Department for Levelling Up, Housing and Communities

Local Government Finance Review – Wirral Council

November 2021

FINAL

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1. Executive Summary

1.1 General introduction about the review

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

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

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

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

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

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

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

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

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

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

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

Recommendations on strengthening financial sustainability

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

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

We recommend that the Council should: -

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

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

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

We recommend that the Council should: -

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

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

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

We recommend that the Council should: -

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

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

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

We recommend that the Council should: -

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

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

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

We recommend that the Council should: -

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

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

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

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

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

We recommend that the Council should:-

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

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

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

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

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

We recommend that the Council should: -

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

Recommendations on strengthening financial governance and oversight

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

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

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

We recommend that the Council should: -

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

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

I. On governance and oversight: Strengthen financial governance

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

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

We recommend that the Council should: -

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

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

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

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

We recommend that the Council should: -

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

2. Focus of this report

2.1 Purpose of this report

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

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

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

2.2 Methods used

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

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

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

2.3 Any scope restrictions

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

3. Background

3.1 The structure of the Council and how it operates

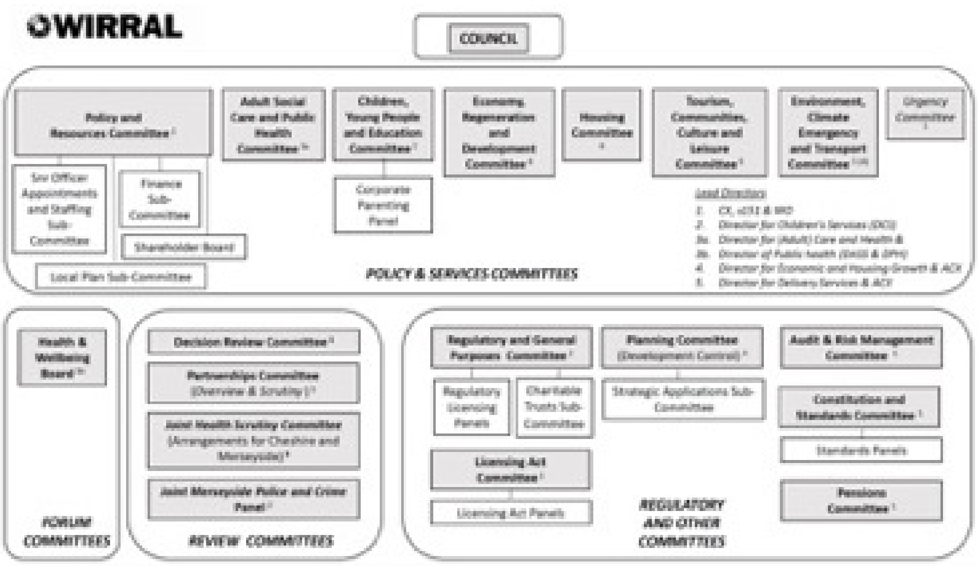
Wirral Council encompasses some 60 square miles of the Wirral peninsula. The Council was established in 1974 as a result of the merger of the county boroughs of Birkenhead and Wallasey, the urban districts of Wirral and Hoylake, and the borough of Bebington (schedule 1 of the Local Government Act 1972).

