Warrington Borough Council: Best Value Inspection Report

Foreword

Warrington is a proud town with a proud council that has a strong commitment to serve its residents. Local councils play a vital role in their communities in service delivery, quality of life, environmental, economic and social improvement.

The Best Value Duty is a simple and powerful framework setting out the features of a healthy local authority which is well placed to play its full part in the life of the place it serves. This duty does not require perfection but it does require a council to achieve continuous improvement in its effectiveness, efficiency and economy through a number of attributes including its leadership, culture, governance and use of resources.

In our work as an inspection team and our report we have used this Best Value framework to guide and structure our work. We have looked overall at how the council responds to this duty and we have looked in depth at the council's commercial programme of borrowing and investment. As the inspection has progressed, we have also paid particular attention to the council's revenue budget for this year and its upcoming budget and future financial plans because of the challenges they are facing.

The council is in a very difficult position and its risks are made more acute by a gap of several years without an external audit. These serious problems mean the council faces a significant undertaking to improve. We have considered carefully the different options for intervention and support which the council requires. We have been mindful that the council has not fully implemented previous recommendations from external reviews about its commercial programme and governance. There are signs that the council is beginning to reduce its debt but the messages we have received during the inspection on this issue have been inconsistent and the council's revenue budget position has deteriorated and is now very serious. The recent change in focus on debt reduction has been driven by the need to close the revenue budget gap facing the council and by the fact of the inspection taking place and following the MHCLG/CIPFA Business review. That is why the inspection team is not confident the council's challenges will be addressed without external support.

Our recommendations are challenging for the authority, but we believe they are necessary to secure the scale of change that is needed. We hope that this report plays a role in securing this improvement for local residents.

It has been a privilege to carry out the work of the inspection and to work with many committed councillors, council officers and partners. We met with a wide range of people at all levels who were immensely generous with their time and provided us with significant insight and evidence for our work. We have also been provided with a large number of supporting documents which we requested for our work. The inspection team would like to express a deep gratitude for all the contribution people have made. Without that this report would not have been possible.

Paul Najsarek

Lead Best Value Inspector

Table of contents

1. Executive Summary & Recommendations **5**

Our findings *5*

Recommendations *8*

2. Scene Setter **11**

Process *11*

Biographies *12*

The Borough of Warrington *13*

Warrington Borough Council *13*

3. Investment & Borrowing **15**

Summary *15*

Investment and Borrowing History *16*

Access to PWLB loans *20*

Treasury Management Investments *22*

Commercial Strategy and Governance *27*

Audit *36*

Minimum Revenue Provision *42*

Conclusion *46*

4. Political & Managerial Leadership **48**

Summary *48*

Recent History *48*

Leadership & Culture *49*

Governance *51*

Conclusion *52*

5. Transformation & Use of Resources **53**

Summary *53*

Recent and In Year Revenue Budget *53*

Medium Term Financial Strategies *55*

Capacity, Capability and Transformation *59*

Conclusion *61*

6. Conclusion **62**

Appendix A: List of people interviewed **65**

Appendix B: Background on mentioned investments **66**

1. Executive Summary & Recommendations

Our findings

1.1 Warrington Borough Council is a traditional authority with a clear commitment to its community – especially those most in need. It also has a commitment to the welfare of its staff, strong trade union relationships and a preference for providing its services in-house where possible. The council has had until recently very stable leadership at member and officer level. This stability has helped the council run often stable front-line services, including good children's services as judged by OFSTED. Members are respectful of officers and their advice, and the chief executive and Section 151 (S151) officer have been very powerful, especially in complex and technical areas of the council's work.

1.2 The council is proud that it has not had to adopt a transformative approach to change. The council vision and priorities are very broad and expansive covering all aspects of council work. When the organisation was faced with the challenge of dealing with grant reductions from 2010, the council felt it was being unfairly targeted by central government and was focused on protecting its front-line services and community from the impact of these reductions. Paradoxically, this led a cautious, traditional authority to establish a risky and highly unusual programme of borrowing and investment with the purpose of generating income to plug the gap in grant funding. As time has passed, the extensive set of priorities have become increasingly detached from the reality of the council's revenue budget and commercial programme challenges.

1.3 For some time, there was limited challenge within the council to the commercial programme. When a larger Conservative opposition group was elected after the 2021 local elections the level of challenge and scrutiny increased. This led increasingly to an adversarial and defensive posture on behalf of the administration and senior officers and has resulted in a legacy of low transparency and openness in governance.

1.4 The commercial approach the council took has grown incrementally and without clear strong overall oversight and without a clear strategy. Rather, the council was opportunistic in considering investments. There has been member engagement in individual investment decisions brought forward by the S151 officer and with the blessing of the chief executive but the quality of the analysis and advice on the business cases has not always been strong and clear about the risks the council was taking. Members have not had the skill and experience needed to properly assess these business

cases but have been happy to support them in the interests of shielding the council from other difficult decisions.

1.5 External challenge to the programme has built over time. The external auditor who covered the accounts until 2018/19 and subsequently resigned became increasingly uncomfortable with the escalating borrowing and investments. Over time they offered the council clear advice orally and in writing (including issuing two adverse value for money (VfM) opinions which concluded that the council did not have arrangements in place to secure economy, efficiency and effectiveness in use of resources) that the programme was exposing the council to too much risk and was possibly in breach of the prudential and treasury management codes and the statutory investment guidance. The external auditor was also critical of the council's approach to determining its minimum revenue provision (MRP) and threatened formal action if the council did not change its approach to charging on its investment properties.

1.6 In addition, the council has had two corporate peer challenges from the Local Government Association (LGA), an external review by PwC and an external review by Chartered Institute of Public Finance and Accountancy (CIPFA) Business, on behalf of the Ministry of Housing, Communities and Local Government (MHCLG), over the last five years. Each of these has produced reports expressing concern about the scale of the council's commercial activity and debt and called for a recalibration and setting up of additional sources of support, advice and challenge in the form of external panels. The council has been slow to adopt the key recommendations of these reviews, preferring the freedom to continue with its programme. The council has remained until very recently very confident and assertive in defending its commercial activity. Under pressure, it is now saying it is reflecting on its position but there is not a clear, consistent shared view about the future. Next year's budget assumes further asset sales, commercial loan repayments and no new activity but we have not seen the latest projections of capital financing requirement (CFR-being the underlying need to borrow for capital spending and external debt). This new proposal to reduce debt appears to have been driven by the increasingly serious revenue budget position of the council.

1.7 Increasingly, the complexity of the commercial programme has been a test for the expertise and capacity of even its most senior officers and those reviewing its work externally. Recently, the council's auditor resigned because they did not have the skills, in relation to the council's investment in Redwood Bank, to continue with the audit. This leaves the council in a very exposed position of having a high-risk portfolio of borrowing and investments, with limited internal capacity to manage, minimal internal assurance and limited external challenge. It currently has five years of unaudited accounts

and several decisions taken by the council over that period may be challenged by any incoming auditor, impacting its financial stability. There is a very restricted group of senior officers who have detailed knowledge of the programme with only the Chief Finance Officer (S151) and his current deputy fully sighted on the commercial loans programme and high-risk treasury Investments. There are also risks with the governance of the external vehicles the council has established and joined through its commercial programme.

1.8 The existence of the commercial programme has meant the council has not felt it needed to develop its capacity for taking difficult decisions and transforming its services. There is therefore a lack of track record and experience in delivering substantial savings programmes. Over recent years and during the inspection, the council's revenue position has deteriorated with increasing overspends resulting from increases in demand, failure to fully deliver savings plans and having unrealistic budgets in several service areas. This has resulted in a significant use of reserves to balance the budget each year. The in-year position in 2024/25 is particularly serious, as is the financial gap across the Medium-Term Financial Strategy (MTFS). The council is currently in an increasingly precarious financial position, especially in absence of any external audit since 2018/19 and no auditor currently appointed who would provide the necessary challenge to the council's assessment of its financial position at the end of each financial year, which would likely result in some restatement of reserves over the period.

1.9 In summary, the council shows a number of weaknesses in meeting its best value duty in the areas of leadership, culture, governance and use of resources. The council is in a very challenging position with a complex high-risk borrowing and investment programme; no agreed strategy for dealing with it; likely reductions in income and increases in costs of the programme; an increasingly precarious revenue budget position with rapidly diminishing reserves, which might be found to be overstated when the audit of the outstanding years commences; and a lack of track record in delivering large scale savings at pace. All this increasingly puts the sustainability of the council and its services at risk. In the short-to-medium term, there may be some relief in the form of discounts from prematurely repaying Public Works Loans Board (PWLB) borrowings and taking these to revenue over a 10-year period, but should borrowings continue to increase, these will add significantly to both volatility and short-term interest costs. The inspection team is not confident that without external intervention, the council has the will and capacity to make the necessary changes.

Recommendations

1.9 Our recommendations seek to ensure that Warrington Borough Council has the leadership and expertise necessary to deliver significant change, a clear plan, and the right foundations in place to enable it to manage this change successfully. We believe it is in the interests of the residents of Warrington that these recommendations inform timely action to secure improvements in the running of the council:

(1) Appointment of Commissioners

The Secretary of State should consider appointing commissioners to oversee the council's improvement and recovery. The council's response to previous external reviews and its limited capacity do not give confidence to the inspection team that the council acting alone recognises the severity of the issues it faces and can make the necessary changes. The commissioners should possess expertise in local government leadership, financial management, commercial leadership, and transformation. Their powers should be defined as broadly as possible to enable comprehensive oversight and intervention.

(2) Corporate Plan

The council, with commissioners, should redevelop the corporate plan with sharper priorities and to reflect the actions that are needed on the commercial programme and medium-term finances.

(3) Procurement of External Expertise

The commissioners should be directed and supported to procure external expertise, as necessary, given the unique, complex, and high-risk nature of the council's borrowing and investment portfolio and the range of accounting issues it faces in the absence of any external audit since 2018/19.

(4) Commercial Strategy and Function

The Secretary of State should direct the council, with the commissioners' guidance, to develop a comprehensive commercial strategy for member approval. A suitably resourced and independent commercial function should be established to:

a. Develop and implement the commercial strategy.

b. Manage all commercial investments (including housing and commercial loans) and making recommendations for disposals and exiting loan facilities.

c. Critically assess the council's approach to managing non-specified treasury investments.

d. Establish internal governance arrangements, incorporated into the council's constitution, including a shareholder executive committee to manage all shareholder responsibilities.

e. Provide expert advice and training to members, including the executive and audit and corporate governance and scrutiny committees, on commercial matters.

f. Develop and implement a governance framework for council-owned companies based on guidance such as the UK Corporate Governance Code, CIPFA standards, and recommendations from lawyers in local government.

g. Where governance allows, align the constitutional documents of all council-related companies, partnerships, or commercial entities to a consistent standard.

(5) Debt Management and Risk Mitigation

The Secretary of State should direct the council, with the support and guidance of the commissioners, to design a process for achieving a prudent level of debt within a realistic timeframe. This should include defining principles for risk minimisation, portfolio simplification, and financial stability.

(6) Asset Disposal Strategy

The Secretary of State should direct the council, in collaboration with the commissioners, to design an appropriate disposal strategy, as part of the commercial strategy (see recommendation (3)) for its commercial assets, adhering to the same principles of risk minimisation, simplification, and stability.

(7) Transformation Programme

The council should, with the commissioners' support, design and implement a robust transformation programme. This should go beyond identifying the headline efficiencies in the MTFS, addressing deeper structural changes for sustainable improvement.

(8) Review of the Medium-Term Financial Strategy

The council should keep under active review its soon-to-be-published MTFS to ensure it is comprehensive and validates spending pressures and savings. It also needs to recognise and provide resources to offset optimism bias and allow for an adequate level of general and

earmarked reserves to reflect day-to-day budget risks and the financial risks that arise from having no audited accounts since 2018/19.

(9) Engagement with Financial Stewardship Teams

The council should actively engage with the financial stewardship team at MHCLG on its MTFS and revenue budget in the light of risks identified in this inspection. It should also liaise with HM Treasury to seek clarity of its past and future access to the PWLB funding.

(10) Audit Appointments and Risk Management

The Secretary of State should work with the Public Sector Audit Appointments (PSAA) to ensure an auditor for the council's missing years of accounts is appointed as soon as possible. Additionally, the council, with the commissioners' support, should take specific steps to manage audit risks, including securing appropriate technical advice prior to the commencement of the outstanding audits.

(11) Governance Review

The council should review its internal governance structures and update them in alignment with the latest corporate governance codes to ensure accountability and effectiveness. The review will incorporate changes set out in recommendation (3).

(12) Audit and Scrutiny Committee Structure

The council should review the structure and reporting lines of its audit and corporate governance, and scrutiny committees. This could include appointing an independent chair for the audit and corporate governance committee, ensuring it submits reports periodically to the cabinet, and fostering cross-party collaboration in scrutiny processes, with the potential for an opposition member to chair.

2. Scene Setter

Process

2.1 On 8 May 2024 Paul Najsarek was appointed as Lead Inspector of the Best Value Inspection. He was asked to look at governance; section 151 of the Local Government Act 1972 and the strength of associated audit with particular attention to the decision-making and scrutiny and risk arrangements; the capacity and capability across the organisation but particularly the finance function, and whether this is sufficient to meet the Best Value Duty; the adequacy of the authority's plans and capacity to address the recommendations made by the CIPFA Business capital review and to control its debt levels and reduce them over time; what an appropriate level of capital risk would be for the authority, with regard to the statutory guidance on Best Value Standards and Intervention; the impact the investment portfolio and its management has had on service delivery; and the prudence of financial decision making.

2.2 He was asked to judge whether the standards expected for effective and convenient local government are being upheld, decision-making in relation to those functions, encompassing leadership, governance, organisational culture, use of resources and impact on service delivery. Without prejudice to the scope of this inspection, he was directed to consider, in the exercise of those specified functions, whether the authority was continuing to make arrangements to secure continuous improvement in the way in which its functions are exercised.

2.3 Due to the calling of a general election, and the formation of a new government, there was delay in appointing inspectors to assist Paul in the Best Value Inspection. An extension was granted on 22 August 2024 and Michael Hainge and Richard Paver were appointed on 17 October 2024. The inspectors were directed to report their findings to the Secretary of State by 30 November 2024. A second extension was granted until 31 January 2025 to allow the inspection to best fulfil its remit.

2.4 The work began with just Paul Najsarek as Lead Inspector in May, conducting several interviews and reviewing documents to inform overarching hypotheses on the best value duty. When Michael Hainge and Richard Paver were appointed, further interviews and documents were reviewed, with a specific focus on the council's finances and commercial programmes. In total the team spent 10 days on site at Warrington offices, conducting over 35 interviews and staff fora either face-to-face or online. We received over 250 responses to a questionnaire issued to Warrington Borough Council staff. We also had a publicly listed email address for staff or members to contact directly. Most interviews concluded in mid-November. Following the fact-checking process undertaken by the inspection team in January,

the council provided several additional documents, including an updated MTFS, and the inspection team conducted one further interview with council staff. The council responded to document requests during the course of the inspection but not in a particularly well-organised manner. Often, we received more information than requested and in other areas they simply did not hold the information that they likely should have.

