Auditor's Annual Report on Wirral Council

2020-21

5 July 2022

Contents

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

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

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

Executive summary

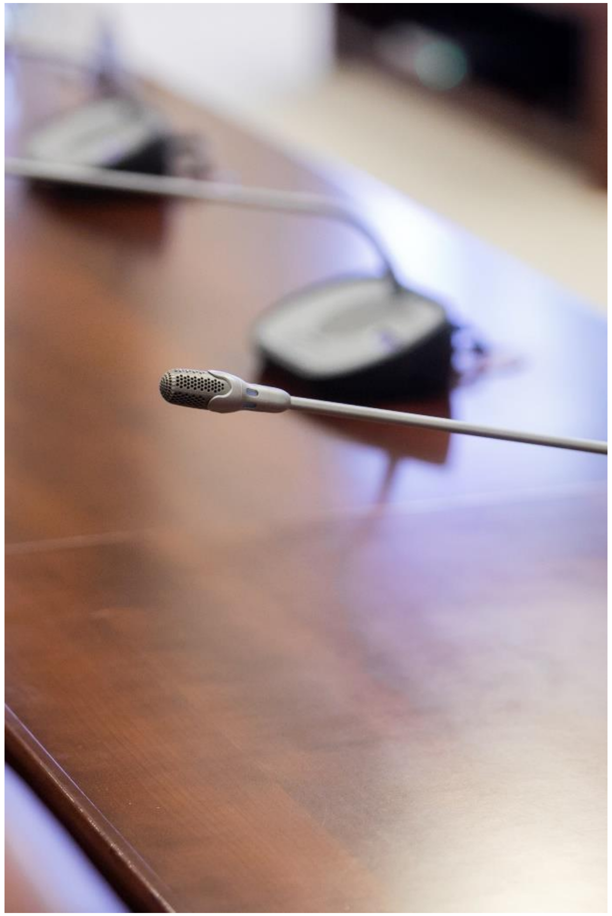
Value for money arrangements and key recommendations

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

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

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

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



Executive summary

Financial sustainability

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

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

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

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

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

Governance

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

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

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

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

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

Cont.

Executive summary

Governance

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

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

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

Improving economy, efficiency and effectiveness

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

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

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

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

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

In summary we have not identified that there are significant weaknesses in arrangements in place for improving the way the Council delivers its services. However, it is now having to make tough decisions concerning service provision in the future in order to restore financial stability for the Council.

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

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

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

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

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

Financial sustainability

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

Governance

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

Improving economy, efficiency and effectiveness

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

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

Financial sustainability

We considered how the Council:

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

2020/21 Outturn

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

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

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

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

> £23.987m forecast variance in relation to revenue budget overspends (including a forecast increase to in-year, earmarked reserves of £0.546m), the adverse position has arisen largely due to matters arising through the COVID-19 pandemic.
>
> £2.150m forecast capital receipts, which support the revenue budget position via flexible use of capital receipts and;
>
> £4.296m gap in direct COVID-19 funding against forecast requirements.'

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

Financial sustainability

2020/21 Outturn

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

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

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

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

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

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

Financial sustainability

2020/21 Outturn continued

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

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

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

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

2021/22 forecast

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

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

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

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

Financial sustainability

2022/23 budget

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

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

Level of General Fund Reserves

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

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

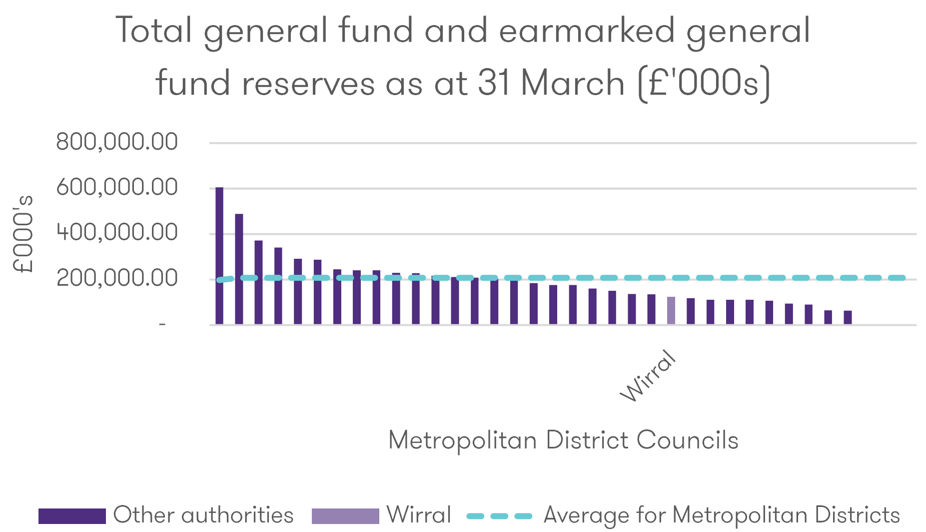
There has been no progress to replenish the General Fund reserve with the balance currently being maintained at £10.7m. This level is considered to be too low to protect against unforeseen spending pressures. The MTFS for 2022/23 – 2025/26 includes the recommendation that this is increased to £15m over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