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

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

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

Figure 1: Wirral Council Structure



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

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

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

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

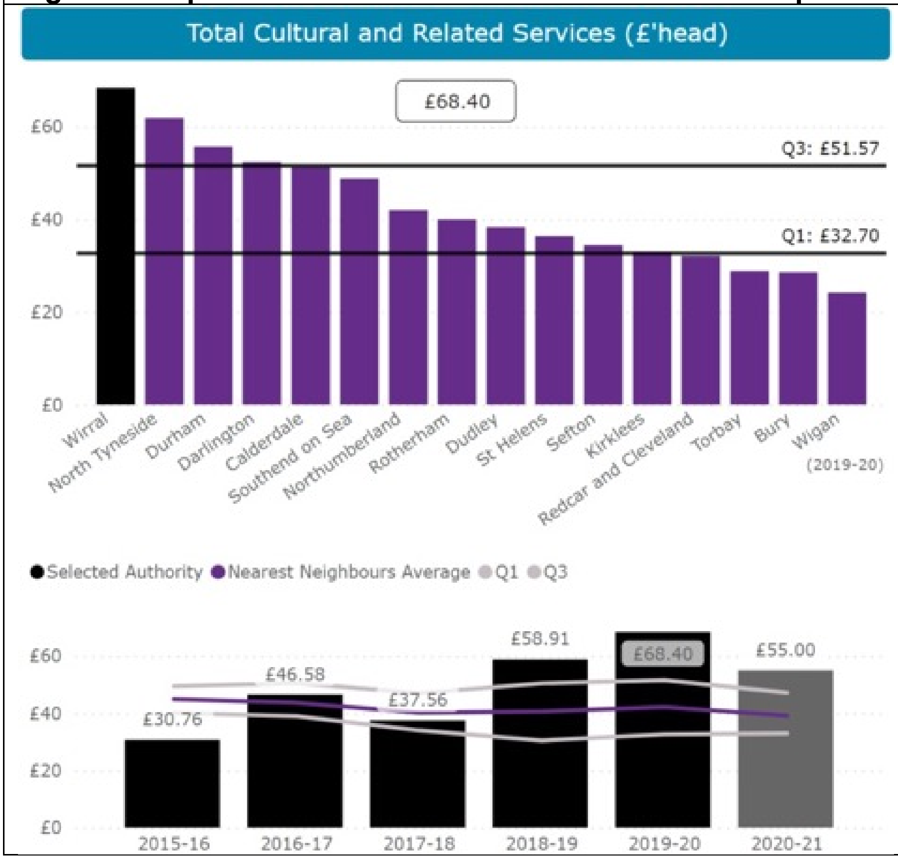
3.2 Key Statistical Landscape

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

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

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

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



3.3 Past performance

Previous Budgets and Savings Plans

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

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

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

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

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

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

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

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

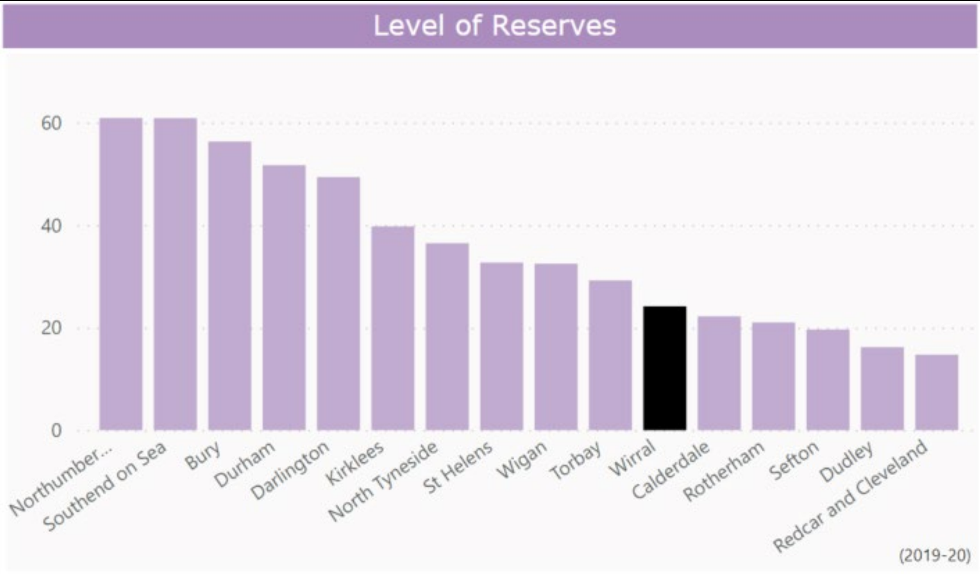
Council Officers are now developing a greater focus on the delivery of savings but there is still a need to address key concerns about the level of engagement from both officers and Members in the identification and agreement of savings proposals.

