annual performance report and letter of assurance from any of the Merseyside Councils in FY 2020/21.

The MWDA should ensure that each Merseyside Council provides an annual performance report and letter of assurance to the September MWDA authority meeting as committed to through the Merseyside Waste Partnership Memorandum of Understanding (2014).

Under the MoU, there is a requirement for the MWDA to report on its own performance to all Merseyside Councils' scrutiny panels (or equivalent). We understand this does not currently take place.

The MWDA should provide a report on its own performance at each of the Merseyside Councils' scrutiny panels (or equivalent), as committed to through the Merseyside Waste Partnership Memorandum of Understanding (2014).

Detailed findings

Waste disposal levy (1 of 2)

The apportionment of the costs of waste disposal for the Merseyside Councils (not Halton Council) is dictated by a levy mechanism. This mechanism takes the 'per tonne' cost of waste disposal by MWDA for all Merseyside Councils and allocates this to each council based on the tonnage they have delivered. The mechanism does not distinguish between collection of recyclate vs residual tonnage and therefore does not incentivise recycling. The levy also includes calculations based on other variables – covered briefly below.

To incentivise recycling amongst the Merseyside Councils, the levy could be updated to distinguish between collection of recyclate vs residual tonnage.

We regoinse that changes to the mechanism will be challenging, given governance arrangements covered earlier in this report. We suggest an approach that, based on our experience of other multiple council contracts provides the correct balance of incentive and complexity:

The payment mechanism under the MERL includes three bands for residual waste disposal:

- Band 1 - £91.81/tonne
- Band 2 - £5.00/tonne
- Band 3 - £70.00/tonne

The above structure provides an incentive for waste levels not to reach Band 3. Despite this, the current structure does not make an individual Merseyside Council accountable for tonnage that leads to a move between bands (and most significantly between Band 2 and Band 3) as banding is based on the aggregate tonnage from *all* Merseyside Councils.

To incentivise reduction in residual waste tonnages amongst the Merseyside Councils, the levy could be updated to make individual Councils accountable for delivering their proportion of the volume of residual waste (e.g. on a pro rata basis).

These proportions should be based not on the annual forecasts, rather on the Councils agreement at the inception of the contract (ie the original forecast that determined the bandings agreed in the payment mechanism).

Hence, following this change, banding is thus enforced per council by the MWDA and any excess payments from that council (due to their proportion of tonnage leading to a move between bands) are paid into a separated account administered by MWDA. Only if, in aggregate across all Councils, bandings are breeched would a payment be made to the contractor (as per terms of the contract).

At the end of a period, cash within the excess payment account can be shared in a pre-determined manner by the partnership (examples we have seen include excess cash returned to the Council that suffered or used for wider benefits of the partnership eg educational schemes, capital improvements). This approach is less administratively cumbersome than alternatives and the decision and utilisation of the cash does not necessarily need to be taken annually.

Such a change to the levy does ensure that each Council has a direct financial incentive to minimise their residual waste (a key objective of the change to the levy) and minimises perverse incentives (such as knowledge that other Councils in the partnership are performing well and their improved relative performance can be utilised to offset the offending Council's costs).

Detailed findings

Waste disposal levy (2 of 2)

In addition, the levy includes a **population based charge**, which allocates other costs (e.g. HWRCs, closed landfill sites, admin) across the Merseyside Councils based on their population.

The levy also **includes recycling credits**, however, this has been referred to as a 'circular cashflow' as Merseyside Councils receive the recycling credits income from the MWDA but they then pay for it via the levy (i.e. zero net impact).

There is a **two year lag** between the levy payment (based on forecast tonnage) and an actual tonnage reconciliation. The increased cost of disposal via the MERL contract due to higher municipal residual waste tonnages due to Covid has been managed using MWDA's reserves. The Merseyside Councils will see the impact of this cost in the future.

Although the levy charge is managed by the MWDA, it does not have authority to make amendments to the levy mechanism.

Following consideration of the levy mechanism, the Council should work closely with all Merseyside Councils in order to collectively ratify any proposed amendments.

We note that the MWDA has prepared a board report in 2021, which provides information on the levy mechanism and how charges to councils may be different if waste is recognised as having differential values and costs.

