



Wirral Evolutions

Enriching Lives of People with Disabilities & Maximising Potential

#OneLifeLetsLiveIt

Nature of the report	CONFIDENTIAL ITEM
To	Wirral Council Shareholder Board: Officers Group
From	Jean Stephens, Managing Director, Wirral Evolutions Sue Gormley, Finance Manager, Wirral Evolutions
Date	30/07/2021
Purpose of the report	<p>To find a solution to alleviate the budget pressures the company will face during 2021-2022 and 2022-2023</p> <p>These include: -</p> <ul style="list-style-type: none">A. Transitional impact of the changes to locations already implemented, and the cost of transitional pay during 2022-2023.B. Change in rent costs due to locations remaining open, RPI increase on rent and service chargeC. Forecasted loss of income due to covid-19 and other associated costs
Background Information	<ul style="list-style-type: none">• Wirral Evolutions submitted in November 2020, a saving proposal to meet the financial challenge of £0.5M reduction for 2021-2022 to Wirral Council Adult & Care Commissioning Director, subsequently, the savings proposal was accepted and initially approved through the Councils Governance and Committee process on the 18th of January 2021• The £0.5M formed part of the Councils public budget consultation, subsequently, finally approved on the 1st of March 2021 by the annual Council's Budget Committee• The savings proposal detailed several assumptions and risks, of which transition funding and the impact of covid-19 would need to be funded outside of the £0.5M savings• The restructure will result in transitional pay costs in line with terms and conditions of employment. A delay in the restructure to April 2022 will incur charges to keep two locations open. This budget pressure will be outlined in this report.
Current Risks / Constraints	The company will operate within the contract value for 2021-2022, however it is the transition to the new model and cost base within a changing timeframe alongside ever changing covid restrictions that are the concerns for 2021-2022 and 2022-

	<p>2023, thus creating the budget pressure. This budget pressure which was identified within the proposal is outside of the company's control, the company is forecasting a retained loss of - £230,707 which affects the company's going concern status.</p> <p>See financial breakdown and assumptions in appendix A for the Company to maintain a balanced budget in this transitional year.</p>
Benefits	<p>Income recovered for areas outside the company's control (transitional pay and the impact of covid) would:</p> <ul style="list-style-type: none"> • Present a balanced budget • Operate the service within the contract value of £5.015M for 2021-2022 and 2022-2023 • Achieve the £0.5M savings challenge • Modernise the workforce structure • Consolidate assets
Financial implications/impact	<p>2020-2021 summary</p> <ul style="list-style-type: none"> • Carry forward balance sheet prior year's loss to 2021_2022 = (-£151,991) • Estimated profit at the end of 2020_2021 = £132,405 (this profit will reduce prior balance sheet losses, to reduce retained loss) • Therefore: Retained loss into budget year 2021_2022 (-£19,586) <p>2021-2022 £98k</p> <ul style="list-style-type: none"> • Rent RPI applied for 21/22, service charge applied for first time since 2015 (budget did not transfer, additional cost of rents for 2 locations. Total impact to budget £77k • The impact of Covid is £13k – the loss of income offset by savings already realised due to reduced service • Transitional pay closure of catering service 31/8/21 £9k (7 months) <p>2022-2023 £132k</p> <ul style="list-style-type: none"> • Transitional pay relating to the closure of two locations and the residual transitional pay from the closure of a catering service during 2021-2022. <p>Total transitional costs and loss of income not yet recovered is forecasted at (-£230,707k)</p> <p>Note: <i>This assumes additional Covid costs may not be required beyond September 2021</i></p>
Governance & legal Implications	<ul style="list-style-type: none"> • Company will be a financial going concern if the above is recovered for areas outside the company's control
Details of any alternative's options considered, with reasons for rejection	<p>Discussions have been explored with Wirral Council officers: -</p> <ul style="list-style-type: none"> • Invest to save option given the transformation reduces annual costs by circ £500k

	<ul style="list-style-type: none"> • 0.5m reduction split over two years 2021-2022 and 2022 – 2023 to due covid pandemic preventing progress in 2020_2021 • Capital receipts and capitalisation of loan • Covid – 19 impact funding for 2020_2021 & 2021-2022 or carry forward from 2020-2021 <p>To date the Company have received two Infection control grants totalling £50,400</p>
Any relevant background information.	<p>Relevant background documents</p> <ul style="list-style-type: none"> • Wirral Evolutions Savings proposal • Wirral Council project board issues and risk log • Wirral Evolutions draft annual business plan for 2021-2022
Recommendations	<p>For the Shareholder/Council to provide financial support to the company with a way forward to alleviate the budget pressures the company will face as described within this document</p>

Appendix A – Financial Model and Assumptions

During 2021-2022, Wirral Evolutions Ltd, focus will be Transforming the Company through a '**transition and modernisation programme of works**' to enable it to operate within the reduced commissioned contract value of £5,015M, providing annual savings of £0.5M from 2020-2021 financial year. The reduction of £0.5M is split between operational staff 30.46%, corporate services (staff and non-staff), 37.09% and locations 32.46%.

Transition from the existing restructure will create a financial pressure on the company of £140,040 for implementing the saving proposal (this assumes the restructure will be finalised on 31/03/2021). The HR and Legal protection of salary for an 18 month period (extended by the closure of 1 catering service). Rent costs will increase in year by £77,130. This is a combination of additional rent associated with the deferred restructure and rent RPI and service charges. The effect of Covid is a loss of income and increased costs for infection control. We have also been granted £50,400 grants for infection control. Taking covid related savings and the grants into account the shortfall relating to Covid-19 is 2021-2022 is £13k. The total impact this year and next is £230k (2021-2022 £98k, 2022-2023 £132k)

The commissioned contract does not include inflation, which has been an ongoing challenge since 2015, however, initial discussions with the commissioner for a 5-year contract, including inflation and index links is committed from 2022 onwards. This will enable the company to focus on growth areas, which will be driven by a new post: Head of strategy, business, and performance as part of the restructure.

- A. The Company's 5-year cash forecast illustrated in the below table and assumes the following: -
 - 21/22 at 0% inflation indexed linked
 - 22/23 at 2.5% inflation indexed linked, subject to confirmation form government guidelines
 - All other at years 3% inflation indexed linked, subject to confirmation from government guidelines
 - Recovery of transitional pay £140,040, additional rent costs £77,130 and Covid related costs £13k, total of £230,707 from Wirral Council
- B. Head of Strategy, Business and Performance charged through revenue from September 2023, with income generation from this post commencing from April 2023
- C. NON DASS Income for 2023/2024 £350K, 2024/2025 £500K, 2025/2026 £500K
- D. All income generation will be subject to additional cost in the organisation - assumed economies of scale will apply, therefore, 80% (direct costs) allocated against these income targets

Year			Annual	Cumulative	% profit
Base	2020-2021	Retained losses B/F	-£19,586		
Year 1	2021-2022		£18,693	- £893	
Year 2	2022-2023		£1,401	£508	0.03%
Year 3	2023-2024		£41,562	£42,070	0.74%
Year 4	2024-2025		£48,724	£90,793	0.83%
Year 5	2025-2026		£47,186	£137,979	0.77%