

Assessment of Going Concern Statement

Background

As with all principal local authorities, the Council is required to compile its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting for 2022-2023 (hereafter referred to as the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

In accordance with the Code the Council's Statement of Accounts is prepared assuming that the Council will continue to operate in the foreseeable future and that it is able to do so within the current and anticipated resources available. By this, it is meant that the Council will realise its assets and settle its obligations in the normal course of business.

At the preparation of this statement, the performance and going concern status of the Council's wholly owned companies – Wolverhampton Homes, WV Living and Yoo Recruit have also been considered.

It is considered that, having regard to the Council's arrangements and such factors as highlighted in this document, that the Council remains a going concern.

The following statement has been prepared by Strategic Finance and the Director of Finance to present to Grant Thornton to support our conclusion.

The Council's current financial position (revenue)

On 2 March 2022, Council approved a net budget of £267.2 million for 2022-2023, without the use of general fund reserves. This budget included the delivery of budget reduction and income generation targets totalling £11.0 million.

This budget was set considering the potential ongoing impacts of the Covid-19 pandemic could have on the 2022-2023 budget. The pandemic has significantly distorted the budget and medium-term financial strategy, with the cost of dealing with the pandemic and the loss of income extended beyond the immediate period. However, despite the net budget impact of Covid, the Council was able to set a balanced budget for 2022-2023, without the need to undertake fundamental review of services or the use of general fund reserves.

Whilst the 2022-2023 budget accommodated growth to support known and emerging pressures, the full extent of the cost of living crisis and rising inflation was not known at the time the budget was set in March 2022.

During 2022-2023 through the budget monitoring process, the Council identified and reported on 'in year' pressures in particular around rising inflation, pay award and increase in demand for some services. Corporate contingencies were allocated where possible to address these pressures across services.

Despite this uncertainty, and the in-year inflationary pressures, the Council once again managed its finances well and reported to be within budget after the cost of redundancy, pension strain and contributions to essential earmarked reserves.

The favourable outturn position has enabled the council to protect reserves to some extent. This will help to support the Council's short-term financial position but, does not address the challenging financial position that the Council finds itself in over the medium-term.

This position has been achieved as a result of disciplined financial management after the Council delivered on its plan to tightly control spending as part of its wider strategy to protect essential services from further cuts in the future as far as possible. This position means the Council has been able to increase the Future Years Budget Strategy Reserve to £11.5 million which will be used to support either in corporately held budget efficiencies in 2023-2024 or /and the budget deficit in 2024-2025.

In February 2023, Cabinet approved an increase in the General Fund balance to £15.3 million in order to maintain it at approximately 5% of the net budget for 2023-2024.

In March 2023, Council approved the Reserves Strategy, which provides details of the reserves held by the council, their planned use and the governance arrangements. At the end of March 2023, the Council has reported earmarked reserves totalling £49.0 million are being held to support risk management, investment and smoothing. Along with a further £36.7 million held in restricted reserves (including school balances).

The General Fund reserve reflects the ability of the Council to deal with unforeseen events and unexpected financial pressures in any particular year and are a key indicator of the financial resilience of the organisation. In addition, the council hold specific reserves set aside by the Council to fund future expenditure plans. In the opinion of the Director of Finance (Section 151 Officer), the proposed level of reserves, provisions and balances is adequate in respect of the forthcoming financial year (reported to Cabinet on 22 February 2023).

The Council's current financial position (capital)

The Capital Strategy is underpinned by the Council's Corporate Plan and the Vision 2030. Like many other councils, the City of Wolverhampton Council has experienced significant funding reductions and needs to make careful choices in prioritising where money is spent. However, despite the financial challenges faced, the Council's capital programme includes significant investment programmes that endeavour to create an environment where new and existing businesses can thrive, people can develop the skills they need to secure jobs and to create neighbourhoods in which people are proud to live in.