Alternative charging methods are proposed:

1. Residual Tonnes Allocation (charge based on residual tonnage only)
2. Good Waste Bad Waste Levy (charge based on residual vs recyclate tonnage)
3. Good Waste Bad Waste & Incentive (charge based on residual vs recyclate tonnage, with weighting to disincentivise residual tonnage)
4. Population only allocation (charge based on population only)

There is also a suggestion of a carbon impact based model to disincentivise carbon intensive activities.

The report notes that for each option there will be 'winners' and 'losers'. The report shows which option is financially optimal for each Merseyside Council (see extract below).

Board members were asked to "instigate discussion at their host authority to see if a new consensus on the Levy can be reached". Note: it was not possible to allocate a financially optimum outcome for the "Good Waste Bad Waste" levy and incentive options as this would depend on the weighting decisions taken within these options, which were not defined in the paper.

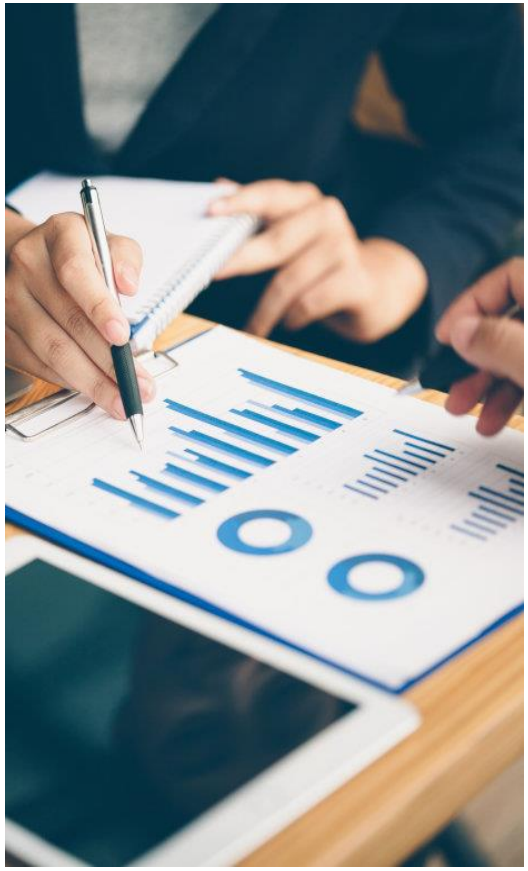
Financial optimum outcome for each constituent Council (estimated) 2021-22 figures

	Original Levy 2021/22	Residual Tonnes Allocation	Good Waste Bad Waste Levy	Good Waste Bad Waste & Incentive	Population only allocation
Knowsley					X
Liverpool					X
St Helens	X				
Sefton		X			
Wirral		X			

Improvement recommendation

Improving partnership governance arrangements

Recommendation	To further improve the partnership governance arrangements in place across the Merseyside region for waste, it is recommended that: 1. The Merseyside Councils and MWDA should work closely to review the recommendations of the Local Partnerships' Strategic Review of Waste Management (2016). 2. The MWDA, Merseyside Councils and Halton Council should continue to work together to review and conclude upon the optimal governance model to ensure transparency and collaboration and to drive economy, efficiency and effectiveness for waste management services. 3. The Members on the Board of the MWDA include the portfolio holder for waste to ensure that a high quality discussion is enabled during strategic discussions. It could also be beneficial for these Members to have a formal requirement to report back to Members at their own council meetings on waste disposal matters – ensuring a feedback loop is enabled between councils and the MWDA. 4. Following consideration of the levy mechanism, the Council should work closely with all Merseyside Councils in order to collectively ratify any proposed amendments.
Why/impact	Failure to address these improvement recommendations increase the risk that Merseyside authorities are unable to: • achieve incoming legislation, which will mandate a target to recycle 65% of municipal waste by 2035. • achieve best value by effectively managing rising costs of collection and disposal of waste.
Auditor judgement	Partnership governance arrangements for waste services in Merseyside need to be improved to ensure that a coordinated approach across the region is taken to tackle the challenges of low recycling rates and rising costs.
Summary findings	We found weaknesses with the partnership governance arrangements that were in place during 2020-21. It is clear that some issues have persisted for a significant period of time, given that a Local Partnerships report identified similar issues in 2016. However, since the year ended, there have been a number of positive developments.
Management comment	The established Liverpool City region (LCR) strategic waste partnership is developing the region's 'Zero Waste Strategy' and as part of this make recommendations for future regional waste management governance. Clear reporting lines have been created between the region's Leaders and Mayors, Chief Executive's Group, the Strategic Waste Management Partnership and district Portfolio Holders. The Strategic Waste management Partnership are also working closely with the LCR finance director's group to review the waste levy mechanism.