Biographies

2.5 **Paul Najsarek (Lead Inspector):** Paul has worked in leadership positions in local government and public services for the last thirty two years. He spent almost a decade as a council chief executive including six years at the London Borough of Ealing as well as roles leading corporate and front line services across a number of councils. He has also been the interim Local Government and Social Care Ombudsman, part of the team that developed Every Child Matters, and a national policy lead for SOLACE. He has significant experience in regulation, peer review, improvement and transformation. He is currently the Chair of North Central London Integrated Care Board.

2.6 **Michael Hainge (Assistant Inspector):** Michael has spent the last 20 years working at director level in the public and private sectors. He has been a director of place-based services, and a commercial director, in high-profile local authorities. For the last six years he has been a director of a specialist commercial consultancy firm. He has worked with many local authorities in this time, including providing support to local authorities in formal intervention, including Nottingham City Council and Woking Borough Council. He is an accredited commercial and civil mediator and, among other qualifications, holds the Diploma in Environmental, Social and Governance.

2.7 **Richard Paver (Assistant Inspector):** Richard is CIPFA qualified for over 40 years. He was previously a Chief Finance Officer for 27 years for county, city and combined authorities. He was previously Chair of the CIPFA Capital and Treasury Panel which oversaw the revisions to Treasury Management and Prudential Codes. He is currently Vice Chair of the CIPFA Assurance and Governance Forum which covers the codes together with internal and external audit. His recent appointments included Wirral council's independent improvement panel and undertaking, on behalf of MHCLG, the review of Tees Valley Combined Authority and the South Tees Development Corporation.

The Borough of Warrington

2.8 Warrington has an estimated population of 212,000 in approximately 97,000 households in an area spanning 70 square miles. Their percentage of the population aged above 60 is slightly higher than the rest of northwest England and overall sits roughly in the middle of councils in England in terms deprivation index. The borough is centred around the town of Warrington and extends out. The borough is located between the cities of Liverpool, Salford, Manchester, Chester and Preston.

2.9 The borough contains 18 parish councils, although the central area is unparished. It is represented by three Members of Parliament, two Labour and one Conservative as of the 2024 General Election.

2.10 Despite its proximity to significant urban retail areas, they have one of the larger shopping centres in North West England which has seen an increase in customer trade due in part to the modernisation of the town centre. The town has two main railway stations and lies close to three motorways. The River Mersey runs through the centre of the town, dividing it in two. They also have one of the municipal bus companies that survives in public ownership, Warrington's Own Buses. The borough has part of the University of Chester campus, three colleges and thirteen secondary schools.

Warrington Borough Council

2.11 Warrington has been a borough council since 1847, and a unitary authority since 1998 when it gained control of county-level functions by the creation of a new non-metropolitan county. It remains part of Cheshire for ceremonial purposes.

2.12 The council has been under Labour majority control since 2011, and prior to that was no overall control and Liberal Democrat-led. In the May 2024 elections, it went from 11 Conservative members as the formal opposition to one remaining councillor, with the Liberal Democrats forming the opposition. The council underwent a change in leader in December 2023 and subsequent reshuffle of its cabinet as of May 2024 following the local elections, with several councillors taking up new cabinet roles.

2.13 Their senior management team has been stable. At the beginning of our inspection, the chief executive had been in post for over 12 years after an earlier stint in the post, and the S151 for 14. Until the point of the inspection, they had enjoyed a period of low turnover of the executive team,

within the period of the inspection the Monitoring Officer, Deputy S151 and Director of Children's Services all left to other authorities.

2.14 In recent years, the council has had positive reports from OFSTED in relation to its services for children. As a result of the corporate governance challenges we highlight in this report, the council may not be able to offer full assurance on the quality of its services that have not recently been subject to external assessment. They have good relationships with other public sector partnerships, working well with the integrated care board, police service and chamber of commerce.

2.15 The council has been subject to several key reviews over the past few years: an LGA peer review in 2019, a PwC commercial programme review in 2020, a full SEND review in 2022, the MHCLG commissioned CIPFA Business review in 2023, and in 2024 a further LGA peer review, Children's services inspection and CQC inspection.

3. Investment & Borrowing

Summary

3.1 In recent years, Warrington Borough Council has pursued an aggressive commercial programme, which has been funded by an extensive borrowing programme, resulting in debt levels of approximately £1.9 billion as at the end of March 2024, one of the highest in local government. Borrowing has largely been through the PWLB taking advantage of historically low interest rates for much of the debt. This borrowing has largely funded a range of commercial investments, including property development, commercial loans and renewable energy projects, aimed at generating income to mitigate austerity impacts and sustain key services. Direct regeneration benefits have not been evidenced for the majority of commercial investments. The council's reliance on investment returns has significantly heightened its financial risk profile, placing it in a precarious position compared to some other local authorities. Its approach to certain aspects of capital financing and accounting, particularly its approach to charging MRP, puts its immediate finances further at risk and increases financial pressures over the medium and longer term. The council's borrowing activities have been characterised by ambitious targets, with past projections of its CFR (representing its underlying need to borrow) of £2.5 billion by 2025/26 with an authorised limit for that year of £2.75 billion (this limit allows for flexibility in borrowings for cash flow and early borrowings to take advantage of lower interest rates).

3.2 In reality, the actual levels of debt have increased at a slower rate than approved plans. These investments, while generating income, have also exposed the council to governance and compliance challenges, including adherence to PWLB guidelines, CIPFA treasury and prudential codes and statutory investment guidance. Governance structures have struggled to keep pace with the complexity and scale of the council's commercial activities. Reporting mechanisms and member oversight have been insufficient to provide a clear understanding of risks, and the council's capacity to manage, and account for, its investments internally is constrained by a lack of specialised expertise and an approach to risk which is beyond the stated risk appetite. Despite a stated pause in new commercial ventures, the council's strategy remains unclear, with significant future borrowing still anticipated as reported in its most recent treasury update to committee in November 2024 and reinforced by officers in response to questions at that committee. We are aware that a revised treasury strategy will be submitted to committee and cabinet in early February, which is outside of the timescale for this inspection.

3.3 Efforts to address these issues have been slow, with recommendations from external reviews, such as those by CIPFA and PwC, seeing limited implementation. A clearer strategy, strengthened governance frameworks, and enhanced internal capacity are urgently needed to ensure the financial sustainability of the council and to protect public resources from further risk. The recommendations section sets these requirements out in more detail.

Investment and Borrowing History

LGA Corporate Peer Challenge

3.4 From the 2024 Peer Challenge Feedback report: *"The council's level of financial borrowing, at around £1.8 billon, is amongst the most significant in local government nationally. The reliance on investment returns means the council has a very different risk profile to many other local authorities. It is vital for there to be clarity over the council's overall risk threshold in relation to borrowing and finance more generally. This threshold needs to be politically determined and fully understood by elected members, informed by statutory officer advice and the national context. The complexity and specialist nature of elements of the commercial and investment portfolio made it difficult to identify how the overall risk profile in Warrington is understood and who owns it. How the council manages, across the medium term, the financial risk that it already holds in terms of its investments will be crucial to the authority's financial sustainability.*

The whole agenda around borrowing and investments is of such significance that real pace needs to be demonstrated by all the stakeholders concerned to protect the interests of the citizens of Warrington.

We would emphasise the crucial requirement for the council to understand fully the financial sustainability risks it faces. The risks are a cumulative impact of the council's borrowing and investments plus the revenue position over the medium-term. The level of commercial activity, and its impact on the revenue budget, is such that a transparent and robust reporting and governance structure is critical for the council to understand and articulate the risks and opportunities to all stakeholders.''

CIPFA Review and Updated Position

3.5 At the time the detailed work was undertaken by CIPFA Business the profile of external debt as taken from the Treasury Management Strategy 2023/24 was as follows:

Current Portfolio Position	Principal £m	Total £m	Average Interest Rate %
Fixed Rate Funding			
- Public Works Loans Board	1,465.480		2.295
- Money Market	114.119		2.368
- Temporary Borrowing	47.140	1,626.740	1.305
Variable Rate Funding			
- Public Works Loans Board			
- Money Market	150.000	150.000	0.909
TOTAL BORROWING		**1,776.740**	2.260
Council Investments			
- Externally Managed	(126.138)		5.321
- Internally Managed	(0.549)		3.589
- Call Accounts	(84.677)	(211.364)	1.662
TOTAL INVESTMENTS		**(211.364)**	**3.982**
NET BORROWING		**1,565.376**	
Non-Treasury Investments			
- Group Entities	(306.021)		
- Loans to Housing Assoc. & Commercial	(542.075)		
- Investment Properties	(410.854)	**(1,258.951)**	
Indicative Net Borrowing (after deduction of non-treasury investments)		**306.425**	

Figure 1 The council's treasury and non-treasury portfolio position as at 31 December 2022 - from CIPFA Report

3.6 That same strategy set out the then-future plans for capital borrowing 2023/24 to 2025/26 totalling £701 million, of which £570 million represented ‘invest-to-save’ schemes and set its Authorised Limits for external borrowings as:

- Treasury Management Strategy 2023/24 Authorised Borrowing Limits
  - 2023/24: £2.656 billion
  - 2024/25: £2.783 billion
  - 2025/26: £2.752 billion or £1 billion more than the actual level of external debt in December 2022.

2024/25 Approved Treasury Management Strategy

3.7 The actual position as reflected in the 2024/25 Treasury Management Strategy was external debt as of December 2023 of £1.776 billion and forward forecasts for external debt as of 31 March and the authorised limit for each year as follows:

Year	CFR	Forecast debt 31 March	Authorised Limit for year
	£billion	£billion	£billion
2023/24	2.042	1.954	2.150
2024/25	2.198	2.097	2.307
2025/26	2.279	2.198	2.418
2026/27	2.349	2.277	2.505

Figure 2 *Treasury Management strategy 2024/25. Capital financing requirement and debt/borrowing limits*

3.8 This latest profile reflects a slowing down of the growth in both capital spend financed by borrowing and the actual level of external debt but still at levels well outside what would be expected for a council of Warrington's size and, together with its wider commercial portfolio, including Treasury Management investments, representing risks to the council's financial stability.

3.9 The treasury management mid-year update to audit and corporate governance committee November 2024 shows a lower CFR at end 2024/25 but then forecast a significant pick up in the rate of growth in the CFR over the next 2 years.

3.10 Although the loans to housing associations are facilities where the balance can be drawn down within the parameters set in the loan agreement, the continued growth in CFR is seemingly at odds with several disposals/loan repayments and actual debt on 30 September 2024 has reduced by £115 million and investments increased by £78 million.

Q2 Capital Financing Figures are given below Q2 2024/25 position:

Capital Financing Requirement	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Non-HRA	1938.718	2279.667	2349.424
HRA	0.0	0.0	0.0
Total CFR	**1938.718**	**2279.667**	**2349.424**
Net Financing need for the year	118.568	101.284	89.735
MRP & VRP	-96.428	-19.905	-19.978
Movement in CFR	**22.140**	**81.379**	**69.757**

Figure 3 Latest Update to Audit and Corporate Governance Committee November 2024

3.11 As a result of disposals/loan repayments the council has repaid PWLB loans totalling £115 million. Whilst this has generated discounts totalling £39 million, which the council is to credit to revenue over 10 years in accordance with statute, it does mean that subsequent borrowings later this year will be more expensive than those repaid prematurely and add to long term costs by virtue of the

spread of 110 basis points (bp) between loan and premature repayment rates applied by PWLB. The council have provided a narrative explanation in support of these decisions which represents VfM in a scenario when overall debt is being reduced over the short-to-medium term. If this is not the case, then repaying long term debt linked to the sale of a long-term asset would be a suitable response but repaying long term debt against a short-term commercial loan repayment produces a mismatch between asset lives/MRP and debt maturities and could lead to longer term increases in costs. It is essential that any asset disposal programme will need to be accompanied by a strategy to manage the long-term debt portfolio. It is understood that further activity to reduce debt may take place.

3.12 The council's stated strategy as set out in its Treasury Management Strategy and periodic updates to committee is to continue to increase its levels of debt despite statements to us that the commercial investment programme has either been paused or curtailed. It is imperative that if the latter, then the profile of debt needs to be reevaluated, and the borrowing strategy refined. The council's Treasury Management Strategy approved February 2024 identified a need to borrow up to £0.5 billion over the financial year to fund maturing debt and the underlying need to borrow. The council has indicated it now needs to borrow £120m to fund requirements during the remainder of this financial year. We have not had sight of the latest strategy being prepared for approval in February 2025.

3.13 Apart from £150 million borrowed in recent years from the private sector via an inflation linked bond, all recent borrowings have been from the PWLB. Notable borrowings were £300 million on 11 March 2020, days after the government launched its first consultation on restricting access to PWLB for those councils borrowing for the primary purpose of generating income. This was at a significantly higher margin over gilts as government had intervened in late 2019 to make commercial activity less attractive by increasing the margin charged over gilt rates, pending its response to the consultation. The council have explained this borrowing as taking advantage of low rates and to fund the capital programme, although this later largely comprised schemes to generate income and hence would fall within the definition of 'borrowing in advance of need'. The council has acknowledged that in the short term this debt did incur additional costs by way of 'cost of carry'. More recently, in accordance with advice from Treasury advisers, £300 million was borrowed in 2023/24 with maturity in 2024/25 which along with the prematurely repayment of long-term debt this year and the underlying need to borrow in year means that the council is creating a debt portfolio where a greater proportion is more exposed to short term interest rates and hence has a higher degree of volatility risk. That is not to say that its overall average rate is high but, in a scenario where the council may have an ongoing need

to borrow for new expenditure any further repayment of long-term debt to generate discounts will increase volatility further.

Access to PWLB loans

3.14 The ability to access PWLB has been restricted for those councils undertaking commercial activities (initially under PWLB guidance issued in November 2020 and revised thereafter). Importantly the restrictions did not apply if the contractual agreement predated 26 November 2020. In the case of the Salboys loan (30 September 2021) and several new facilities for housing loan agreements were contractually committed after that date. (Fuller descriptions of individual commercial and treasury investments are set out in the appendix). The Salboys development was one that would be likely to be fundable in the market given the funding structure with initial equity being injected by the developers and ongoing substantial market activity for similar developments. If public sector funding was required the developers would have been able to approach the government funded Greater Manchester Housing Investment Fund run through the Greater Manchester Combined Authority which was continuing to lend at that time.