On 2 March 2022, Council approved the revised medium term capital programme of £346.1 million for the period of 2021-2022 to 2026-2027 of which £139.4 million is forecast to be required in 2022-2023. Updates were approved by Council throughout the year, with the outturn being reported to be £67.6 million for 2022-2023.

Rising inflation has had an impact on the capital programme, increasing the cost of materials. In addition to inflationary risks, there are also supply chain delays, which could impact on the completion dates for some projects, resulting in further pressures. Project contingency budgets are reviewed in light of these pressures in order to mitigate against such cost increases. The Council will continue to assess the potential implications on the capital programme.

The Council's projected medium term financial position

In March 2023, the Council was able to set a balanced budget for 2023-2024 without the use of general fund reserves or the need to undertake significant service reductions.

However, due to the high level of uncertainty going forward, in particular around funding and inflationary pressures, the Council reported it faced a forecast deficit of £16.4 million in 2024-2025, rising to £23.1 million in 2025-2026.

The Council's strategic approach to address the budget deficit is to align resources to Our City: Our Plan Council in March 2023. In addition, the Council Five-Year Financial Strategy, approved by Council in March 2019, also provides the strategic framework used to address the budget challenge facing the Council over the medium-term.

The Medium Term Financial Strategy incorporates growth in future years to address the known and emerging pressures. The budget incorporates significant growth to ensure we can deliver on Council priorities and meet increasing demand for its services, such as £14 million for Adult Services, £5.7 million for energy inflation, £2 million for increased costs of providing temporary accommodation, £1.3 million to support increases in demand on passenger transport and £500,000 council tax discretionary pot to support residents.

It is vital government provides confirmation of long-term, sustainable funding as soon as possible in order for the Council to ensure the continuation of key service provision and delivery of Our City: Our Plan.

Impact of Covid-19, inflation and cost of living

The Council played a proactive, leading role in responding to the Covid-19 pandemic and considered evidence when drawing up a response to the emergency. As the situation has evolved, so has the Council's response. The cost of dealing with the impact of the pandemic extended beyond the short term, with some services continuing to see reductions in income generation.

As part of setting the 2022-2023 budget and updating the medium-term financial strategy, the ongoing impact of the pandemic has been considered. The budget and MTFSS incorporates growth to recognise income levels across services such as parking and markets are not yet back at pre-pandemic levels.

Inflation in the UK is at the highest it has been for four decades, which means as a country we are facing a 'cost of living' crisis. This creates significant risk and uncertainty in relation to the cost of delivering Council services including inflation, supply chain delays and the impact of the cost of living on residents.

The Budget and MTFs approved by Cabinet in March 2023 recognised the uncertainty around increasing inflation, and built in significant growth to tackle in year pressures, including growth for adult services, increasing energy prices and pay award.

The Council also recognises that residents are impacted significantly by the increasing costs of living, and through the Financial Wellbeing Strategy (approved by Council in March 2022), the Council is doing everything it can to support residents. The strategy focuses on tackling poverty and improving the financial wellbeing of our residents.

The Council continues to see the impact of the pandemic on the Collection Fund and now compounded by the cost of living. Whilst there has been some improvement on collection rates, with a gradual increase in the level of Council Tax collections to pre-pandemic levels, Business Rates are increasing at a slower pace and have still not returned back to pre-pandemic levels.

Treasury Management

The Council's Treasury Management Strategy is reviewed and approved annually by Council. In addition, mid-year reports are presented to Council, and quarterly monitoring reports are regularly reviewed by Councillors in both Executive and Scrutiny functions.

Part of the treasury management operation is to ensure that the Council's cash flow is adequately planned, with cash being made available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council approach to risk management, providing adequate liquidity initially before considering investment return.

The Council recognises the value of employing external treasury management service providers to assess specialist skills and resources. Therefore, the Council uses the Link Group as its external treasury management advisors.