Improvement recommendation

Improving performance management and reporting arrangements

Recommendation

To improve performance management and reporting arrangements in place across the Merseyside region for waste, it is recommended that:

1. Regular and formal briefings are provided to the Chief Executives Group and/or Members by the MWDA on waste disposal matters (including provision of key performance indicators in the form of a regularly tabled dashboard so that trends can be considered).
2. MWDA should ensure that each Merseyside Council provides an annual performance report and letter of assurance to the September MWDA authority meeting as committed to through the Merseyside Waste Partnership Memorandum of Understanding (2014).
3. The MWDA should provide a report on its own performance at each of the Merseyside Councils' scrutiny panels (or equivalent), as committed to through the Merseyside Waste Partnership Memorandum of Understanding (2014).
4. Members are provided with the performance context alongside the cost of waste management, e.g. KPIs which include benchmarking with national average / targets in relation to recycling rates / cost of waste management.

Why/impact	Failure to address these improvement recommendations increase the risk that Merseyside authorities are unable to identify and tackle areas where waste performance (non-financial and financial) needs to improve.
Auditor judgement	Performance management and reporting arrangements could be enhanced to allow for better review and scrutiny of waste collection and disposal performance.
Summary findings	We found weaknesses within performance management arrangements in place across the region with regards to waste. There are a number of reporting provisions within the current Memorandum of Understanding (MoU) (2014 - 2041) which governs the arrangement between the MWDA and the Merseyside Councils, which are not being met.
Management comment	The LCR Strategic Waste Management Partnership are developing a framework of performance indicators as part of the region's Zero Waste Management Strategy to measure impact and progress. The framework will be used by each district authority and the waste disposal authority to provide annual performance reports on recycling, reuse and waste reduction. The reports will include benchmarking against national performance trends.

Improvement recommendation

Improving economy, efficiency and effectiveness

Recommendation	To improve the economy, efficiency and effectiveness of waste services across the Merseyside region, it is recommended that: 1. The Councils should consider its recycling rates in line with the national average and in the context of incoming national targets (65% by 2035). They should put in place plans for improving efficiency and effectiveness in this area, working with the MWDA. 2. MWDA should work with its board members (including any required consultations with the respective Merseyside Councils) to take decisions as to the long term treatment of rising waste tonnages, which cannot be treated within existing contracts. This includes consideration of the course of action on the impending expiry of the waste management and recycling contract in 2029. 3. The levy could be updated to distinguish between collection of recyclate vs residual tonnage to incentivise recycling amongst the Merseyside Councils. 4. The levy could be updated to make the Merseyside Councils accountable for delivering waste at Band 3 levels (e.g. on a pro rata basis) to incentivise reduction in residual waste tonnages amongst the Merseyside Councils. We have seen on other multi-authority projects that if the 'levy' does not reflect the payment mechanism with the disposal contractor, there is a risk that a participant council will not be held to the agreements and forecasts that informed the payment mechanism with the disposal contractor
Why/impact	Failure to address these improvement recommendations increase the risk that Merseyside authorities are unable to: • achieve incoming legislation, which will mandate a target to recycle 65% of municipal waste by 2035. • achieve best value by effectively managing rising costs of collection and disposal of waste.
Auditor judgement	Merseyside authorities need to work effectively together to improve waste outcomes in the face of rising waste tonnages and incoming legislation that will require a significant improvement in recycling rates.
Summary findings	Across the four Merseyside councils we audit, the average recycling rate is 13.53% below the national average (in 2020-21 FY) of 43.1%. As seen across the country, the Covid pandemic has led to increased waste volumes which has inevitably led to increased costs across all Merseyside councils for the provision of waste services.
Management comment	The LCR's Zero Waste Strategy will set out the steps for transforming recycling performance regionally and within each member district authority, with a major focus on driving resident behaviour change. The Strategic Waste Management Partnership are also working with senior finance colleagues to overhaul and incentivise the waste levy, undertaking a review of other region's financial arrangements as part of this.