3.15 We requested details of the assessed regeneration benefits, and the council referred to a generalised statement in the relevant cabinet report and which it accepts were simplistic. The report to cabinet said *"the primary purpose of the loan is to allow Salboy to build their new property in Manchester. The main purpose of the borrowing is not to generate a profit and as such the council is therefore able to proceed as set out in the report, relying on the GPOC and Borrowing Power to do so for all aspects."* We have had it confirmed that the growth directorate had no input into the scheme in so far as assessing regeneration benefit or meeting housing need were concerned. Given that the scheme was not within Warrington and was funding a 'high end' city centre development, it would have been expected to provide, for cabinet consideration, an independent assessment covering the need for public sector funding and a rationale for Warrington's, rather than Greater Manchester, funding and the economic and social benefit to the borough which otherwise would not have been achieved.

3.16 However, given the scale of the loan, the fact that the scheme would likely have been funded in the market (and as a fallback through the Greater Manchester dedicated housing fund) and the lack of evidenced regeneration benefits to Warrington, it is hard to conclude that its sole or primary purpose was not to generate a profit and therefore potentially put the council in breach of PWLB rules at that time. The relevant cabinet report recognised the restrictions which applied to PWLB borrowing but officers advised that, as the transaction was a loan, it was not covered by PWLB guidance as the

guidance in one part specifically refers to 'buying investment assets primarily for financial return' and cabinet were advised in the report that 'as the council were not acquiring land and building the restrictions did not apply'. Elsewhere in the PWLB guidance it is made clear that the restrictions apply to acquiring assets which would including loans which will form part of the council's assets on the balance sheet. In seeking further loans, the council has confirmed that it is eligible to draw down from PWLB and has continued to borrow substantial amounts on a regular basis. Internal notes of the Treasury Management Board in March 2021 stated that the loan to Salboys was 'just a financial exercise'. The council concluded that the granting of a loan for purely commercial purposes was different from buying an investment asset and PWLB would need to reach its own conclusion but, at the very least, the council appears to have acted against the spirit of PWLB's intentions.

3.17 Reviewing several schemes legally completed prior to the change in PWLB rules, would similarly conclude that their sole or main purpose was to generate income. In particular - the Hut Group loan. A facility of up to £200 million to refinance a portfolio of existing properties all of which were let. It is understood that the purpose of the refinancing was to bring the Hut Group's property portfolio into a separate ownership structure control outside of the main company. Whilst one of the properties was within the borough and the remainder in Manchester, including two city centre hotels, there is no evidence as to what benefit this would bring in regeneration terms and, moreover, it is known that there were several other parties who were willing to provide the finance. An interviewee expressed the view to us that this loan did look like a commercial deal rather than something for regeneration, they went on to say that the purpose of other transactions was open to debate and that a view from external audit would have been helpful. In all cases the Growth Directorate had no input into assessing any benefit of the schemes and legal services confirmed they solely relied on the views from the finance directorate.

3.18 Similar comments would apply to the transaction to purchase, through a development agreement, a commercial office block to be tenanted by BT in a prime Manchester/Salford City Centre location for the sum of £113 million. There is adequate evidence of the availability of private finance and the purpose of the development was to co locate BT staff elsewhere rather than growing the workforce. The nature of the transaction is different to other purchases of commercial property and contains elements which may be subject to more complex accounting arrangements. The council have confirmed that they took no accounting advice and considered it a normal transaction. However, the accounting treatment did include recording as capital expenditure, funded by borrowing, a sum of £11 million greater than was paid to the developer with the excess being treated as deferred income which was then credited to revenue account over the rent-free period granted to the tenant under

the lease. Although the timing of the transaction was after the last year of accounts audited by Grant Thornton, the auditor did confirm that at the time of the transaction they had raised questions as to the accounting treatment but had not received a response from the Council. Their 2017/18 Audit Findings Report recommended that financial reporting requirements should be discussed prior to any cabinet reports on proposed transactions. Counsel's advice recognized that the main purpose is investment.

3.19 Whilst the Hut Group Loan and BT office development were legally completed ahead of the change in PWLB rules, they would appear to represent instance of schemes whose purpose was to generate yield and contrary to the prudential and treasury codes and central government's investment guidance - all of which the council's stated strategy is to comply with. Even if it had been the case that there was a degree of regeneration benefit it would be hard to argue that this was proportionate to the level of investment and risk involved. In both these cases schemes which are fundable in the market would not correctly be classed as regeneration and counsel's advice as to powers were sought but these were predicated on there being regeneration benefits. Counsel did not address the question of reasonableness or proportionality nor seemingly raise questions about the evidence of regeneration benefits from out of area city centre developments which were evidenced as being fundable by the private sector.

Treasury Management Investments

3.20 The activities of the council for investing surplus funds (usually comprising cash backed reserves and provisions, day to day cash flow and capital borrowings made in advance of expenditure) are covered by the annual approval of a Treasury Management Strategy Statement by full council which in turn is a requirement of the CIPFA treasury management and prudential codes. Such investments are also covered by MHCLG's Statutory Investment Guidance. In the case of both CIPFA codes and statutory guidance, the priorities for investment are security and liquidity with yield as a third consideration after assurance on the first two requirements and with social and environmental benefits thereafter.

3.21 Drawing from the council's 2022/23 Annual Investment Strategy, the aim of which was stated as: *''Maintain the principal amount of sums invested and, secondly, maintain policy flexibility''*. The council's S151 officer has delegated powers to undertake the most appropriate form of investment but this is subject to security of funds being of primary importance. The strategy goes on to say, *''The council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity and in line with the council's risk appetite. In the current economic*

climate, it is considered appropriate in general to keep treasury management investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the council will also consider the value available in longer periods with high credit rated financial institutions, as well as wider range fund options.''

3.22 In practice, the council has undertaken a significant number of 'non-specified' investments which are outside the range of low risk, liquid investments which would normally form most of a council's treasury portfolio. That is not to say that non-specified investments may have a place in a council's portfolio but in Warrington's case the scale and duration of such investments (up to £100 million) was considerable when compared to overall treasury investments. In the various Annual Investment Strategies permission was sought, and given, for very substantial sums to be invested in periods of up to 10 years. The 2021/22 strategy included, for example, permission to invest up to £100 million for 10 years in the Public Sector Social Impact Fund (which Warrington was a founding partner of alongside the private sector) and up to £50 million for up to five years in Bond Funds of B- (indicating a high risk of default) and unrated debt issuers (which would have required the Council to undertake its own assessment of credit risk). A further investment which may have had limited security and, potentially, very limited liquidity was up to £50 million (£20 million any single investment) to be invested for up to 30 years in 'Forest Financial Instrument'. It is recognised that there were no such Forest investments undertaken and that there would likely have been a market for such investments ahead of maturity but no guarantee that value would have been received in the event of a 'quick sale' being required for cash flow purposes, being the reason for holding treasury investments.

3.23 Over a number of years, Warrington's annual investment strategies identify that up to 90-95% of treasury investments can be held in non-specified investments with a maximum period of investment of treasury balances of 10 years and no more than £100 million committed for a period of over five years. Against a stated strategy of prioritising security and liquidity - this is a completely opposite approach.

3.24 In terms of governance processes for such investments we have been provided with due diligence reports and decision sheets, but the latter did not provide a rationale as to why the investments met the criteria of security and liquidity particularly where there were clear risks to both identified in the due diligence reports and, in one instance, strong advice that the investment was unsuitable. It is clear that a number of individual investments were discussed at the Treasury Management Board (which involves some members and we were told that the Conservative opposition withdrew due to concerns as to the range of possible investments being discussed), but no written reports appear to

have been provided to members and, in any event, that meeting is not part of any formal governance process.

3.25 There has been an instance where losses of capital sum has occurred and been charged to the revenue account i.e. £10 million from an investment in Technology Enhanced Oil a USA investment with reported environmental benefits but high levels of risk (including currency risk) and lacking liquidity and others where such potential losses, amounting to £11 million, would have charged had it not been for the IFRS9 Statutory Override which is currently due to expire at end 2024/25) and central government is consulting on not renewing. Other loans and equity type investments although successfully repaid, had a significantly higher risk at the time of their agreement including a £6 million loan to Valley Ridge Holdings. Whilst this latter was treated as a treasury investment, it had the same characteristics as the loans within the commercial loans programme which were accounted for as capital expenditure and loan repayments as capital receipts. The fact that borrowing was not utilised would not affect decisions on the correct accounting treatment. The related transactions are in years still subject to audit. In terms of the delegated sign off, the loan was allocated to the category of 'Bond Funds' within the category 'Collective Investment Schemes Structures as Open Ended Investment Companies' and with there being no other lenders and not marketable the transaction did not fall within the identified approved category. The Council have confirmed that the loan was repaid in full.

3.26 A considerable number of investments were in property funds being run by a single manager, in some instances seemingly against the advice of CBRE who provided due diligence reviews of the proposed investments. The substantial proportion of property related investments also adds to the property exposure in the "commercial" programme.

3.27 More recent annual investment strategies have reduced both the amounts and periods for such non specified investments, but they still amount to £43 million in long term investments and £57 million in shorter term although, of this, £10 million of monies held in the Churches, Charities and Local Authorities (CCLA) Property Fund have a notice period of six months and, in certain market conditions, are illiquid. Given the substantial reduction in the council's reserves, these may potentially exceed the total sum available for treasury investments in the near future.

3.28 Whilst the annual investment strategies do contain details of the various permitted investment types, amounts and maximum investment periods it is hard to think that the members of the audit and corporate governance committee and, even less, council as a whole have sufficient knowledge to

understand the significance of what they are approving and the risks that may be entered into by the S151 without any formal reference back. This contrasts with the capital investments made by the council which do require cabinet approval and are subject to call in by scrutiny committee. Whilst delegation to the S151 is normal for day-to-day treasury activities the type of non-specified investments being made will take many months to evaluate and usually lead to specific legal contracts being entered into which would give time for full reporting to cabinet for specific approval. The council have explained that the schedule of investments was drawn from a pro forma provided by the council's treasury management advisers but, in any event, the S151 had responsibility to present to the committee/council a schedule which reflected the council's primary requirement for security and liquidity and any non-specified investments should have reflected those criteria as well as reflecting the council's stated risk appetite.

3.29 The single report we have seen was a report to cabinet in September 2019 on the Public Sector Social Impact Fund (PSSIF) and participation of the council as a general partner in setting up the fund and related roles. The report asked cabinet to note the participation and investment in the fund and referred to the 2019/20 Treasury Management Strategy statement as setting out the intention to create a new pooled vehicle. Whilst the report stated that £20 million would be invested as per the limit in the Treasury Management Strategy there is a circularity to this as the latter was approved in the absence of any detail as to what the actual investment would be. This circularity is similarly evident in the setting of overall borrowing limits which are set to reflect the aspirations of the commercial programme, but then individual investments were stated as being contained in the approved capital programme and borrowings being within the specified limits without any consideration as to whether the overall levels of spend or borrowings were proportionate and affordable.

3.30 Despite the council stating that it had regard to the CIPFA codes and government investment guidance, it has had policies and practices which have invested significant sums at greater risk and longer duration than would match the overriding criteria of security and liquidity. Whilst it is the case that the annual investment strategies have provided for such investments it is certain that members did not understand the implications of the decisions they were taking and there appears to be no evidenced consideration of the codes/guidance when individual investments were being entered into. There is evidence that due diligence reports from external parties which identify heightened risks were not followed in entering some decisions. Overall, the council's approach to managing its treasury funds has been high risk and lacking in formal oversight by the audit and governance

committee and some have been outside the parameters intended in relevant codes and statutory guidance.

Conclusion

3.31 The council has undertaken a substantial volume of borrowing in pursuit of its commercial programme and has significantly benefitted from the very low rates available, particularly from PWLB, throughout much of the period. Indeed, given the comparatively low rate of return from its property portfolio it is probably true to say that most would not have been financially viable in a time of higher interest rates.

3.32 Despite what we have been told about the ending or pausing of the commercial programme, officers have up to now been reporting plans to significantly increase the level of debt although the timing of this has been pushed back by recent sales and commercial loan redemptions. As new debt is taken on and previous debt repaid, sometimes long-term debt for a discount but also normal maturities, the volatility of the portfolio will increase, adding to the costs and risk in servicing a growing debt.

3.33 Whilst several older property acquisitions were acknowledged as solely for the purpose of generating income, several more recent very large out of area transactions have been portrayed as for regeneration purposes. No substantial evidence has been provided to prove this and we have heard and seen recorded views that a number were solely for income generation. In at least one instance, this may be in breach of PWLB guidance for eligibility to borrow. They would equally fall outside of the various codes and investment guidance with which the council reports that it complies.

3.34 The approach adopted for a substantial part of the council's treasury operation has not matched the council's stated requirement for security and liquidity. In our view, with yield sitting behind those, and social and environmental benefits a subsequent consideration, governance around such decisions by the S151 is seemingly lacking. A significant financial loss has been incurred with one investment and possible losses of £11 million have not yet hit the revenue budget due to the current IFRS9 override which currently expires at the end of the financial year. Several other investments appear to have been profitable which might offset some of the losses if the override is not renewed. The government are currently consulting on not extending the override beyond 31 March 2025. Whilst the gross cost of this might amount to circa £11 million, the council hope to offset by profits on other investments to leave a net cost of £4 million.

Commercial Strategy and Governance

3.35 The purpose of commercial governance is to ensure that an organisation's commercial activities—such as investments, partnerships, asset management, and company oversight—are managed responsibly, transparently, and effectively, in alignment with its broader goals and statutory duties. Specifically, in the context of local councils or public sector entities, commercial governance serves to:

- **Ensure Accountability**
  Establish clear decision-making structures, roles, and responsibilities to hold individuals and teams accountable for commercial decisions.
- **Safeguard Public Funds**
  Protect public money by minimising financial risks, ensuring compliance with legal and regulatory frameworks, and aligning investments with the council's objectives.
- **Promote Financial Sustainability**
  Support long-term financial health by ensuring commercial activities generate appropriate returns, minimise losses, and are sustainable over time.
- **Enable Strategic Oversight**
  Provide robust mechanisms to oversee and manage the council's commercial ventures, ensuring alignment with its priorities, such as delivering public services.
- **Enhance Transparency and Trust**
  Build confidence among stakeholders (e.g., residents, government bodies, and investors) by demonstrating transparent, fair, and ethical practices in commercial operations.
- **Standardise Practices**
  Develop consistent policies and frameworks for managing commercial entities, investments, and contracts to reduce complexity and inefficiency.
- **Mitigate Risks**
  Identify, assess, and address potential risks in commercial ventures—such as financial, reputational, or operational risks—before they materialise.
- **Drive Value and Efficiency**
  Maximise the value of council-owned assets, investments, and businesses while ensuring cost-effective and efficient operations.
- **Foster Expertise and Training**
  Ensure decision-makers have the necessary knowledge and support to make informed commercial decisions through expert advice and ongoing training.

3.36 In summary, commercial governance is about balancing entrepreneurial ambition with prudent stewardship to achieve financial and operational benefits for the organisation and its stakeholders. The approach that the council has adopted over many years shares some features with the bullets set out above, but by no means all or to the extent we consider necessary. It is true that the absence of effective commercial governance in local authorities is not only a problem for this council. However, it is a feature of other councils in formal intervention, and of councils with much smaller exposure to risks and levels of debt, where the consequence of commercial failures would be far less impactful.