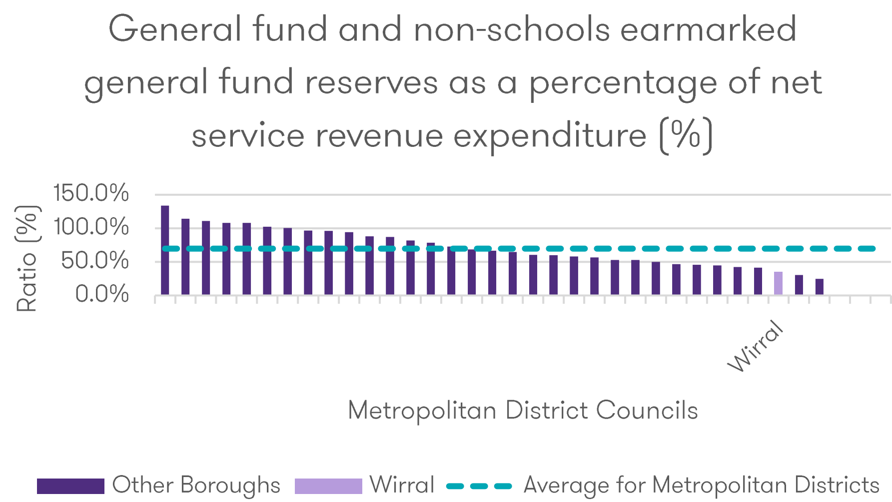
The tables overleaf shows that Wirral is ranked 24 out of 33 Metropolitan Councils when measuring the total general fund and earmarked general fund reserves as at 31 March 2021* with the positioning worsening to 31 when comparing the ratio of general fund reserves as a percentage of net service revenue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

See over.