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APPENDIX 4

Value For Money Review Governance of Company and other investments

Recommendations:

PAGE	REF	ITEM	RECOMMENDATION	RESPONSE	LEAD	DATE
6	First bullet	CIPFA DLUHC report on halting initiatives to avoid unnecessary risk	The Council should consider all future investment in terms of its financial resilience	Agreed. The Council has not entered into any further such investments and at present does not intend to do so.	Director of Resources	Immediate
7	First bullet	Edsential	Given the financial position of the Council, it will need to monitor the finances of Edsential closely. We note the Council has determined that it will face greater costs if it were to exit the Company. This decision should be revisited annually given the losses made by the Company	Agreed. The lead officer for Council Companies will review on an annual basis. The Shareholder Board will receive updates on the financial position at its scheduled meetings	Senior Finance Manager – Major Projects and Corporate	Annually from its first meeting on 29 September 2022
7	Second bullet	Wirral Growth Company	We consider that further scrutiny is needed of the profit recognition and distribution of the Wirral Growth Company	Agreed. An external company has been commissioned to review the accounting treatment of this	Senior Finance Manager – Strategy, Policy and Accounts	Initial meeting to discuss scope and outcome – July 2022
7	Third bullet	Wirral Waters	Monitoring arrangements should be put in place for the Wirral Waters One Guarantees. We note that the project is	Agreed. An annual report will be presented to ARMC to report on liability for risk and	Director of Resources	Report proposed at 26 October

PAGE	REF	ITEM	RECOMMENDATION	RESPONSE	LEAD	DATE
			operational from 2023/24	the mitigations in place to minimise the risk		2022 committee
7	Fourth bullet	Council owned companies	We consider that the Council should have Officer representation on the Board of Edsential. We consider that the Board for each company or related investment should be supplemented by Non-Executive Directors with business experience, in order to better protect the Council's commercial interests	Officers not able to agree. Will be taken as a recommendation to the next Shareholder Board	Monitoring Officer	19 September 2022
8	First bullet	Oversight of financial forecasts and business planning	There should be ongoing assessment of risks relating to the entity, supported by processes to ensure that risks are highlighted in the business plan and managed as part of the Council's overall risk management approach, with appropriate escalation and reporting	Agreed. Will be considered as part of the quarterly review of corporate risks by SLT and ARMC	Head of Internal Audit, Risk and Business Continuity	Embedded into the quarterly review process
8	Second bullet	Reporting	The Council should continue to record evidence of formal periodic shareholder/ Chair/ CEO meetings with effective supporting papers to inform subsequent Company Board meetings	Agreed. The current process that the Council has in place to record evidence of formal meetings will continue	Monitoring Officer	As per the meeting timetable
8	Third bullet	Skills	The Council should continue to run robust training for Officers and Members on their roles and responsibilities	Agreed. This is already part of the annual Members training programme and will form part of the Officer programme	Assistant Director for HR & OD and Head of Democratic and Member Services	As part of the annual programme

PAGE	REF	ITEM	RECOMMENDATION	RESPONSE	LEAD	DATE
8	Fourth bullet	Skills	Fit and proper persons tests should be performed to ensure there are no conflicts of interest arising from the appointment of Officers to Boards or Members to panels and Committees	Agreed. The Council has a robust process for declaration of conflict and personal interest which also forms part of the Internal Audit review schedule	Monitoring Officer	Immediate
8	Fifth bullet	Continuity of Service	The Council should monitor the training of new members to ensure they have the skills to participate in commercial discussions as part of their legal duty to act in the companies' interest.	Officers not fully able to agree. Will be taken as a recommendation to the next Shareholder Board	Monitoring Officer	19 September 2022
8	Sixth bullet	Continuity of Service	The Council should provide detailed minutes and papers presented at committees to new members to absorb as part of their orientation	Agreed. As part of new Member induction, all new Members are provided with details of how to access past minutes and papers of meetings	Head of Democratic and Member Services	Annual in May and as required for by-elections
8	Seventh bullet	Continuous improvement	The Council should also maintain a record of how it is operating against the Local Partnerships checklist in the paper 'Local Authority Company Review Guidance – a toolkit for undertaking strategic and governance reviews of wholly or partly owned council commercial entities'	Agreed. The toolkit will be included on the next meeting of the Corporate Governance Group for discussion as how to take forward to review and monitor	Director of Resources	4 August 2022
8	Eighth bullet	Accounting	The Council should ensure that accounting advice is received before entering into any complex or substantial contract	Agreed. An external organisation has been commissioned to provide such advice	Senior Finance Manager – Strategy, Policy and	Immediate