Purpose of the Borrowing

3.37 Having borrowed circa £1.9 billion, which has been used in a wide range of investments, we expected to see a clear articulation of the forecast size, scale, and duration of the investment programme overall, particularly outlining the purpose for which the money was borrowed.

3.38 Various explanations were provided for the borrowing:

- To generate income so the council would not become "an agent for austerity", allowing key services to avoid cuts.
- That it was purely for regeneration purposes (an assertion demonstrably untrue in the case of some investments).
- That it was for regeneration which also produced a revenue stream.
- That it served both purposes at different times.

3.39 The inspection team's view is that the majority of borrowing was used for income generation, notwithstanding the secondary benefits of the investments the council made did, in some cases, include a regeneration element.

3.40 Alongside borrowing to achieve, at least in part, a commercial return to mitigate austerity impacts, political leadership indicated it had always been the council's intention to create a financial breathing space. This would enable a transformation programme to ensure that when the lifecycle of commercial investments concluded, service efficiencies would protect end users from negative impacts. However, the political leadership acknowledged a failure to deliver on transformation goals. This view, that the investment programme would effectively fund a transformation programme, is not always shared by officers and may explain why – given the clear discrepancy between political and managerial leadership – there was no meaningful transformation of services to achieve the efficiencies required.

3.41 Indeed, officers indicated with some pride that Warrington had avoided developing a transformation programme altogether. This disconnect between members' and officers' perceptions and intentions illustrates broader failures in governance and leadership. On a wider point, investment and borrowing proposals were not routinely shared with the council's senior leadership team (SLT). This illustrates further a lack of corporate understanding and agreement.

Commercial Strategy

3.42 Neither officers nor members were able to articulate a clear commercial strategy—a basic expectation for investments of this scale. We were instead directed to the Treasury Management Strategy and Capital Strategy, which, in our opinion, do not constitute a commercial strategy.

3.43 It was also suggested that investments were made in line with existing policies related to regeneration. However, both officers and members acknowledged their approach was more opportunistic, reflecting a mindset that "Warrington was very much open for business."

3.44 One interviewee asserted that for every investment made, ten approaches that were brought to officers for funding were rejected, though we found no evidence to substantiate this claim. The political leadership did recall that one commercial investment proposal had been refused by cabinet.

3.45 A 24 July 2017 Executive Board report titled "Strategic Property Investment" included a notable statement in its Reasons for Recommendation section: *"The opportunity for the council to use PWLB borrowing, at such historically low interest rates, in the current property market, with no government interference or control is unlikely to remain forever."*

3.46 This statement encapsulates an institutional attitude towards investments. Identifying the risk of future government interference is one thing, but using this as justification for investments raises significant concerns.

Commercial Leadership

3.47 Significant discrepancies exist between officers and members regarding the current state of the commercial investment programme. One group asserted the programme was "on pause for the short to medium term," while the other stated it had ceased entirely and would now focus on a sequence of investment disposals.

3.48 When asked about the disposal strategy, we were informed there was not one "as such" and that the approach was opportunistic, driven by external interest in specific council-held investments. This mirrors the approach taken during the investment phase. There are no clear articulation of debt reduction aims, the target size of debt, or the desired investment and risk profile moving forward. The approach is tactical rather than strategic.

3.49 The treasury management update for the November 2024 audit and corporate governance committee shows the authorised limit for external debt at £2.5 billion in 2025/26 —significantly higher than the current debt level.

Commercial Risk

3.50 Regarding property investments—such as supermarkets, distribution facilities, and business parks—we reviewed detailed business cases with structured risk registers. While officers have some expertise in property investment, their capacity and capability are insufficient for managing a portfolio of this scale. Similarly, we do not believe the depth of member experience and expertise was sufficient to inform their decision making nor to allow them to properly scrutinise decisions that had been made. By way of contrast a private sector property investment company, with a portfolio of c. £600 million, employs 25 staff—far more than Warrington's resources. The inspection team was concerned about how commercial risks were managed. Although individual property investments followed processes, aggregate programme risks were not adequately considered.

3.51 In interviews, relevant personnel expressed confidence in the council's abilities and processes but failed to fully acknowledge inherent risks. While some risks were noted in individual business cases, their aggregate impact poses the greatest concern.

Commercial Reporting

3.52 Effective risk management in commercial investments requires timely and detailed reporting. A recently introduced dashboard, reflecting recommendations from the 2023 CIPFA Business review, is inadequate.

3.53 For example, the performance of the top ten holdings by rental income only shows gross rent received (passing rent). Detailed P&L statements for each asset are absent and solar farm performance information lacks explanatory narratives or mitigation measures for stated risks.

3.54 Additionally, we were advised that the dashboard, despite its flaws, is not routinely shared with members—an oversight that raises significant governance concerns.

Companies' Governance and Board Roles

3.55 The council's legal team demonstrated a clear understanding of commercial governance, including statutory guidance. A key recommendation was that statutory officers should not serve as board directors. Despite this guidance, the chief executive remains a director on five companies in which the council has an interest. Three Birchwood Park-related companies, Wire Regeneration Limited, and Warrington Sports Holdings Limited.

3.56 Previously, he was also one of only two non-executive directors on the board of the failed energy company, Together Energy. The reasons given for his appointment to the board was that he was the only officer who had commercial experience. This is not a compelling argument. We understand the investment into Together Energy was, in fact, opposed by the chief executive. Despite this, members went ahead.

3.57 The chief executive's board membership of Warrington Sports Holdings Limited, the company that owns the local rugby league club and in which the council holds a 12.8% share, was described to us as being "on a personal basis." While such roles are always personal (along with the statutory duties and liabilities that accompany them), ignoring his own colleagues legal advice is concerning. The chief executive also personally holds a single share in Warrington Borough Transport Limited. While technically lawful, this raises significant perception issues. To external observers, a council official owning equity in a council enterprise is hard to justify. When requested, we were not provided with any legal reason why this should be the case.

3.58 In October 2020 PwC produced a document, Independent Governance Review of the Commercial Programme. The Review contained several observations and recommendations.

3.59 On 8 February 2024, audit and corporate governance committee received a report from the then Monitoring Officer, Governance of Subsidiary Companies Review. Referring to the PWC review, the report asserted: "*The PwC report was very positive regarding the Council's Commercial Governance system and reported: 'A framework for governance is in place and the strategic direction of the Council is clearly defined and understood by members and officers.'*" (PwC Governance Review October 2020).

3.60 The selective use of this quote is in our view unrepresentative, and is inconsistent with, the overall findings of the review, which provided for more than 50 recommendations, some critical in areas such as providing minutes, reviewing terms of reference, dealing with conflicts of interest, failures to report decisions within required timescales, risk management reporting without updates or actions, and insufficiency of updates for strategic overview.

3.61 Nevertheless, the report to audit and corporate governance committee, some three years and four months later, refers to 22 recommendations made by PwC. Very few have either been implemented or rejected.

3.62 The apparent reluctance to implement the recommendations is reflected in the council's response to other external reviews and reports over recent years. The council often accepts in full a report's findings and then fails to implement the recommendations, such that this has become, in our view, an institutional behaviour.

Example of commercial governance failure

3.63 At the very last moment, the council responded to the inspectors' requests for company governance information, organised in a manner that reduced the time the inspectors needed to spend during this inspection, and therefore cost to the council for doing so. The council's response took several weeks, considerably outside of the statutory limit.

3.64 In the end, the request was still not complied with in full. This in itself is indicative of a lack of grip and effective commercial governance, as it suggests that the information that was requested was not readily available.

3.65 Analysis of the information provided has raised many concerns. In the interests of economy, the inspectors have focussed on one example in detail for this report.

Cirencester Solar Farm Limited (CSFL)

3.66 We would expect any limited company, especially one owned by the public sector and into which public funds have been invested, to demonstrate the highest standards of commercial governance. Standards which CFSL have clearly failed to achieve. In particular, there is inadequate separation between the entity of the company and the entity of the council. This is important for many reasons, and failure to achieve such a separation has been a hallmark of the failure of other local authority owned companies, sometimes with severe financial implications.

Board minutes

3.67 Inspection of the company's board minutes and agendas show a concerning lack of detail. As a minimum, as well as the usual items relating to quoracy, conflicts of interest etc, we would expect to see the following as standing items on the agenda:

- Performance against business plan
- Detailed financial performance including, current view of outturn turnover, profit before tax, expected year end cash balance
- Risks
- Health and Safety
- Shareholder consent matters

3.68 These are not present in the agendas we have seen, with the exception of a section entitled "Finance and Performance". The information provided under this heading is insufficient. By way of example, under this agenda item, the board minutes of 11 September 2023 state that "The site is making good money". Similarly, the board minutes for 29 January 2024 record that "Performance is fine". In each case, no further detail was provided.

3.69 It is also notable that the two fires on the site of the solar farm that led to the shutdown of all energy generation during the summer was not adequately discussed, debriefed nor lessons learned at board level.

Board membership

3.70 The company has two directors, both of whom work for the council. One of these is referred to as a locum, presumably to reflect the indirect employment arrangements. In attendance at each meeting, and actively participating, as demonstrated by the minutes, are various other council officers including at various times the S151 officer, Head of Corporate Finance, Director of Law and council solicitors. None of these are shown at Companies House as being directors of the company. However, it is our view there is a risk that they are, in fact, shadow directors. In the UK, a shadow director is specifically defined under Section 251 of the Companies Act 2006 as: *"A person in accordance with whose directions or instructions the directors of the company are accustomed to act."*

3.71 Even from the limited board minutes, our view is that this definition may be fulfilled. The consequences of being a shadow director create a number of duties and liabilities but more

importantly raise questions of transparency and accountability as shadow directors, by their nature, are not listed on public records at Companies House.

3.72 We noted that the 2023/24 accounts approved by the board and submitted for audit prior to being lodged with Companies House recorded no related party transactions and no reference to the post balance sheet event of the refinancing of the debt through a mix of new debt and equity.

Repayment of WBC loans

3.73 The cabinet report of 11 March 2024, titled "Refinancing to Cirencester Solar Farm Limited", causes the inspection team further concerns.

3.74 The relevant director is the S151 and senior responsible officer (SRO) both, in our view, may well be shadow directors. There is no disclosure of this fact in the report.

3.75 The council appointed TradeRisks to consider the level of debt funding that "can be commercially supported by the project." The cabinet report frequently justifies the recommendations and position taken by reference to TradeRisks report, provided in January 2024. However, TradeRisks identify a serious lack of information in section 5 as follows: *"The refinancing analysis is based on limited information available on the asset. In particular, we would expect to have access to a number of third-party reports on the asset covering various matters. These include:*

- *Technical – a detailed of the condition of the project including asset life and anticipated maintenance and lifecycle costs over the life of the project;*
- *Commercial Report – a review of the anticipated revenues to be generated from the asset;*
- *Legal – a summary of the legal ownership and various contractual rights associated with the project;*
- *Financial – a review of the financial performance of the Project; and*
- *Environmental – a review of potential environmental obligations of the Cirencester SPV.*

In the absence of the above key information, for the purpose of this analysis we have relied largely on the financial model projection provided by WBC. We have therefore also assumed that the due diligence reports noted above, would not identify any significant issues with the project that could adversely impact on the financing."

3.76 These limitations seriously undermine the value and validity of the report as it has been presented by officers. Although it was provided in full to the cabinet, officers placed a reliance on its recommendations to an extent that was inappropriate.

3.77 Nevertheless, TradeRisks assessed the level of debt funding that should be made available at a level that was less than half of that owed by the company to the council. To overcome this shortfall, officers recommended that the company should issue more shares in return for the amount that could not, from the advice given, be covered by a further loan. By doing so they effectively prevented the company from becoming insolvent.

3.78 Various alternative arrangements as to the nature of this debt for equity swap are proposed in the report. The essence of the proposal, however, is that a company - which the council already owns in full - should issue more shares to the council for the effectiveness forgiveness of c.£15 million of debt. This additional equity gives no advantage to the council and is, in itself, of no net value as any value the new shares carry must be to the detriment of the council's existing shareholding. Issuing new shares does not increase the value of the company. We have seen the minutes of the Board meeting on 11 September 2023 which records that a valuation had taken place and that it showed a considerable reduction in value, but this has not been shared. The valuation of the company, and consequently the valuation of the shares and loan, was not shared as part of the cabinet report. It was noted that the officer decision to give effect to the cabinet decision is dated 8 May 2024 which means that the refinanced loan, and particularly any impairment, is subject to the latest MRP rules effective from 7 May 2024 which apply from that date in relation to covering any impairment through MRP. The risk register accompanying the main report dealt solely with the loan portion of the refinancing despite the equity element clearly carrying substantially greater risks.

3.79 Section 7.9 of the cabinet report makes the following statement: "*On the basis that the overall proposals are in line with TradeRisks recommendations then the Refinancing Loan and debt/equity swap are likely to be compliant with subsidy control requirements. This should also ensure that pursuant to Local Government Act 1988 there is no 'gratuitous benefit' being granted.*"

3.80 The TradeRisks report does not consider Subsidy Control implications at all. The financing level they recommend, and the commercial nature of that financing, could indeed be used to argue that Subsidy Control requirements may be met, but not in respect of the debt for equity swap as is clearly implied above. Indeed, we are concerned that the debt for equity swap may be in breach of Subsidy Control requirements, and this is an area that should be re-examined urgently. The September 2023 valuation

results would suggest that there is no parity between the then existing debt and the new equity being issued to redeem it. We were subsequently provided with a further valuation report dated May 2024 which was, presumably, to support the 2023/24 accounts and was based on forecast activity over coming years. Given its timing, it will not have reflected the virtual shut down in generation over summer 2024 due to technical problems on the site which are currently the subject of an insurance claim. It would be expected that auditors would require an updated valuation to reflect the latest circumstances post the balance sheet date.

3.81 The tax implications of the debt for equity swap do not appear to have been considered either by the company or the council. In certain scenarios, forgiveness of debt is regarded by HMRC as a taxable benefit to the company. There are also certain exemptions that may be available dependent on precise circumstances. The tax position needs to be established urgently.

3.82 The example given above is not an isolated one but illustrates many common shortcomings in the commercial governance applied to the council's suite of borrowing and investments.

3.83 These shortcomings adversely impact the management of risk, financial performance and sustainability, accountability, transparency, public trust, and the effective stewardship of public funds.

Commercial oversight by Members

3.84 The inspection team was struck by the lack of detailed oversight by members, particularly concerning the audit and corporate governance committee's functioning. We interviewed previous and current members of the committee as well as one of the two new independent committee members. Further consideration of the committee may be found below.

Audit

Audit of accounts

3.85 For both 2015/16 and 2016/17 Warrington received prompt audit opinions and in the latter year was one of relatively few councils to receive their audit opinion by the then deadline of 31 July 2017.