There remains uncertainty around interest rates, with rates continuing to increase. The Council recognises the uncertainty and engages its external advisors Link Group to assist in formulating a view on interest rates. The Council continues to monitor prevailing interest rates and the market forecast and will seek the best rates of interest for borrowing, earning interest on investments, whilst managing risk in making financial decisions. The Council manages its exposure to fluctuations in interest rates with a view to contain its net interest costs or revenue, in accordance with its treasury management policy and strategy.

The Director of Finance (Section 151 Officer) regularly reviews the actual activity against the Treasury Management Strategy Statement and cash flow forecasts.

The Governance Arrangements

The Council has a responsibility to ensure its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, and properly accounted for, and used economically, efficiently, and effectively. The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Council has a well-established corporate governance framework. This includes statutory elements like the post of Head of Paid Services, Monitoring Officer and Section 151 Officer. Risk Management and internal controls are also a significant part of the governance framework and are designed to manage risk to a reasonable level.

The Monitoring Officer provides a short report, at least every other month if not more often, updating cabinet members (and the leader of the opposition) on the position with each of the bodies that the Council either owns or has significant involvement in with bodies in respect of which the Council has potential liabilities. In addition, detailed reports are reported to cabinet members in advance of any substantive document being taken for approval such as an Annual Business Plan.

The outcomes of the Council Plan are underpinned by the governance environment, which is consistent with the core principles of the CIPFA / SOLACE framework. The Council carries out annual reviews of all elements which make up the governance framework to ensure it remains effective.

An overview of this governance framework is provided within the Annual Governance Statement. This includes a review of the effectiveness of the council's governance framework including system of internal control. The Annual Governance Statement will also include a detailed section on each of the bodies within the Council's group structure setting out what measures we have in place to provide us with assurance on good governance and what performance management takes place.

Risk Management

The continuous budget setting and monitoring cycle captures the major risks and uncertainties facing the council. Major projects are overseen by Project Boards and projects are monitored and reported through 'Verto', which identifies risks, mitigations and timelines.

Risk management and internal control are a significant part of the governance framework and are designed to manage risk to a reasonable level. The Council's Strategic risk register is updated and reported on a regular basis to the Senior

Executive Board (SEB), Cabinet and Audit and Risk Committee. The Risk Registers include both the budgetary pressures for the current year and the medium-term.

Cabinet receives quarterly integrated performance, budget and risk monitoring reports updated against Our City: Our Plan priorities, these in turn are taken to and debated at the Council's Overview and Scrutiny Committee (the Scrutiny Board).

In addition to the Strategic Risk Register, Cabinet receive updates on the main budgetary risk facing the council. The main risks facing the council, as with other local authorities are the uncertainties around the future funding streams, impact of demand on statutory services, and inflationary pressures due to the 'cost of living' crisis.

SEB regularly review the budget and medium-term financial strategy which incorporates potential known financial risks facing the council.

Other Wholly Owned Companies

The Council owns three other organisations, Wolverhampton Homes, WV Living and Yoo recruit. The performance of these organisations and their going concern status has also been taken into consideration when preparing the Going Concern Assessment for the Council.

The External regulatory and control environment

As a local authority the Council has to operate within a highly legislated and controlled environment. An example of this is the requirement for a balanced budget each year combined with the legal requirement for councils to have regard to consideration of such matters as the robustness of budget estimates and the adequacy of reserves.

In addition to the legal framework and central government control, there are other factors such as the role undertaken by External Audit as well as the statutory requirements in some cases for compliance with best practise and guidance published by CIPFA and other relevant bodies.

Against this backdrop, it is considered unlikely that a local authority would be 'allowed to fail' with the likelihood being, when faced with such a scenario, that central government would intervene - supported by organisations such as the Local Government Association to bring about the required improvements or help to maintain service delivery.

Conclusion

It is considered that having regard to the Council's arrangements and such factors as highlighted above, that the Council remains a going concern.