PAGE	REF	ITEM	RECOMMENDATION	RESPONSE	LEAD	DATE
					Accounts	
8	Ninth bullet	Accounting	The Council should obtain accounting advice for Wirral Waters One and the Wirral Growth Company Birkenhead Commercial District Office Building Project as soon as possible	Agreed. An external organisation has been commissioned to provide such advice	Senior Finance Manager – Strategy, Policy and Accounts	Initial meeting to discuss scope and outcome – July 2022

Recommendations:

PAGE	REC	ITEM	RECOMMENDATION	RESPONSE	LEAD	DATE
15	1	Financial Sustainability	The Council should implement the recommendations outlined in the CIPFA Local Government Finance Report. Specifically, the Council should take steps to address issues in the Medium Term Financial Strategy in order to make it more realistic and reflective of financial challenges facing the Council and should ensure it has appropriate arrangements in place to deliver its savings plans.	Agreed. The Council is implementing the recommendations of the CIPFA Local Government Finance Report. These are being monitored by the Independent Assurance Panel and are reported through the Policy and Resources Committee and Full Council. The first formal reporting to the Committee was 8 June and 11 July at Council. which included the Chair of the Independent Assurance Panel's report to the Department of Levelling Up, Housing and Communities (DLUHC). The revised Medium Term Financial Strategy was taken and approved at the Policy and Resources Committee on 1 December 2021.	Director of Resources	Immediate
16	2	Financial Sustainability	The Council should review its capital programme to ensure that the revenue implications of additional borrowing are affordable	Agreed. The Medium-Term Financial Plan (MTFP) 2022 to 2027 includes the full cost implication of the 5 year capital programme. The MTFP is updated on a rolling annual basis and will continue to include the full revenue impact of the capital programme on a annual basis.	Assistant Director of Finance and Investment	Immediate
17	3	Financial Sustainability	Risk and sensitivity analysis should be incorporated into financial forecasts	Agreed. The 2021/22 and 2022/23 budget included sensitivity analysis of funding, pressures and savings on a pessimistic, mid-	Financial Assurance Manager	Immediate

PAGE	REC	ITEM	RECOMMENDATION	RESPONSE	LEAD	DATE
				ground and optimistic basis to provide Members will a full overview of the three different scenarios. This is embedded now into our budget setting process from 2021/22. A part of the 2021/22 and 2022/23 budget setting process, all savings and pressures were RAG rated for risk and this has also been in place for in-year savings monitoring since 2021/22. However, this process will be expended to apply to future financial forecasts		
18	4	Financial Sustainability	Improvements are required to the quality and timeliness of financial data being used in the financial planning and monitoring process	Agreed. For the 2022/23 budget process, a new evidence-based approach was used for business cases for savings and pressures. The content of which was internally independently assessed for viability, feasibility and deliverability. Where business cases lacked the relevant information, they were returned to the authors for further clarification and detail. The business cases were also externally assessed by Chartered Institute of Public Finance and Accountancy (CIPFA) to provide additional robust analysis. The internal process was embedded into the budget setting process in 2022/23 and the same process is being followed for 23/24. The 23/24 process commenced significantly earlier with draft proposals prepared by 6 May 2022. The Implementation of the new Financial System will also support this recommendation	Assistant Director Finance and Investment	Immediate and for the new financial system will be in-line with the current plan