3.86 The 2017/18 annual accounts were finally signed off in March 2023 with the March 2023 audit and corporate governance committee receiving the final audited accounts and Grant Thornton Audit Findings Report (AFR). The latter reported that the audit process was protracted for both parties after work started in June 2018. The initial cause of the delay arose from a formal objection to the council's

investment in Redwood Bank and, subsequently, the accounting issues in relation to Redwood Bank and Birchwood Park. There were complementary issues with continuity and availability of banking skills in the Grant Thornton team. Grant Thornton's VfM conclusion assessed weaknesses in relation to the council ensuring financial stability and the management of financial risk. It went on to identify the following specific weaknesses:

- MRP policy was not in accordance with statutory guidance (more detailed extract from AFR below).
- Compliance with prudential code.
- Monitoring and reporting on investments.
- Decision making process for the Redwood Bank investment.

3.87 In response to the objection Grant Thornton concluded not to seek a declaration from the courts or issue a public interest report.

3.88 In respect of MRP, the council did agree, in its 2022 Treasury Management Strategy, to make a charge in relation to investment properties although they have treated as a voluntary overpayment as they have continued to disagree with the auditor's view. However, the AFR did report the following in respect of the approach being taken by the council in relation to the post 2017/18 approach to MRP: *"The revised MRP determination provided a MRP charge on most commercial investments, which is a positive step towards compliance with the Guidance. However, we have provided further challenge on the revised MRP policy. The remaining issues, which do not directly impact on our assessment for 2017/18 but do potentially impact MRP charges in future years, include:*

- *The lack of MRP charge on Redwood Bank until five years after acquisition.*
- *Omission of Together Energy investment from the revised calculation we received.*
- *£6.4 million discount applied to 20/21 MRP charge, and*
- *The affordability of the use of the annuity method to calculate the MRP charge on commercial investments over the expected life of those assets."*

3.89 The Grant Thornton report refers to a letter they sent to the council's chief executive in May 2020 which is, in part, covered elsewhere in the MRP section. The 2018/19 accounts were finally concluded in June 2024 with the Audit Findings draft report submitted to the audit and corporate governance committee in April 2024. The auditor issued a qualified opinion on the accounts with the opinion modified due to a limitation of scope imposed by management.

3.90 Again, the external auditor reported a challenging process. In addition to the issues reported for 2017/18, there were substantial issues to resolve around International Financial Reporting Standard 9 (IFRS9). In terms of their VfM opinion, which had an adverse conclusion, Grant Thornton reported the same issues as in 2017/18. On MRP, the auditors reported that the council had amended its MRP policy to include investment properties but that no charge had been made for Redwood Bank. Although the auditor reported the eventual charge was compliant, they felt the estimate would have been more prudent if increased by £2.57 million which was less that the level of materiality applied to the audit in that year.

3.91 In respect of Redwood Bank, the auditors requested that the valuation recorded in the draft accounts be restated due to a material overstatement of £26.1 million and an end valuation of £4.3 million. Despite this substantial level of write down it is noteworthy that the council still intended to charge the associated borrowing to MRP over a 50-year period, with a nil charge for the first five years, whilst the statutory guidance for MRP relating to share capital is 20 years.

3.92 The audit opinion for 2018/19 was modified due to a limitation in scope due to management not providing information to assess whether loans to solar companies, which occurred after the reporting period, were materially impaired or not. The council have offered an explanation that this approach was agreed with the auditors to allow the audit to be completed as awaiting such an assessment would have created further delay and that they would provide such an assessment for future years audits.

3.93 After the completion of the 2018/19 audit, Grant Thornton resigned as external auditor as the firm no longer had the experience of banking audit which they needed to audit the Warrington group accounts, which included Redwood as an associate. This covered the years 2019/20 -2022/23 i.e. four years for which they had previously been the appointed auditor. At this time, Warrington is in the unique position of having no external auditor appointed.

3.94 Under the arrangements for appointing external auditors, Warrington have opted into the arrangements put in place by PSAA, whereby PSAA carry out a national procurement process and appoint auditors to those councils (the vast majority) which have chosen to opt in. In late 2022, following the periodic procurement and auditor appointment process, PSAA had appointed Mazars as auditor for the period from 2023/24, but they are unable to take up their appointment until the issue of the four intervening years is resolved. At the current time it is unclear when any appointment for this period will be made, a problem made more difficult by the government specifying statutory

backstop dates for all councils and their outstanding years of accounts which is adding to the national pressure on external audit resources. The council have indicated that they are in regular dialogue with PSAA to progress the outstanding appointment.

3.95 In the absence of an external auditor for, currently, five complete and one active financial year, there are significant risks to the council in whether its stated financial position is correct, most significantly its assessed level of useable reserves, which are under significant pressure due to current year levels of overspend and potential call on reserves to offset risk in delivering next year's budget. This is particularly the case in terms of the council's stated policy for charging MRP which has been a subject of disagreement with external audit over many years as to whether it meets the statutory requirement for 'prudent provision'. This is addressed further in the section on MRP and in the above detailed extract from the 2017/18 AFR. There may well be other accounting issues to resolve including the development agreement for New Bailey, previously referred to and the likely impairment of the Cirencester loan as at 31 March 2024 and the subsequent debt for equity swap, neither of which are reflected in the unaudited 2023/24 annual accounts. Given the limitation in scope in the 2018/19 audit opinion relating to the loans to solar companies these will inevitably be subject to detailed review. Other areas of the council's accounts will inevitably prove challenging to audit-asset values, pension fund valuations but these largely, do not impact on the bottom line. The absence of any audit for five years also leads to no VfM opinion nor addressing questions of legality etc. which are a significant gap in the wider assurance process.

3.96 Leaving aside the above issues, the fact that so many years of accounts and VfM judgements are outstanding will require a very substantial staffing input from both the council and appointed auditor to progress. The council will need to dedicate sufficient experienced resource full time to this work, possibly over several years and such staff will require skills and experience which go beyond the those normally found in local authority final accounts teams. Likewise, any audit firm will need to dedicate skilled resources for the duration as the complexity of the accounts is not something that a 'rotating' audit resource will be capable of taking forward. It will take a 'working together' approach from both parties over many years to finally get the audit of accounts up to date. The council's lack of meaningful engagement with its previous auditors over the 2017/18 and 2018/19 accounts cannot be allowed to be repeated. A further risk to the council is a substantial body of knowledge, in particular relating to the commercial programme, borrowings and treasury investments, sits with a very small number of staff and retaining sufficient corporate knowledge will be essential.

Audit and Corporate Governance Committee

3.97 Historically, up to the 2021 elections, the audit and corporate governance committee was largely ineffective. Its membership was overly large, lacked independent input, and addressed issues outside the typical remit of an audit committee. The absence of meaningful challenge further diminished its impact. Following the election of 11 Conservative members, two of whom joined the committee, its operations became adversarial and partisan, stifling debate on significant issues. Conservative members' proposals were reportedly voted down despite presenting substantive points. Long-standing issues, such as disagreements between management and external auditors over the calculation of MRP, were exacerbated as external auditors felt their views were overlooked by most committee members.

3.98 Although earlier having been raised by Warrington officers, the 2019 LGA Peer Review recommended that the council include independent representation in committees like the audit and corporate governance committee to enhance governance and challenge. However, progress was slow not least due to resistance from the then audit and corporate governance committee chair. It was not until April 2021 that the committee, following a Grant Thornton update, agreed to recruit up to two independent members. A working group formed in February 2022 defined the terms, offering a modest annual payment of £700. Despite advertising, no candidates applied. The recruitment process resumed in 2023 with increased fees, culminating in the appointment of two independent members in March 2024. However, these members did not attend a meeting until July 2024, missing three sessions in the interim.

3.99 The independent members bring valuable skills, including expertise in risk and experience from other challenged councils. Their qualifications and initial contributions, as observed in discussions, suggest they could significantly enhance the committee's capacity to hold the cabinet and officers accountable. However, the protracted delay of nearly five years from the 2019 recommendation to their effective involvement highlights a significant governance gap.

3.100 The committee's shortcomings are evident in its failure to follow up on critical audit findings. For example, the 2017/18 audit findings report and subsequent recommendations saw minimal progress, with some marked as complete despite disagreements with auditors, others partially addressed, and several entirely ignored. The absence of follow-up reports on the findings from 2017/18 and 2018/19 underscores a serious deficiency in the committee's assurance role.

3.101 Moreover, the committee lacks a formal reporting mechanism to the cabinet or council. Its minutes are neither submitted nor discussed, and the chair does not meet with the Council Leader or portfolio holder. This lack of communication is particularly concerning given the council's substantial risks. Additionally, committee meetings are neither recorded nor live-streamed, limiting public transparency despite the gravity of issues on its agenda.

3.102 Efforts to refocus the committee's remit and appoint independent members are positive steps, but the committee must adopt a more challenging, less partisan approach. Appointing one of the independent members as chair could help shift the dynamic, enabling the committee to set its agenda rather than simply responding to officers. Live-streaming meetings would further enhance accountability and transparency.

3.103 The committee's oversight of the council's commercial activities has been inadequate. Before 2021, evidence suggests minimal scrutiny of decisions related to commercial investments. The 2021 election brought a significant Conservative presence to the committee, introducing a more robust challenge to officers. However, this period was marked by conflicts, with accusations of poor behaviour from both sides. The council's subsequent decision to reduce the committee size to six members plus two independents—aligned with best practices—was criticized as an attempt to curb the influence of dissenting members. This change effectively necessitated cross-party support for motions, further diluting minority party representation.

3.104 The person specification for independent members raised concerns, as it included a directive to "temper the views" of other members, an inappropriate expectation for such roles. The reduction in committee size and the framing of independent roles suggest attempts by the council to control dissent rather than address underlying issues of governance and behaviour through appropriate channels, such as the Members' Code of Conduct.

3.105 The committee's minutes are not routinely shared with the full council, undermining accountability. Interviews revealed scepticism about the internal audit team's capability to address complex areas like commercial markets, with only a handful of officers possessing the requisite expertise. Without significant changes in leadership, support, and resources, the recent appointment of independent members is unlikely to address these structural and cultural issues effectively. The committee must adopt stronger chairing and oversight practices to drive the necessary improvements.

Internal Audit Capacity and Capability

3.106 Along with other authorities, the internal audit function in Warrington had faced significant reductions in staffing and reached the point where the audit committee agreed with the assessment of the Head of Internal Audit that audit resource and plan coverage were inadequate. Finance was made available in the 2024/25 budget to allow the recruitment of two additional staff but, to date, posts have been filled by internal promotion which has left further vacancies in the team, one of which has recently been filled. It was noted that the audit team have an income fee target and undertake reviews of some schools and academies thereby reducing the resources that are available for the core programme. The 2024/25 audit plan was scoped without assuming that the new posts would be filled for the whole of the year. Reports to audit committee do not identify the days of audit resource being applied either in total or to the various parts of the plan. Reviewing progress on the plan as reported to November committee the 2023/24 planned review of core treasury management functions still has no start date identified and work on reviewing the implementation of the CIPFA Business review recommendations is suspended pending the BVI.

3.107 The audit team does not have the skills to undertake reviews of the council's extensive commercial programme or non-specified treasury investments. No financial resources have been made available to allow these more specialised reviews to be commissioned.

Minimum Revenue Provision

3.108 There has been a history of questions and comments over many years as to the council's approach to MRP and as to whether it represented a ''prudent provision'' as required under the statutory guidance. The first challenge to their approach related to the 2010/11 accounts and the treatment of the Golden Square shopping centre where the council took counsels opinion, and their view prevailed over that of the then district auditor as how MRP on the asset was calculated in future accounts.

3.109 The audit of the 2017/18 accounts witnessed a further review by the external auditor in relation to the question as to whether MRP should be charged on investment properties and following the external auditor advising that he would seek a statutory declaration, the council agreed to make an MRP provision although they described it as 'voluntary' to reflect their view that such a provision was not required. Detailed comments from external audit in relation to their views on post 2017/18 MRP are set out earlier. The 2018/19 annual audit letter reported that whilst the charging of MRP on investment assets had been agreed they considered that a more prudent approach would have been

to increase the provision by £2.5 million to reflect an appropriate charge for Redwood Bank. Given that this sum was less that the assessed level of materiality in the council's accounts, it did not prevent the audit on that year's accounts to be signed off.

3.110 At various times the council has sought to reduce the MRP charged to the revenue account. In some cases, there are arguments that the guidance at the time did not give clarity as to the appropriateness of the treatment of individual or classes of assets and/ or historic practices. However overall, the council has, for several years, made MRP provision which an external auditor in looking at post 2018/19 accounts is likely to conclude is not prudent.

3.111 Since 2017/18 the history of MRP (which is in respect of the CFR at the end of the preceding financial year) has been as set out below although it is acknowledged that the council has provided a reserve (currently standing at £8 million) to allow for upward reassessment of MRP in respect of investment properties in the period 2019/20-2022/23). Figures up to 2018/19 are taken from audited accounts, then to 2023/24 reflect unaudited draft accounts, 2024/25 onwards are estimates provided by the council although we have seen figures suggesting around £19 million for 2025/6 onwards.