Council Reserves

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

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

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



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

3.4 Conclusions

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

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

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

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

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

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

4. The Financial Position

4.1 Introduction

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

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

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

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

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

Capitalisation Request

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

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

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

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

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

4.2 Projected budget position for 2021-22

Current Year Budget Approval

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

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

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

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

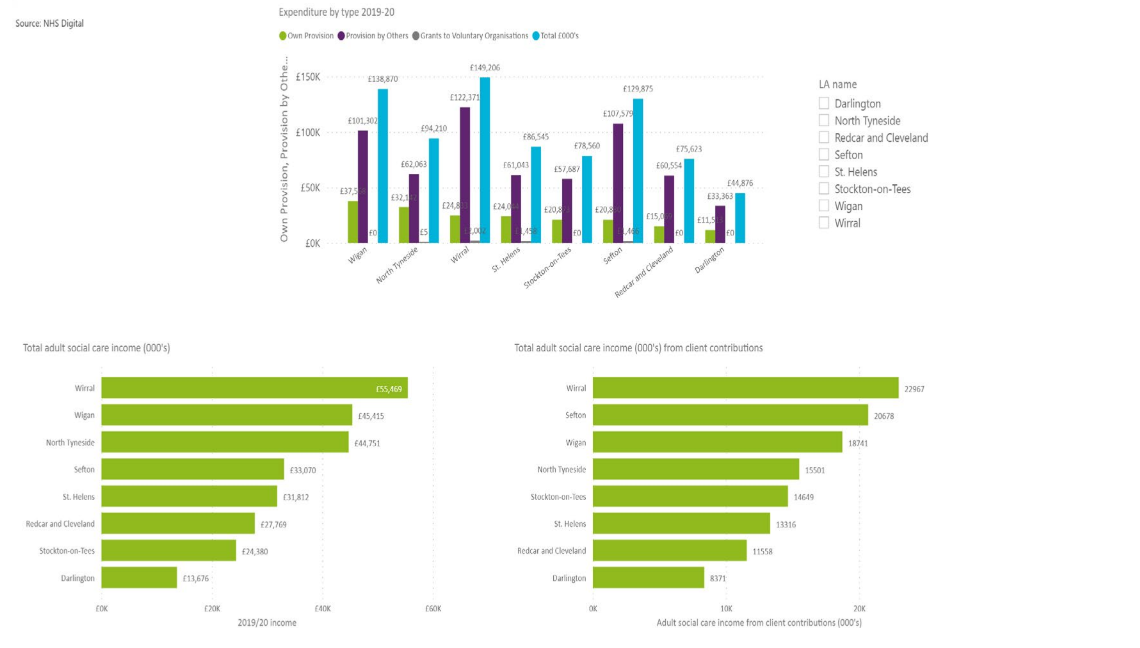
Cost Pressures

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

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

Our review confirmed that two typically significant and volatile areas of spend, Children's services and Adult Health Care, are not a significant risk. Outturn to date in 2021-22 for both directorates appear to be within budget. Whilst total spend on adult social care is high in comparison to other similar authorities, so is its income – see figure 4. Similarly, data up to March 2020 indicate that whilst the number of looked after children per 10,000 population aged under 18 is relatively high in Wirral, numbers are broadly stable.

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



Source: Peopletoo

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

Identified Savings

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

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

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

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

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

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

Funding

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

Budget Risks

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

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

Council Reserves

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

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

Conclusion

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

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

4.3 Financial resilience in the medium term

The medium-term financial strategy and associated forecasts of expenditure and income for the years 2022-23 to 2025-26 were considered at Full Council on 1 March 2021. This section of the review examines the adequacy of the Council's medium-term plans and what is required to strengthen its financial resilience. The table below shows the headline figures from the Medium-Term Financial Plan.

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

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

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

Of the total £57.3 million savings within the MTFP,

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

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

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

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

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

Sensitivity Analysis and Risk Assessment

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

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

Other Savings

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

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

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

Capital Programme

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

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

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

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

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

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

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

Conclusions

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

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

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

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

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

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

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

5. Authority's approach to financial management

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

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

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

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

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

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

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

5.1 Adequacy of existing financial management practices

Audit Opinions

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

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

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

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

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

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

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

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

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

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

Risk Management

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

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

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

Annual Governance Statement

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

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

Finance Team Capacity

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

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

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

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

5.2 Approach to transformation and savings

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

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

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

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

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

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

6. Council assets and other commercial interests

Council Assets and Potential Disposals

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

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

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

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

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

New Ways of Working

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

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

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

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

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

Commercial Portfolio

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

Arrangements for Asset Disposals

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

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

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

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

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

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

Current Disposals Plans

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

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

Previous Asset Sales

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

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

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

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

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

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

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

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

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

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

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

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

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

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Asset Management Plan

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

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

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

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

In addition to this, was a requirement for the Council to begin to dispose of greater numbers of assets. A need for this was first cited by the LGA in 2013, which found it had made limited progress on the disposals of assets up to that point. This was a view echoed by a financial peer review in 2015.

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

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

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

Management of Assets

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

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

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

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

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

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

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

Conclusions

The main findings of the review are as follows:

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

7. Roadmap for improvement

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

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

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

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

Appendix 1 – Summary of recommendations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Appendix 2- Detailed improvement roadmap

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

Appendix 3 – List of those interviewed

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

Appendix 4 – List of documents

Initial information request

A. Key Finance documents:

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

B. Other key documents:

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

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