PAGE	REC	ITEM	RECOMMENDATION	RESPONSE	LEAD	DATE
27	5	Governance	Governance arrangements for the oversight of the regeneration agenda and in issuing financial guarantees for leases and acquisition of assets and financial guarantees should be significantly strengthened. Accounting advice should be received prior to entering into transactions	Agreed. A new Regeneration Governance Board has been introduced that is chaired by the Chief Executive and has the Section 151 Officer and Monitoring Officer attending. No further financial guarantees for leases have been made since those reported in this report and there are, at present, no intention to do so for the future. Where there may be the potential to enter into such transactions in the future, accounting advice will be received in advance and the outcome reported to Members as part of the decision-making process before any transactions are entered into	Monitoring Officer and Section 151 Officer	Immediate
28	6	Governance	The Council should review its risk management arrangements to ensure that they are identifying the significant risks impacting the Council	Agreed. Following the issuing of the two DLUHC reports in 2021, the risk management arrangements have been reviewed and improved. There has been an all member risk workshop and the Corporate and Directorate Risk Registers have been fully reviewed and revised and reported through to the Audit and Risk Committee. The Corporate risks are also shared with the Policy and Resources Finance-Sub Committee. SLT review corporate risk quarterly	Head of Internal Audit, Risk and Business Continuity	Immediate
33	7	Improving Economy,	Key Performance Indicators should be linked to the	Agreed. The refreshed Wirral Plan was reported to full Council on 11 July. The plan	Director of Neighbourhoods	Annually

PAGE	REC	ITEM	RECOMMENDATION	RESPONSE	LEAD	DATE
		Efficiency and Effectiveness	Wirral Plan with performance monitoring reported to the Policy and Resources Committee	includes indicators to measure the success of the implementation of the Wirral Plan and included the outturn from 2021/22		
34	8	Improving Economy, Efficiency and Effectiveness	Regular and thorough benchmarking reviews should be carried out to ensure service provision meets the strategic priorities and are cost effective	Agreed. During 2021/22 benchmarking data was used to determine where the Council provided high-cost services and where they did, to build efficiencies from these into the forthcoming budget rounds. This was evidenced with the 2022/23 budget whereby Leisure and Cultural Services, who did benchmark high had significant budget savings. The Strategic Change Programme, to be delivered through a range of Service Reviews, includes the use of benchmarking when undertaking the service reviews. Benchmarking data was also used to determine the phasing of service reviews with the highest cost services being prioritised in the early phases. The council subscribes to the benchmarking package CFO Insights.	Assistant Director for Strategic Change	Immediate
35	9	Improving Economy, Efficiency and Effectiveness	The Procurement Strategy should be updated to ensure it meetings the requirements of the National Strategy with clear links to social value and transparency. The number of purchases	Agreed. During 2021/22 a project was launched to review Procurement and Commissioning functions. This project is continuing and is making good progress in change the culture of the organisation regarding procurement and commissioning activity. As part of the project, a new model for Procurement and Commissioning will be	Assistant Director Finance and Investment	Immediate ARMC October 26 2022

PAGE	REC	ITEM	RECOMMENDATION	RESPONSE	LEAD	DATE
			without a purchase order and waiver and extension should be reduced.	recommended along with a refreshed Procurement Strategy. The number of non-purchase orders, waivers and exceptions has significantly reduced and an update will be reported to ARMC in October		
36	10	Improving Economy, Efficiency and Effectiveness	The Council should take action to improve recycling rates and should work with its partners to revise the levy mechanism to support this improvement	Agreed. Liverpool City region (LCR) now has an established and functioning strategic waste partnership which is developing the region's 'Zero Waste Strategy' and as part of this make recommendations for future regional waste management governance. Clear reporting lines have been created between the region's Leaders and Mayors, Chief Executive's Group, the Strategic Waste Management Partnership and district Portfolio Holders. The LCR Zero Waste Strategy set out performance improvement measures for recycling, waste minimisation, reuse and upcycling. Wirral Council is using the Zero Waste Strategy to develop its own waste strategy and performance improvement plan. The LCR Strategic Waste Management Partnership is also working closely with the LCR finance director's group to review the waste levy mechanism.	Director of Neighbourhoods	Immediate

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Audit and Risk Management Committee – Terms of Reference

The Audit and Risk Management Committee is a key component of Wirral Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

The Committee provides independent assurance on the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment, and to oversee the financial reporting process. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

The Audit and Risk Management Committee is charged by full Council to:-

(a) Governance

(i) Consider the Annual Governance Statement, and be satisfied that this statement is comprehensive, properly reflects the risk and internal control environment, including the system of internal audit, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control, and includes an agreed action plan for improvements where necessary.