Year	**End year CFR**	**MRP charge**
	£m	**£m**
17/18 audited	711	0.3
18/19 draft accounts	792	0.3
18/19 audited accounts	889	2.7
19/20	968	5.6
20/21	1276	0.9
20/21 (restated in 21/22 accounts)	1579	-
21/22	1677	8.0
22/23	1846	6.0
23/24	1916	17.1
24/25	-	22.3
25/26	-	28.9
26/27	-	30.8
27/28	-	31.4

Reserve of £8 million set aside to cover further MRP charges up to 2022/23

Figure 4 *Summary of year end CFR and actual/budgeted MRP*

3.112 In reaching a view as to the adequacy of MRP provision over the years 2019/20 to 2022/23, any new auditor will undoubtably consider the following issues, most of which were identified by Grant Thornton in their 2017/18 AFR:

i. Use of annuity method to apply to pre 2007 debt as reassessed in 2015 which led to a calculated reduction in MRP over the period to 2024/25 of £12.6 million including an assessed overpayment of £8.5 million which was applied to reduce payments in 2015/16 and the next three years. This change in methodology was reported in detail to the audit and corporate governance committee including a detailed assessment of the changes over a 50-year period and accepted by them that it represented a more prudent approach. Its cumulative impact is that up to 2048/49 it increases (maximum increase of £12.6 million in 2024/25) the CFR and only representing a lower level of CFR thereafter. At the time the statutory guidance did allow changes in methodology and did not prevent the taking of credit for any calculated overpayments which then arose. The years up to 2018/19 have been the subject of external audits.

ii. Use of unapplied capital receipts directly to reduce MRP charge in 2015/16 and following few years. This was reported to Audit and Governance, but the impact was not illustrated nor explained why this was a prudent approach i.e. capital receipts were not being used to pay down debt or to finance new spend which, in turn, would need to be funded by borrowing. Whilst it was generally accepted at the time that this did not meet the statutory requirements of MRP being a revenue charge, it was one accepted by auditors in a small number of Councils

iii. Use of annuity method in relation to investment properties. This was reported in detail to the audit and corporate governance committee including modelling of the buildup over a 50-year period. The auditor reported their disagreement to this approach but assessed that the impact was not material in relation to the 2018/19 accounts. It could be argued that this is prudent if the investment assets retained or increased their value and/or income grew over time which introduces an element of risk and was not the case at the time the annuity approach was agreed. Subsequent reductions in investment values have been recorded in the accounts but not in any revisiting of the continued use of the annuity method

iv. Using a 50-year MRP period in respect of the council’s investment in Redwood Bank, with a nil charge for the first five years. The statutory guidance prescribes a maximum period of 20 years for the acquisition of share capital. The £30 million investment was impaired to £4 million in the audited 2018/19 accounts and the assessment of MRP remains. The auditor reported he felt that an increased provision of £2.5 million in 2018/19 would be more prudent.

v. Investment in Together Energy, initially no MRP was applied until 2023/24 The investment of £18 million equity, which may well need to be fully impaired, is now having a 20-year MRP period applied.

vi. Time Square investment which comprises a number of discrete assets, which are being completed at varying times are being treated as a single asset in the accounts for the purpose of transfer from 'assets under construction' to 'assets in use 'thereby delaying the assessment for MRP. In practice MRP is being charged from 2024/25 although some of the assets were in use from 2018/19 onwards.

vii. Voluntary overpayment assessed in relation to 2020/21 and subsequent years arising from past use of capital receipts and revenue contributions in the period 2004/05 to 2017/18 to reduce the need for borrowing in the first instance. This amounted to circa £20 million applied over the period from 2020/21 and increases outstanding CFR by that amount once the full 'overpayment' has been applied to reduce the revenue MRP charge. Although this approach was put forward by an external commentator, it was identified as something external audit had 'challenged but never signed off on'. The council have not provided any evidence that it is an approach accepted by external audit elsewhere. It is also notable that this 'voluntary' MRP and its use were not identified in the annual MRP policies at that time, which is a requirement of the statutory guidance.

3.113 Whilst the legal requirement is that the council is required to make a prudent provision and some of these approaches, taken individually, may be argued to be allowable under the statutory guidance, the overall level of provision in respect of the years still subject to audit is likely to be challenged by a new auditor.

3.114 In normal circumstances the auditor would expect to be consulted ahead of any such approaches being adopted. However, in the absence of an appointed auditor for the years from 2019/20, no such consultation could take place with any incoming Auditor (although Grant Thornton did set out their initial thoughts in the 2017/18 AFR putting at risk the council's assessment of a 'prudent provision' over several years). The issue of incorrect application of MRP has been a recurrent theme in many of the councils which are showing financial distress.

3.115 It is acknowledged that the council's various MRP policies as presented to audit and corporate governance committee and council do set out in narrative these approaches. However, it is

considered highly unlikely that they understood either most of the proposed methodologies being applied and certainly not the overall impact on reducing MRP and the consequent increase in the level of CFR compared to applying 'prudent provisions' might have produced. The council has not produced an illustration of the overall impact of MRP decisions over the medium to long term but has adopted a series of methodologies and arguments designed to substantially reduce the charge in the near term.

Capacity and capability

3.116 The capacity and capability of Warrington Borough Council to manage its extensive programme of commercial investments and companies are a significant concern. The council's portfolio, involving complex and high-value investments across property, renewable energy, and other commercial sectors, requires specialised expertise and robust governance frameworks. However, the council's internal resources, including staffing levels and skills, appear insufficient to effectively oversee and manage these assets, resulting in a high reliance on external advice. Unlike private sector organisations of comparable portfolio size, which typically employ dedicated teams with deep sectoral expertise, the council has limited personnel and technical capability to handle the scale and complexity of its investments. This shortfall has been compounded by unclear strategies, inadequate risk aggregation, and a lack of independent scrutiny, leaving the council vulnerable to financial and reputational risks. Equally the council does not have the necessary financial accounting capacity and skills to deliver to the requirements of five outstanding years of accounts as well as production of current years. This goes beyond normal local government requirements and is likely to require bought in resource to oversee the commercial aspects of accounting.

3.117 Just as the council was not properly equipped to acquire and manage its current commercial portfolio, neither is it equipped, on its own, to safely de-risk, manage and reduce the scale of the portfolio. Addressing these gaps and strengthening governance mechanisms is essential to ensure the sustainable management of its commercial ventures.

Conclusion

3.118 Warrington Borough Council faces significant challenges with financial sustainability, governance, and risk management. With £1.9 billion in borrowing—among the highest in local government—its reliance on investment income creates substantial financial vulnerabilities. The council's borrowing strategy projects £0.5 billion will be needed to refinance maturing loans and fund capital demands, highlighting the urgency of addressing its growing financial exposure.

3.119 Governance and capacity issues further exacerbate these risks. Weak oversight, unclear accountability for the council's overall risk profile, and a lack of internal expertise undermine effective management of its complex portfolio, increasing reliance on external advice. Questions over compliance with national prudential codes and PWLB guidelines raise concerns about the council's ability to access future funding. Meanwhile, inadequate transparency and reporting hinder stakeholder understanding and trust.

3.120 To address these challenges, the council must refine its borrowing strategy, establish clear governance structures, build internal expertise, ensure compliance with national standards, and improve reporting transparency. It needs a substantially more robust approach to its MTFS and in year budget delivery and must reduce reliance on reserves to both balance the budget and offset in year overspends as they are now running at a perilously low level and, in any event, are likely to be overstated.

3.121 These steps are critical to safeguarding financial stability, protecting public assets, and rebuilding confidence in the council's operations.

4. Political & Managerial Leadership

Summary

4.1 Warrington Borough Council is proud of and committed to its town and residents, runs some good services and has positive relationships with its partners. It is a traditional authority with a broad general vision and a significant number of priorities. Members are highly respectful of powerful officers and there is a defensiveness to internal and external scrutiny. This results in a low challenge culture. The Council feels unfairly treated by government grant allocations and sees change of government policy as the most likely way out of its current challenges. It has tried to avoid and delay large scale transformation and difficult decisions through a large, highly complex and risky commercial programme. The leadership approach, governance and culture combined with this commercial programme have left the authority in an increasingly precarious financial position which puts the council's sustainability at risk.

Recent History

4.2 Warrington became Labour controlled in 2011 and has remained so ever since. While there have been a number of changes in the make-up of the political leadership team during this time there has been a very stable officer leadership team. The chief executive and S151 officer have been constants during this period. This had coincided with the period of 'austerity' in government funding of local authorities.

4.3 Other political groups have changed in scale of representation during this period. Notably there was a significant increase in Conservative councillors in the period 2021-2024 when they formed the opposition to the administration.

4.4 The council's commercial programme has evolved incrementally during this period with the chief executive and S151 officer the consistent part of the leadership of the programme during this time. There are different views expressed across officers and members on the genesis of the commercial programme and how it has been led. The evidence the inspection team have seen does not support the claim made by some that the commercial programme has been 'member led'. Members were happy to support it as a way of avoiding what they saw as the inevitable consequences of 'austerity', but its longevity and complexity mean that a small group of officers (the S151 officer, deputy S151 officer and chief executive) have been pivotal to its development.

Leadership & Culture

4.5 Warrington is a traditional labour authority with a strong commitment to its community, strong partnership with Trade Unions and staff and a preference for providing services in house. Members have a high respect for officers and officer advice which can manifest as a low challenge culture. Officers are led by a powerful chief executive who has had high levels of respect from administration councillors.

4.6 The council feels unfairly treated by government grant allocations and has a tendency to focus on what it perceives as the external causes of its challenges. Members and officers often express a change of government policy as being crucial to the council's future improvement.

4.7 The council sees itself as central to the town and has direct involvement in key local institutions. This often expresses itself through formal and informal council officer participation in the boards of key town organisations and partnerships. Partners are positive about relationships with the council.

4.8 The council's vision and priorities are very broad and relate to all parts of the council work and the life of the Borough. They do not provide a clear framework for prioritising capacity and focus and for making difficult resource decisions.

4.9 The council's commercial programme does not feature centrally in its vision and priorities. There are various descriptions given of the purpose of the programme. Members overwhelmingly see it as focused on income generation, while officers describe it most recently as having regeneration purpose. Crucially, for members the programme has been seen as means of protecting the council and its services from austerity. Paradoxically a traditional authority has adopted a highly unusual and high-risk commercial programme. Increasingly, the council's visions and priorities, its revenue budget position and the commercial programme are misaligned. A large number of priorities, a precarious revenue budget position and a high-risk commercial programme are now clearly in tension.

4.10 We set out elsewhere the uncertainty about the contribution the commercial programme has made to the council's revenue position. Nonetheless, as they see it, they have not had to develop and implement a significant transformation programme to change the way the council operates and manage with reducing resources. This has also meant members and officers have not had to take the difficult decisions that have been common in other authorities. The lack of track record of transformation and difficult decisions are now significant risks to the council.

4.11 This had provided a context where officers have largely been able to focus on service delivery without significant corporate and cross council working. Warrington has a range of performance across its services but has a notable strength in its children services which has received positive ratings from OFSTED in recent inspections. The council has also managed its SEND services well. Given the weaknesses we have found in corporate governance, we take limited assurance on the quality of services in areas that have not been subject to external assessment recently. The council has also developed a number of positive regeneration projects in the Town – notably its work in developing Time Square. Warrington remains a proud town with a busy town centre.

4.12 When the prevailing council culture was faced with an assertive and challenging opposition from 2021 the political and officer leadership were defensive and lacked transparency in their ways of working. This was evident primarily in relation to the commercial programme but was also seen in relation to the resident survey which took place in 2022 but was not reported until after the local elections 2024. When presented to scrutiny councillors officers explained that while there were some areas of concern in the survey the methodology of the survey was not reliable to enable conclusions to be drawn.

4.13 The council has also shown defensiveness and resistance in its response to numerous external challenge processes in the last five years into its leadership and governance. These processes include two peer challenges, a PWC review, and a review by CIPFA Business commissioned by government. They also include increasing challenge provided by the external auditor. In each case the council has delayed in taking action and has only addressed some of the recommendations made. These included two adverse VfM opinions, concerns about compliance with the prudential code, treasury management code and statutory investment guidance as well as criticism of MRP policy and recommendations for enhanced governance with external panels. This means the inspection team does not have confidence that the council has the will or capacity to implement the recommendations of this inspection.

Leadership and governance of the commercial programme

4.14 The commercial programme is where the combination of respectful members, powerful officers, defensiveness in the face of scrutiny and a highly complex and technical programme have left governance most wanting. We explore this in much more depth in other sections of the report. In summary the council has incrementally grown its commercial programme without a strategy. This

has given substantial empowerment for officers and has made it more difficult for members to hold officers to account.

4.15 While cabinet members have been briefed with supporting business cases and legal advice on individual investments there has been very limited political (or officer) oversight of the programme as a whole either in private or public by members. Thus, the council has been in a weak position to consider overall risks across the portfolio as it has grown.

4.16 The council also decided to consider reports on the commercial programme in the 'Part 2' of meetings which further limited the scrutiny and transparency of borrowing and investment decisions. There was no evidence that the council scrutiny arrangements engaged in challenge to the commercial work.

4.17 Cabinet members have told us that they believe they did try to do what they could but some recognise their limitations in scrutinising and challenging the programme. The complexity and scale of the commercial activity is such that most councillors would naturally struggle to understand and challenge it. That should have led members to be more assertive in insisting that the scale and complexity of the programme be limited. The unwillingness or inability to challenge officers and the perceived benefits of the programme contributed to this not happening.

Governance

4.18 The council's governance of its investment and borrowing programme has been marked by a lack of transparency and accountability. Members are aware of the risks and complexity of the programme but have not consistently scrutinized its scale, composition, or performance. Interviews revealed that this gap in scrutiny is partly due to the technical nature of the programme, which has discouraged some members from engaging in detailed oversight.

4.19 Key decisions have been disproportionately influenced by a small group of officers, particularly the S151 officer and their current deputy. Other senior officers interviewed demonstrated limited understanding of the overall investment programme, highlighting a critical dependency on this small group. This dynamic has been further exacerbated by a lack of external audit and challenge, leaving the council vulnerable to significant risks.

4.20 The council's approach to governance has come under increasing external scrutiny. Since 2017/18, it has received two adverse VfM opinions from its external auditor, who raised concerns about the programme's compliance with the Prudential Code, Treasury Management Code, and statutory investment guidance. The external auditor also criticized the council's approach to its MRP and ultimately resigned, at the same time citing discomfort with the escalating risks and complexity of the programme. Subsequent reviews by the LGA, PwC, and CIPFA Business have reinforced these concerns, consistently recommending recalibration and enhanced governance mechanisms, such as external advisory panels. However, the council has been slow to adopt these recommendations, opting instead to maintain its programme with minimal adjustments.

4.21 Governance weaknesses extend to the external vehicles established through the commercial programme. Evidence suggests that legal advice was not consistently followed during their setup, leading to additional risks. Combined with the resignation of the council's external auditor and a lack of audited accounts since 2018/19, these governance gaps have left the council in a precarious financial position. Incoming auditors may challenge decisions made during this period, potentially necessitating restatements of reserves and further destabilising the council's financial standing.

4.22 The concentration of decision-making has also undermined broader organisational accountability. The finance function has been particularly-heavily focused on the growth and maintenance of the investment programme. This insular approach has limited opportunities for collective discussion and challenge, eroding natural checks and balances within the organisation.

Conclusion

4.23 During the course of the inspection there has been some change in the message of the council about the future of the commercial programme. Although this is not articulated in the consistent way. Members especially feel the need to reduce its scale, risk and complexity. There is also an increased awareness that the revenue budget position of the council is now precarious and with further major financial challenges in future years.

4.24 Neither the desire to change approach to the commercial programme nor the problems of the revenue budget have a strategy set out to address them. The council's response to previous external reports and the limited capacity of the council to make the required changes do not give confidence to the inspection team that the council acting alone can meet these challenges. The council has recently begun taking first steps to pay off loans and dispose of assets, however this is driven by the

need to support the very difficult revenue budget position rather than a consistent, fully-owned strategy.

5. Transformation & Use of Resources

Summary

5.1 Both the 2019 and 2024 peer reviews commented on the budget and MTFS approach adopted by the council and on the trend at outturn to cover overspends through additional income, financing changes and use of one-off reserves. It was considered that the budget approach should be redesigned such that the council is able to deliver services on a more sustainable footing than the then-approach to avoid the need to drive savings and efficiencies and to reflect a more realistic approach to the council's financial position and be delivered at pace.

5.2 During the inspection it became apparent that the financial position faced by the council is even worse than evident at the time of the 2024 LGA Corporate Peer Challenge and hence the challenges it faces are greater and need greater urgency to resolve.