Financial sustainability

Level of General Fund Reserves





*Data based on draft 2020/21 financial statements

Financial sustainability

Capital

2020/21

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

2021/22

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

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

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

2022/23 and beyond

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

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

Financial sustainability

Financial Planning

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

Annual planning

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

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

Medium term planning

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

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

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

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

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

Financial sustainability

Overall Conclusion

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

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

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

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

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

Key recommendation

Financial sustainability

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

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

Key recommendation

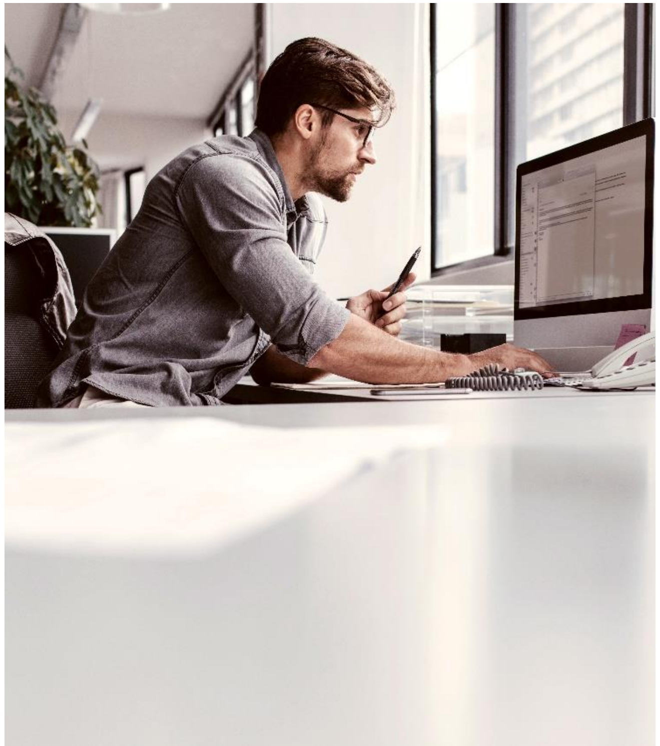
Financial sustainability

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

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

Improvement recommendation

Financial sustainability



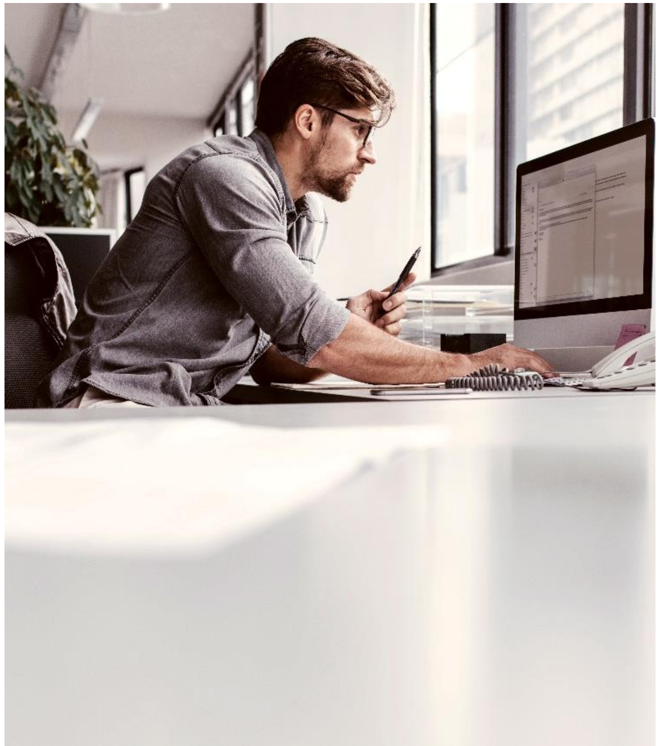
3	**Recommendation**	Risk and sensitivity analysis should be incorporated into financial forecasts
	Why/impact	The focus on risk is essential for the Council which needs to make substantial savings and cost reductions as this impacts on the service provision and the risk that these carries.
	Auditor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

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

Improvement recommendation

Financial sustainability

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



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

Governance

We considered how the Council:

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

Leadership

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

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

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

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

Committee Structures

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

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

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

Governance

Monitoring and assessing risk

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

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

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

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

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

Governance

Budgetary Setting Process

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

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

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

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

Budgetary control

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

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

Standards and response to regulators

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

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

Governance

Companies and investments

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

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

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

Investment decisions

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

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

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

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

Governance arrangements

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

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

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

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

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

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

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

Governance

Companies and investments

Company and investment performance and oversight

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

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

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

WGC was originally set up as a vehicle to unlock the regeneration of Birkenhead through a strategic joint venture with Muse Developments. The Council has recently reviewed the effectiveness of WGC have decided to wind back WGC to deliver only the Phase 1 piece of work. Negotiations with Muse Developments then took place and an agreement was reached on how to share profits. We have not seen the business case to determine whether this represents Value for Money to the Council, but it has been represented to us verbally as cost neutral and we understand it was approved by the Policy and Resources Committee, although we do not have evidence of such approval.

Company and investment performance and oversight

The WGC phase 1 development is complex.

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

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

Governance

Companies and investments

Company and investment performance and oversight

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

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

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

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

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

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

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

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

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

Summary

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

Merseyside Pension Fund

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

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

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

Governance

Merseyside Pension Fund

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

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

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

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

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

Cont.

Governance

Overall conclusions

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

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

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

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

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

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

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

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

Key recommendation

Governance

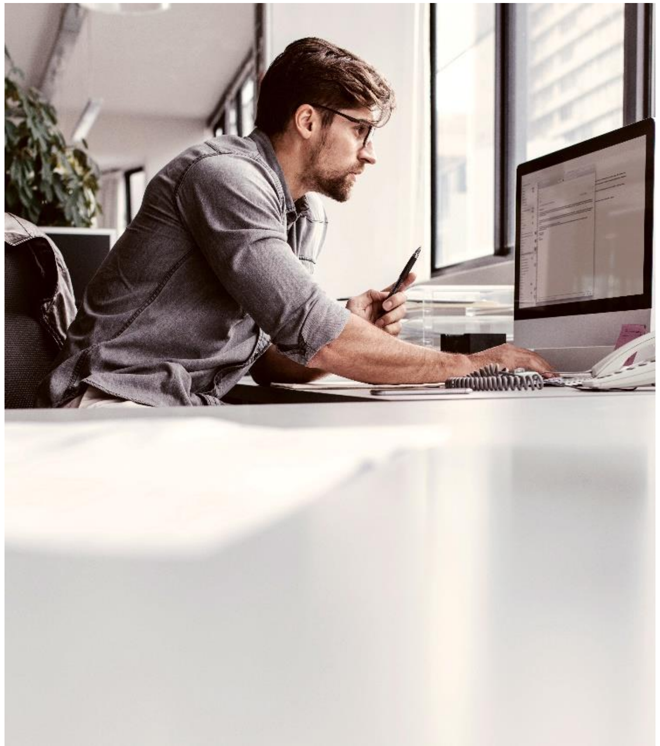
5	**Recommendation**	Governance arrangements for the oversight of the regeneration agenda and in issuing financial guarantees for leases and acquisition of assets should be significantly strengthened. Accounting advice should be received prior to entering into transactions
	Why/impact	There is an increased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

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

Improvement recommendations

Governance

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



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

Improving economy, efficiency and effectiveness

We considered how the Council:

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

Planning, Performance review, monitoring and assessment

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

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

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

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

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

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

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

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

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

Improving economy, efficiency and effectiveness

Benchmarking

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

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

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

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

Procurement

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

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

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

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

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

Improving economy, efficiency and effectiveness

Partnership working

The Council has a good track record of partnership working.