(b) Internal Audit and Internal Control

(i) With Chief Officers, to provide proactive leadership and direction on audit governance issues and champion audit and internal control throughout the Council.

(ii) Consider annually the effectiveness of the system of internal audit including Internal Audit Charter, Strategy, Plan of work and performance and that those arrangements are compliant with all applicable statutes and regulations, including the Public Sector Internal Audit Standards and Local Government Application Note.

(iii) Consider the Head of Internal Audit's annual report and a summary of internal audit activity which include an opinion on the adequacy and effectiveness of the Council's internal controls including risk management, any corporately significant issues arising, and receive assurance that action has been taken as necessary.

(iv) Consider regular summary reports on the work of internal audit including key findings, issues of concern and actions in hand as a result of internal audit activity.

(v) Consider reports showing progress against the audit plan and proposed amendments to the audit plan.

(vi) Ensure there are effective relationships between internal audit and external audit, inspection agencies and other relevant bodies and that the value of the audit process is actively promoted.

(c) Risk Management & Control

(i) Provide proactive leadership and direction on risk management governance issues and champion risk management throughout the Council and ensure

that the Full Council is kept sufficiently informed to enable it to approve the Council's Risk Management Policy and Framework and that proper insurance exists where appropriate.

(ii) Consider the effectiveness of the system of risk management arrangements.

(iii) Consider an annual report and quarterly reports with respect to risk management including, an opinion on the adequacy and effectiveness of the Council's risk management, any corporately significant issues arising, and receive assurance that action has been taken as necessary.

(iv) Receive assurances that action is being taken on risk related issues identified by both internal and external auditors and other inspectors.

(v) Independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk.

(vi) Report to full Council as appropriate.

(d) Anti-Fraud and Corruption

(i) Provide proactive leadership and direction on Anti-Fraud and Corruption and champion Anti-Fraud and Corruption throughout the Council.

(ii) Consider the effectiveness of the Council's anti-fraud and corruption arrangements.

(iii) Consider an annual report and other such reports, including an annual plan on activity with respect to Anti-Fraud and Corruption performance and receive assurances that action is being taken where necessary.

(iv) To be appraised of any steps arising from Whistleblowing investigations and to ensure appropriate actions are being taken and reported.

(e) Annual Statement of Accounts

(i) Consider the external auditor's reports and opinions, relevant requirements of the International Standards on Auditing and any other reports to members with respect to the Accounts, including the Merseyside Pension Fund and approve the Accounts on behalf of the Council and report required actions to the Council. Monitor management action in response to issues raised by the external auditor.

(ii) Consider the External Auditors Annual Governance Report and approve the Letter of Representation with respect to the Accounts and endorse the action plan contained in this Report.

(f) External Audit

(i) Consider any other reports of external audit and other inspection agencies.

(ii) Ensure there are effective relationships between external audit and internal audit.

(iii) To liaise with the Public Sector Audit Appointments over the appointment of the Council's external auditors and make recommendations to Council.

(g) Merseyside Pension Fund

(i) Following presentation to the Pensions Committee and with due regard to any comments and observations made, consider the draft Accounts of the Merseyside Pension Fund and authorise the publication and release of these accounts to the external auditors for the audit by the statutory deadline.

(h) Treasury Management

(i) Consider the effectiveness of the governance, control and risk management arrangements for Treasury Management and ensure that they meet best practice.

(i) Partnerships and other bodies

(i) To deal with any audit or ethical standards issues which may arise in relation to partnership working, joint committees and other local authorities or bodies.

(ii) Ensure that there are effective governance arrangements in place for Wirral Borough Council's wholly owned limited companies and trading vehicles.

(iii) Receive and review the financial statements and dividend policies of any Wirral Borough Council limited companies and to consider recommending corrective action where appropriate

(j) Administration

(i) Review the Committee's own terms of reference no less frequently than annually and where appropriate make recommendations to the Council for changes.

(ii) Ensure members of the committee have sufficient training to effectively undertake the duties of this committee.

(iii) Consider the Annual Report of the Chair of the Committee.

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