Recent and In Year Revenue Budget

5.3 Outturn 2022/23 saw reported services overspending by £12 million and offset by £10.9 million net of corporate finance savings. Within the latter, £9.5 million was a saving in MRP which elsewhere in this report is referred to as a risk pending review by external audit. 94% of savings were assessed as being delivered.

5.4 Outturn 2023/24 similarly showed an overall overspend, before the use of reserves over and above those budgeted, of £11.1 million and achievement of 82% of savings. The main areas of overspend were children and adult social care.

5.5 A report to November 2024 cabinet identified quarter two forecast outturn overspend of £28.1 million after use of £5.4 million of reserves agreed earlier in the year to cover overspends on SEN transport (assumed in the 2024/25 budget to be funded by Dedicated Schools Grant (DSG)) and forecast shortfalls in commercial property income. The December 2024 report to cabinet saw this figure reduce to £22 million, largely as a result of discounts generated through the premature repayment of long-term loans. If the latest forecast overspend materialises this will mean a drawdown of £27.5 million of reserves over and above the £7.9 million from the business rates

smoothing reserve used to deliver a balanced budget as approved by council in March. The operation of this latter smoothing reserve masks the actual level of business rates income and compensating S31 grants which is actually higher than that reported in the budget even after adding the draw down from reserves. Whilst several significant actions have been implemented during the remainder of the current year a substantial overspend is inevitable. Given the level of overspend was originally apparent at quarter one it does point to the original budget not being sufficiently robust and this is evident in many of the substantial pressures identified in the creation of the 2025/26 budget and MTFS. We are aware that Thurrock Council has indicated that it will be seeking to recover £54 million from 23 councils, including Warrington, in respect of advice it received from associates engaged by Association of Public Service Excellence (APSE) in respect of its investments in certain solar farms. As APSE is an unincorporated body, any claim lodged in the courts would be against the 23 named councils. If successful, Warrington's share could be £2-2.5 million which would represent a further call on its reserves. It is noted that Warrington had used the same consultants, which brings into question whether the advice they received was valid.

5.6 In the main, the current year overspends relate to increased demands for services and/or inadequate initial budget (children, adults and homelessness) rather than failure to deliver planned savings (89% forecast to be delivered). There are a number of notable areas of budget overspends including energy schemes, corporate property surplus offset by possible savings flowing from a possible property sale. The report identifies that £42 million of reserves are available to offset the overspend and support next year's budget but as only £5 million of general reserves exist, this latter needs to be increased significantly to reflect the very high level of financial risk facing the council including any MRP shortfall (reported in detail elsewhere). In addition to past MRP issues, the most recent MRP guidance will require an MRP charge in relation to the impairment of loans agreed after 7 May 2024. The refinancing loan in relation to the Cirencester solar company was formally agreed after that date and given continuing issues which are materially affecting its profitability then there may be an impairment required in the 2024/25 accounts. The level of refinancing agreed included sufficient to cover debts the SPV had to the Council in respect of accumulated interest and loan arrangement fee. The council's borrowings for the scheme were, in part, being used to settle outstanding revenue debts which has been a feature of other Councils which have found themselves in significant financial difficulties. Overall, there will be a significantly lower level of reserves that might be available to offset budget pressures or overspend next year. The council's response to questions as to the level of reserves it is now likely to have refers to it being similar to other councils, but this fails to recognise the risk flowing from five years of unaudited accounts, its very high levels of debt and reliance on

substantial commercial income and the lack of any optimism bias being accounted for in 2025/26 budget to cover failure to deliver planned savings.

5.7 Elsewhere, reference is made to the treatment of 'income' from the New Bailey property and whether it can be classed as revenue income and likewise the return of the Valley Ridge investment. If this is not the case, it would impact negatively on the revenue budget and level of useable reserves as would any impairment of the new Cirencester loan or the borrowing for the SPV to pay its accumulated debts.

Medium Term Financial Strategies

5.8 The last two years' medium term financial strategies and the update recently reported through cabinet reveals a similar position of a focus on the most immediate year with little by way of proposals to balance in the medium term. The following year then sees a worsening medium-term position and emphasis on balancing the in-year budget. What is equally concerning however that at no stage in reporting the budget or MTFS, is the detail of the funding said to be available to the council evident and the assumptions about the use of reserves being used to bring the year one budget into balance. Details provided separately by the council in relation to the 2025/26 MTFS give some analysis of such income and is commented on below.

Agenda Item 4

	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Budget set for 2022/23	**157,264**			
In-year changes to funding	-			
Net Budget Brought Forward	**157,264**	**196,608**	**215,972**	**238,267**
Inflation pressure - Pay	7,774	1,928	1,967	2,006
Inflation pressure - Fees & Charges	(623)	(643)	(663)	(684)
Health & Social Care NI Levy pressure	(458)	-	-	-
Additional budget pressures	32,651	18,079	20,991	9,383
Total Budget Needed	**196,608**	**215,972**	**238,267**	**248,972**
Funding	183,009	177,015	190,454	184,854
Budget Gap	**13,599**	**38,957**	**47,813**	**64,118**
Savings Identified 2023/24	**13,599**			

Figure 5 February 2023, Cabinet - 2023/24 Budget and Medium-Term Financial Strategy

5.9 Subsequent appendices to the Cabinet report set out detail of the pressures and savings but whilst 2023/24 savings are identified in full including several one-off items, the later years only scratch the

surface of the subsequent years savings required i.e. 2024/25 £7 million, 2025/26 £2.7 million, 2026/27 £2.7 million.

5.10 It is notable that the funding available for 2024/25 has now increased by £17 million and this is not explained but given funding tails off in in later years suggests there are one-off factors being applied. In terms of reserves, the reserves statement reports figures as at March 2023 and March 2024 from which it is possible to see estimated use in 2023/24 of £24.6 million but not what estimated reserves as at March 2025 are and hence what reserves are being used to support the budget. This lack of detail to cabinet as to what reserves are being used and their level at the end of the year are contrary to professional requirements. Again, detail of pressures and savings are given but over and above detailed savings for 2024/25 there were limited details of savings in subsequent years.

	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000
Budget set for 2023/24	**183,009**			
In-year changes to funding	-			
Net Budget Brought Forward	**183,009**	**210,197**	**233,084**	**245,793**
Inflation pressure - Pay	3,886	4,042	4,123	4,206
Inflation pressure - Fees & Charges	(646)	(666)	(687)	(708)
Additional budget pressures	23,948	19,511	9,273	4,081
Total Budget Needed	**210,197**	**233,084**	**245,793**	**253,372**
Funding	194,292	196,556	190,962	187,683
Budget Gap	**15,905**	**36,528**	**54,831**	**65,689**
Savings Identified 2024/25	**15,905**			
Current Surplus/(Shortfall) 2024/25	**-**			

Figure 6 February 2024, Cabinet - 2024/25 Budget and Medium-Term Financial Strategy

MTFS 2025-29 as per November 2024 cabinet

5.11 No detail of pressures or the savings proposals were given although the council did say that the savings would be identified in a subsequent report. The council then provided details of £13 million of savings, some of which appear high risk from the narrative supplied. An explanation of funding assumed in the above model has been provided but it is not comprehensive as it makes assumptions about council tax annual increases of 5% per annum but not business rates, it does assume that £6 million per annum is drawn down from the business rates smoothing reserve in the first two years. Details of assumed pressures for the four years have been provided although beyond the first year, they do not include increased pressures in children and adults or any allowance for inflation. Other elements of the MTFS seem illogical when reviewed in depth and suggest that a comprehensive

reworking is needed to produce a robust model, although appreciating it will need to flex as assumptions change or are firmed up. The model continues the past approach to addressing only the short-term position rather than taking a longer-term view as to what level of services the council can afford.

Revenue Spending Forecast	**2025/26 £000**	**2026/27 £000**	**2027/28 £000**	**2028/29 £000**
Base Budget	194,292	218,316	225,336	231,412
Add Pressures	33,012	5,258	6,131	3,997
Add Inflation	3,376	0	0	0
Less Savings Proposals	-17,267	0	0	0
Capital Financing	4,903	1,762	-55	46
Funding Movements	0	0	0	0
Original Approved Budget				
In-Year Movements				
TOTAL Revenue Spending Forecast	**218,316**	**225,336**	**231,412**	**235,455**
TOTAL Revenue Funding Forecast	**197,378**	**196,480**	**197,115**	**204,010**
Budget Surplus (-) / Shortfall (+)	**20,938**	**28,856**	**34,297**	**31,445**

Figure 7 November 2024, Cabinet - 2025/26 Budget and Medium-Term Financial Strategy. MTFS assessed impact of commercial programme/borrowing

5.12 In terms of reserves, the report does acknowledge that available reserves are approaching a high-risk position in terms of financial resilience. There is, however, no acknowledgement of the risks the council faces in terms of backdated MRP over and above the £8 million provided in earmarked reserves. A further audit challenge to past years MRP provisions is likely to reduce reserves even further, putting the council's finances in a perilous position without successful action to balance the current year's budget and close the gap for next year. This seriousness is illustrated in scenarios included in the cabinet report although before risks flowing through MRP are factored in.

5.13 A noteworthy factor in looking at budget pressures has been significant sums which flow from the commercial programme and associated treasury activities. It is acknowledged that whilst some small part of this will be linked to capital spend on services, the scale of the commercial programme will dominate:

Pressures/savings	**23/24**	**24/25**	**25/26**	**26/27**	**27/28**
	£m	**£m**	**£m**	**£m**	**£m**
2023/24 MTFS					

Pressures	4.6	11.3	2.1	0.5	-
Savings (inc. income)	2.9	1.8	0.4	0.6	-
2024/25 MTFS					
Pressures	-	9.3	9.1	0.7	4.0
Savings (inc. income)	-	4.0*	0.4	-	-
The latest update reports pressures on capital financing of	-	-	3.4	3.2	-0.1

*Includes £2 million one-off unidentified

Figure 8 Extracts from Budgets/MTFS detailing financial impact of Commercial Programme and Financing

5.14 This latest assessment is not consistent with previous iterations or the reality of the sale of a major asset nor the repayment of substantial commercial loans. The impact of these will be being partly mitigated by discounts generated through repaying low coupon PWLB debt but at the cost of higher interest costs in the future. We have been told that the benefit of the Commercial Programme amounts to £21-23 million per annum and although the council have told us that it has been reconciled, we have not been provided with a full reconciliation. From what we have seen, the quoted figure does not recognise costs incurred in setting up the various elements of the programmes (property valuation and legal fees as examples). It is also evident that the charging of MRP on property investments will reduce the figure going forward as will the current property disposals and loan redemptions partially offset by PWLB loan discounts being taken to revenue. Members told us that they expect the same benefit next year but the MTFS recognises reducing benefits over recent and future years.

2025-29 MTFS as per draft cabinet report February 2025

5.15 In the second half of January 2025, the almost final version of the Budget and MTFS to go to cabinet were provided to the inspection team and subsequently discussed with the S151 and his team. The council's latest projections identify a balanced budget for next year, with major areas of change from November being: income increased by £11 million largely reflecting £5 million income from extended producer responsibility for packaging receipt, as notified by the Department for Environment Food and Rural Affairs, and estimated £2.7 million compensation for national insurance increases. Pressures have increased by circa £3 million and the main variation being savings increased by £17 million.

5.16 As commented earlier on the 2024/25 outturn projections, many of the pressures, over and above inflation and fee increases in adults' and children's services, reflect inadequate budgets being set in 2024/25 and it is pleasing to see that there is a greater degree of reality in identifying the cost of

current services. The council have described how such pressures were identified and verified through corporate processes with senior management team involvement in addition to the finance team.

5.17 We have been provided with detailed savings schedules and a description of how these were developed through targets set for each directorate and input from external consultants, including CIPFA Business team. This was particularly around adults' services which were identified as high cost in CIPFA Business's benchmarking work. Although the council described arrangements for monitoring and ensuring delivery of savings, we did note that there was no provision being made to reflect optimism bias in its plans. Given the very low level of general reserves (£5 million), there is very limited scope to offset budget overspends, or other cost pressures, which are likely to arise. The council considers that the £20 million or so of earmarked reserves which it estimates it will hold at the start of next year will give support but, elsewhere, this report identifies the risks to those arising from the audit of the then six years of outstanding accounts and the government's current proposal to end the IFRS9 override which is not being reflected in next year's budget. The council intends to take the resultant cost from reserves, thereby further reducing available resources to offset any overspends or pressure next year.

5.18 A major factor in the additional savings is taking the benefit of actual and planned repaying of some £500 million of PWLB long-term debt and taking the benefit to revenue over a 10-year period. This is more than offsetting the loss of income from the investments which have been sold and shorter-term loans redeemed. To achieve the level of repayment some £200 million of further cash will need to be generated from disposals/commercial loan redemptions. To the extent that the latter had been funded through short-term borrowing in the first place it will add to long-term costs and make the council more exposed to short-term interest rates.

5.19 As commented on in the two LGA peer reviews and earlier in this report, the MTFS exclusively deals with the year one budget and the council recognises that it needs to commence work immediately on developing a sustainable medium-term position.

Capacity, Capability and Transformation

5.20 The council monitors performance and has improved some of its services and works to deliver its corporate plan and budget savings plans, albeit these commitments are not always delivered to time and scale. The nature of oversight and challenge by members is not always sufficient and the culture of defensiveness that developed has impacted beyond the commercial programme. For instance, the

council commissioned a resident survey in 2022, and its findings were not reported to the scrutiny committee until summer 2024 with a disclaimer that there were problems in the methodology which meant some of the more challenging findings were not valid. This limited oversight and scrutiny also means that full assurance cannot be assumed on service quality in the absence of external assessment.

5.21 Looking ahead the council has a very difficult set of challenges to sustain and improve its services in a deteriorating financial context. This will require change at a pace and scale that the authority has not tackled before and there are several reasons to doubt that the capacity and capability exists to achieve this degree of change and transformation in the timescales involved.

5.22 The wide-ranging corporate vision, priorities and commitments do not give the council a clear framework to make difficult resource decisions. Reliance on the commercial programme has also meant that members have not had to face these kinds of decisions as much as other councils.

5.23 The council is proud that it has not had to transform itself and has not developed a corporate transformation programme previously. The necessary corporate and service capacity to do this has therefore not been developed.

5.24 The council preference for providing services in house where possible has meant that strategic procurement and commissioning experience has not been as fully developed as other authorities and commercial partnerships to deliver change have been a less prominent part of the council's repertoire. Public sector partnerships and relationships are better developed and offer further opportunities for the council.

5.25 The dwindling council financial reserves mean that the ability to use reserves to invest to save is now much more limited. The opportunity to do this has been missed in earlier years when reserves were more able to support this kind of strategic transformation.

5.26 More broadly, there are signs of strained council capacity. There have been no condition surveys or planned repairs programme for council property for over a decade and all work is carried out on a responsive basis as and when problems occur, leading to a large overspend in the current year and a substantial budget pressure for next year.