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

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

Partnership working - Waste Management Arrangements

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

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

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

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

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

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

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

Improving economy, efficiency and effectiveness

Conclusion:

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

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

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

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

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

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

Improvement recommendations

Improving economy, efficiency and effectiveness

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

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

Improvement recommendations

Improving economy, efficiency and effectiveness

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

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

Improvement recommendations

Improving economy, efficiency and effectiveness

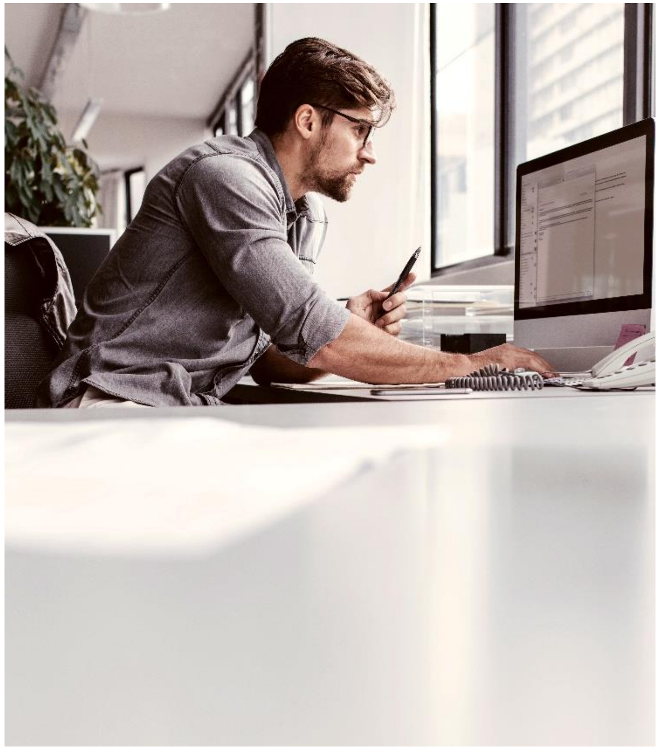
9	**Recommendation**	The Procurement Strategy should be updated to ensure it meets the requirements of the national strategy with clear links to social value and transparency. The number of purchases without a purchase order and contract waivers and extensions should be reduced.
	Why/impact	An extensive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

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

Improvement recommendations

Improving economy, efficiency and effectiveness

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



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

COVID-19 arrangements

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

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

Financial sustainability

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

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

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

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

Governance

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

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

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

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

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

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

COVID-19 arrangements

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

Improving economy, efficiency and effectiveness

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

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

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

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

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

Conclusion

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

Opinion on the financial statements

Audit opinion on the financial statements

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

Other opinion/key findings

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

Audit Findings Report

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

Issues arising from the accounts:

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

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

Preparation of the accounts

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

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

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

Opinion on the financial statements

Preparation of the accounts continued

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

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

Whole of Government Accounts

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

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

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

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

Appendices

Appendix A - Responsibilities of the Council

Role of the Chief Financial Officer (or equivalent):

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

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

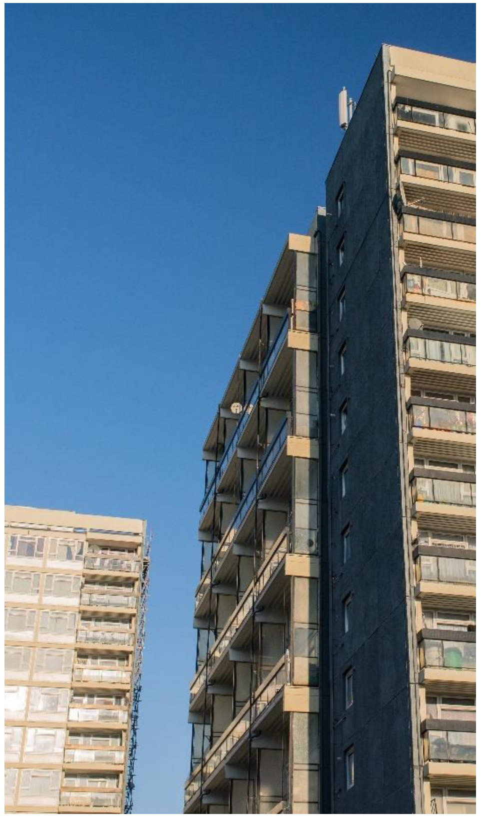
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

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

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

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



Appendix B - An explanatory note on recommendations

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

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

Appendix C - Use of formal auditor's powers

We bring the following matters to your attention:

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

Grant Thornton