5.27 Levels of sickness are higher than for comparator councils at an average of 14.85 days per employee, the same as in 2019, against a target of 12 days. In the waste service sickness is currently 32.9 days per employees. Overall, there is lack of experience, capacity and capability in developing and delivering significant change and transformation. The council has sort to avoid the need for this level of change. This is a significant risk for a council faced with the scale of current and future financial savings required of Warrington.

Conclusion

5.28 The council accepts that it is in a perilous financial position given the scale of current year overspend, lower level of reserves after substantial use in recent years and substantial pressures next, and subsequent, years. The council has revised its budget position next year from a substantial deficit funded through reserves, to breakeven through increased government income and by more than doubling savings, of which a large part relates to prematurely repaying its long-term PWLB debt. There are risks in this in that it will require further disposals of assets or repayments of commercial loans to generate the cash to finance such repayments. There are substantial overall risks to achieving the £30 million of savings as no allowance has been made for optimism bias and an assumption of further debt repayments dependent on further reducing the scale of the commercial programme.

5.29 Whilst the council's assessment of reserves would cover off this year's overspend and allow some use next year to offset a degree of overspending this is not sustainable and a longer-term plan to address the medium-term shortfall needs to be put in place and determine the size and shape of the council for the future. It is reported elsewhere that it is highly likely that an incoming auditor will disagree with the overall level of MRP provided in the years since 2018/19 and this would substantially reduce the level of reserves available to the council and, in such a scenario, there is an even more urgent need for the council to take action to mitigate its financial risks. The council urgently needs to take a realistic view of the financial risks it faces as a result of past decisions and future possible events and provide a substantially increased general fund reserve to offset these.

5.30 There is an added risk, which the council recognises, in the current ending of the IFRS 9 override at the end of this financial year. If not extended, this would mean up to an extra £11 million of costs would fall on the council's revenue finances although the council estimates it will be partly offset by surpluses on disposal of other treasury investments to leave a net £4 million cost to reserves.

6. Conclusion

6.1 Warrington is a proud borough with a proud council. Members and officers have a genuine and longstanding commitment to the best interests of residents. The council provides some good services and has protected services from the change that limited resources normally requires.

6.2 This desire to protect along with the preference for the council to have a broad role as a provider and to be directly engaged in all the town's key institutions has combined with a culture of respect and deference to powerful officers to create the paradoxical situation of a traditional local authority having an unorthodox and high-risk commercial approach.

6.3 The council has some strengths in service provision, staff and partner engagement but it shows a number of weaknesses in relation to its best value duty. The key areas of weakness relate to leadership, culture, governance and use of resources.

6.4 The council has adopted a commercial approach without a commercial strategy. This means it has not been able to maintain a proper overview of the work of officers and has further limited a weak culture of scrutiny. The nature of the programme that has developed incrementally and opportunistically is so complex as to be beyond members and many officers' ability to fully understand. The desire to protect services from financial reductions has led to a willingness to accept assurances that the strategy is working and not address risks.

6.5 The governance of the commercial programme has not adequately scrutinised aggregate benefits, liabilities and risks. The scrutiny of individual business cases has been hampered in some cases by incomplete or absent written advice. Even if this had been better it is doubtful members would have been able to adequately challenge officers.

6.6 The rationale for several more recent investments, which are described as producing regeneration benefits, are seemingly without evidence and are incompatible with CIPFA codes, statutory investment guidance and, in one case, PWLB eligibility criteria. The management of treasury investments has been delegated to the S151 officer, subject to a structure approved by the council. Individual decisions involved a number of high-risk investments, some of which lost all or most of the sums invested. The rationale for a number of these investments is unclear given the due diligence reports commissioned and the agreed strategy of prioritising security and liquidity.

6.7 It is unclear that the full costs have been factored into the calculation of the benefits of the commercial programme. It is very likely that MRP costs will, place further pressure on a stretched revenue budget. The absence of any external audit for the last few years adds to this governance and financial risk.

6.8 The commercial governance of council-owned or part-owned companies fails to meet the standards that we would expect to see, especially when such significant sums of public money have been invested. The set up of companies, separation between companies and the council as distinct entities, management of conflicts of interest and management of risk are all areas of concern. Analysis of risk at business case level fails to translate effectively into aggregated risk across the commercial portfolio.

6.9 The quality and sufficiency of many of the board packs we reviewed were seriously lacking and provided little or no basis for the decision making that ensued, nor evidence that the key operational metrics of the companies concerned were either available or understood. In some cases, senior council officers may be acting as shadow directors and, as a result, unresolved conflicts of interest are common. Personal liabilities accruing to these potential shadow directors could be significant and, for the sake of the individuals concerned, should be understood and either eliminated or indemnified.

6.10 Our requests for very specific information for each of the companies in which the council had an interest were very late in being answered (well outside the statutory time allowed) and even then, the information was incomplete and not in line with our requests. This suggests that the Council, as shareholder, has insufficient grip on the companies in which it has an interest.

6.11 The council received advice on how commercial governance should be structured and carried out in October 2020 but has failed to implement many critical changes in the period since, despite committing to do so.

6.12 The inspection team have received mixed messages on the future of the commercial programme. Politically there is a desire to reduce the scale of the programme and some loans are being paid off as they reach their term. The messages from officers continue to vary and evolve and the council has recently published figures which show increased borrowing over the next two years. The council also has a track record of not acting on the recommendations from external review in relation its commercial programme. There is no strategy in place to manage any change of approach.

6.13 The council's revenue budget position in year and for future years is increasingly precarious. The council has been using reserves to manage this position but is rapidly running out of road to continue this. There is no track record of transformation at the scale and pace required to deal with this.

6.14 The council is clear that it has a major problem in dealing with revenue budget overspends, even after further technical financial savings. It accepts that it is unlikely to manage these fully from savings and reserves will be exhausted quickly. It continues to hope that national policy on funding will be the solution to this precarious position. The recent focus on payment of loans and asset disposal is heavily driven by the need to address these significant revenue budget challenges rather than a settled strategy to reduce the risks of the commercial programme.

6.15 This leads the inspection team to make the recommendations we have for intervention and support as we are not confident that the council has both the necessary willingness and capacity to solve its current problems.

Appendix A: List of people interviewed

- Andrew Smith, Partner, Grant Thornton
- Nigel Balding, former Conservative Councillor
- Andy Carter, former Conservative MP
- Councillor Rob Tynan
- Councillor Mark Browne
- CIPFA Business
- Superintendent Adam Ross, Police Area Commander
- Stephen Fitzsimmons, Chief of Warrington Chamber of Commerce
- Carl Marsh, NHS Place Director
- David Boye, Director of Environment and Transport
- Professor Steven Broomhead, Chief Executive
- Caroline Williams, Director of Adult Services
- Councillor Hans Mundry, Leader
- Paul Clisby, acting Monitoring Officer
- Lynton Green, Section 151 Officer and Deputy Chief Executive
- Matthew Cumberbatch, former Monitoring Officer
- Unite union representative
- Amanda Perraton, Director of Children's Services
- Councillor Maureen McLaughlin, Cabinet Member for Adults Services
- Unison union representatives
- Councillor Stephen Rydzkowski, Chair, Audit and Corporate Governance Committee
- Danny Mather, Deputy Section 151 Officer
- Adam Simpson, Interim Legal Services Manager
- Councillor Denis Matthews, Cabinet Member for Finance
- Clare Postlethwaite, former Deputy Section 151 Officer
- Ken Critchley, former Conservative Councillor
- Mark Jervis, former Conservative Councillor
- PSAA
- Mazars
- Independent Audit Committee Member
- Simon Bleckly, Head of Internal Audit
- Steve Park, Director of Growth
- Stewart Brown, Head of Property

Appendix B: Background on mentioned investments

Commercial Loans

<u>Salboys - Residential Property, Manchester City Centre (30 September 2021)</u>

- 40 Storey residential development in prime location.
- Fully secured loan of £75.5m with £9m of rolled up interest.
- Scheme introduced by CBRE and were to receive 50% of arrangement and exit fees. Independent valuation obtained.
- Developer based in Warrington. Builder based in Wigan, Greater Manchester.
- Initial development of site commenced, funded by developer. At that point lending senior debt for the development would have been attractive to the market, and if evidence of market failure, Greater Manchester Housing Investment Fund would have been likely route using MHCLG provided funding.
- No specific regeneration benefits outlined in cabinet report.
- Business case noted no MRP to be applied as not being classed as an investment.
- Internal notes record that 'just a financial transaction'.

<u>Hut Group Loan(s) (October 2020)</u>

- £202m loans to numerous Hut Group Property companies which ultimately were intended to be owned by the CEO and Founder i.e. outside the Hut Group corporate structure.
- The Hut Group are a major employer in the NW including 2700 people in its Warrington Distribution centre. The scheme appraisal noted that likely £68m of the proceeds of the refinancing would be spent on developing various sites including £12m in Warrington and the remainder in Greater Manchester.
- The DD appraisal notes that there were 4 similar offers from lenders available to the Hut Group thereby evidencing that there was no market failure and hence no regeneration benefits flowing from the Council investment (as the market would deliver any growth in jobs etc.).
- The legal agreement itself only deals with the proceeds being used for refinancing existing debt with no requirement for any reinvestment in Warrington or elsewhere. It is understood that the loans have been repaid early.
- Recent press reports indicate that employee numbers at the Warrington site are being reduced through a Redundancy programme.

<u>CityStyle Living (October 2018)</u>

- Trading subsidiary of One Housing Group (in receipt of earlier £100m loan facility).

- Purpose to allow consolidation of OHG's private rented sector properties in a single subsidiary. Scheme acknowledged to be solely to generate income as OHG and CSL operate in London.
- Financial appraisal of the proposal focused on One Housing Group and its finances and assumed that OHG would step in should the trading subsidiary get into difficulty. Debt pricing seemed to relate to OHG rather than a standalone subsidiary. However, the assessment clearly saw separation from OHG as providing diversification within the overall loan portfolio.
- Loan did not get Parent Company Guarantee from OHG and purpose of setting up such subsidiaries is to avoid any recourse to RSL as parent. However, the DD assessment report did assume that OHG would step in.

Development Funding

New Bailey Development (October/November 2020)

- Development funding and acquisition of office block in New Bailey District in Manchester/Salford City Centre. Pre-let to BT to allow consolidation of staff into single location. New Bailey was a successful area for development with numerous other offices owned by insurance and pension companies and the like.
- Although the scheme was being offered 'off market' numerous other funders known to be interested and several other offers made and outlined in DD report.
- Consequently, no evidence of market failure and no (additional) economic benefits evident from public sector funding.
- The Council obtained income from scheme during its development phase by lending funding to developer which in turn, was funded as part of regular drawdowns by the Developer from the council which, in turn, funded its payments through borrowing.
- The letting to BT included a 27-month rent free period, a rent-free period being standard although the length would be subject to negotiation, and the valuation as to capital value and commercial terms reflected this.
- Questions arise as to the council grossing up the capital value in its own accounts and borrowing for the resultant uplift. In turn these monies were credited to revenue over the rent-free period. The council confirmed they had taken no accounting advice as to the non-standard elements of the transaction and the previous external auditor had raised questions as to accounting which they advised remained outstanding. The council's report to cabinet did not identify any possible accounting issues.

Treasury Management Investments

Technology Enhanced Oil

- TEO, including all its operating subsidiaries, is an independent exploration and production (E&P) energy company with operations in Texas, USA that is focused on producing oil and gas in a cost-effective and environmentally friendly manner.
- The Bonds was issuing $40m of mandatorily convertible bonds at 6% coupon, which would convert in January 2022 to ordinary shares although there was the prospect of a replacement structure being put in place (in practice the bonds were extended to 2024 when they converted).
- The DD assessed that TEO has both a positive environmental impact and a good financial return profile blending both contractual returns with asset backing and the potential for equity upside.
- However, it went on to record risks around lack of profitability:
    - The Issuer has not been profitable on a cash flow or earnings basis to date.
    - Decline in oil prices: TEO would be negatively affected by a decline in oil prices.
    - Equity-like nature of investment: While the investment is structured as a bond, it is really an equity investment as the bond mandatorily converts into equity in a little under two years. Thus, the investor has no clearly defined return or timing of exit.
    - Other risks include the fact that TEO does not own the operating platform nor the intellectual property of the technologies which is held at a sister company.
    - The Bonds and equity post conversion are denominated in USD as is the Issuer's business. A decline in the value of the USD versus GBP would negatively affect the return.
- It is evident that several council pension funds had invested in an earlier bond issue and a further council pension fund was likely to participate alongside Warrington. However, pension funds have a very different approach to risk and liquidity and holding long term equity is the norm rather than focusing on short term issues of security and liquidity.

M7 Box+ 2: E-Warehousing Real Estate Fund (October 2020)

- The fund is a Jersey limited partnership managed by M7. The fund is closed-ended and with a fund life of five years. M7 targets to raise £150m in equity and to deliver a net levered IRR of 15% to its limited partners.
- The fund's strategy is to acquire retail warehouse assets across the UK utilising 50% debt financing (it has a pre-identified pipeline of 10 assets with a total acquisition cost of c.£300m), actively manage the assets' rental profile and dispose of the assets over a five-year period. The Council invested £25m in the fund although the below quote from the DD report referred to £10m.
- CBREs conclusion of their DD was:

''Risks and Recommendation

The main risks are property risk, finance risk and performance risk. Higher risk investment opportunities are not a natural fit for WBC's treasury management strategy. For example, WBC's current investment portfolio is defensive in its nature, with a focus on the industrial and office sectors. The recommended investment strategy suggests only speculatively considering supermarkets, solus retail and alternative investments located in excellent locations, benefit from well specified flexible buildings, strong covenants and limited capital expenditure. A number of assets within this M7 Fund do not fall into these categories. Given the small investment size (£10 million), the therefore limited contribution the investment will make to WBC's overall annual income objectives, the higher risk strategy and therefore the increased potential for capital loss and the volatility of the returns generated through the use of leverage, and WBC already being invested in a very similar M7 E-warehousing Fund (£5 million) we would advise WBC to carefully consider whether this type of investment is prudent.''

- The council have reported that the investment has been high performing.

<u>Valley Ridge Loan (November 2020)</u>

- Loan of £6.3m to refinance debt relating to project to bring Centre Parks type facility to Mid Suffolk.
- Interest at rate of 13% to be charged and rolled up for payment on loan repayment. Loan term 2 years. Fees of over £100k also to be paid by lender .DD outlined that not appropriate to assume project would go ahead as it had been a long term in planning and its viability was being impacted by high construction costs. Security for loan assessed against alternative use of site for farmland, waste management activities and industrial property. Main value assigned to the latter which did not have planning permission although valuers thought it would be likely be obtained.
- High rate of interest reflected risk profile of loan and whilst ultimate security might be realisable through onwards sale to a developer with/without planning permission, in the event of default the loan would be illiquid. No exit strategy apparent for investment other than in default scenario.
- Structure of investment identical to commercial loan programme (particularly the HUT loan) and an auditor would need to consider if correct treatment would have been as a capital loan.
- Loan was successfully repaid.