

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 2020-2021 (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.

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 4 March 2020, Council approved a net budget of £248.2 million for 2020-2021, without the use of general fund reserves. This budget included the delivery of budget reduction and income generation targets totalling £5.5 million.

This budget was set before Covid-19 was declared a global pandemic and the announcement of the first national lockdown, and at the time of reporting, the full impact of the pandemic on both the finances and operating environment remained unclear. The pandemic has significantly distorted the 2020-2021 budget and medium-term financial strategy.

By swiftly and decisively responding to the pandemic, the Council played a pivotal role in leading the city through an unprecedented national public health emergency. This included many vital, short-term policy initiatives to protect the city's most vulnerable residents - including support for care home residents and staff, support for the NHS response, support for city schools and young people and much needed help for struggling city businesses. In addition to these important short-term initiatives, some services had to be suspended in line with Government restrictions. As an understandable result, the Council's income streams were adversely affected from the loss of fees and charges. This included revenue normally gained from leisure centre membership and use, and from car parking charges. Responding to the pandemic, also meant that, in some instances, budget reduction targets were not delivered because resources that would have been focused on transformation programmes, were redirected to the Council's pandemic response priorities.

Government has awarded local authorities a number of one-off grants to help tackle the pandemic, including un-ringfenced general covid grants, compensation for loss of

sales, fees and charges income and specific grants to help contain the outbreak. The Council has carefully managed the use of these grants, considering evidence when drawing up a response to the pandemic to ensure that the right response is delivered at the right level to support residents and businesses. The Council reported in March 2021, that it was projected that the covid general grant would be sufficient to deal with the cost pressures in 2020-2021 and that to ensure that the Council could continue to deliver on our Relight priorities, that any efficiencies identified against the general covid grant for 2020-2021, will be carried forward to support the ongoing challenges we face over the medium-term.

In June 2021, it was reported that - despite all the uncertainty and distortion of the pandemic - the council has once again managed its finances well and is reporting a net balance to be contributed to General Fund balance of £651,000 for 2020-2021.

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 identify £5.1 million from efficiencies to contribute into a Budget Strategy Reserve to support the 2021-2022 budget as approved by Cabinet in February 2021.

As part of the 2020-2021 budget setting process, a number of emerging pressures were identified. Therefore, as a prudent measure, a Corporate Contingency budget for growth was built into 2020-2021. These pressures have continued to be monitored throughout 2020-2021. Due to the pandemic the operation of the council has been disrupted and it is forecast that this growth budget will not be required in full in 2020-2021. In line with our policy set out in the Budget Report approved by Cabinet in February 2020, the Council will use any efficiencies identified against this growth budget to reduce the level of capital receipts flexibility draw down for 2020-2021.

The 2020-2021 revenue budget monitoring process has identified 'in year' pressures across Adult Social Care. These financial pressures in 2020-2021 have been offset by one-off efficiencies identified from across the wider council. The medium term financial strategy incorporates growth for future years to address these cost pressures going forward.

The General Fund balance was increased at the end of 2020-2021 to £13.7 million (representing approximately 5% of the net budget) and will remain at this level going into 2021-2022. The Council also reported earmarked reserves totalling £121.4 million at the end of 2020-2021. The Council is required to hold a number of reserves which either specific criteria associated with funding, legal requirements or accounting practice; these reserves total £77.5 million. The balance of £43.9 million are reserves set aside by the council to fund future estimated liabilities and planned expenditure.

General reserves reflect 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 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 17 February 2021).

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 business thrive, people can develop the skills they need to need to secure jobs and to create neighbourhoods in which people are proud in live.

On 3 March 2021, Council approved the revised medium term capital programme of £316.4 million for the period of 2020-2021 to 2025-2026 of which £96.4 million is forecast to be required in 2020-2021.

The pandemic has understandably had an impact on the development of capital projects. Given the unprecedented circumstances, there has been delays on some capital schemes. In some instances, cost pressures have also been identified associated with 'social distancing' operating models, materials and how they are sourced. To ensure that these costs can be met, in June 2020, the Council approved budget provision for specific risks emerging from the Covid-19 global pandemic.

The Council's projected financial position

The Council has developed a Five-Year Financial Strategy which is aligned to Our Council Plan 2019-2024. The Strategy provides a strategic framework to address the budget challenge facing the Council over the medium term.

In March 2021, the Council was able to set a balanced budget for 2021-2022 without the use of general fund reserves or the need to undertake significant service reductions.

However, due to the short term nature of Government funding streams, the one-off nature of some of the efficiency measures and the forecast cost implications of the pandemic, the Council reported that the we are faced with a forecast deficit of £25.4 million in 2022-2023, rising to £29.5 million in 2023-2024. This is in addition to the budget reduction and income generation targets of £5.6 million already planned and built into the medium-term financial strategy.

It is vital that the government provides confirmation of long-term, sustainable funding as soon as possible in order that the council can ensure the continuation of key service provision and the delivery of Relighting our City Priorities.

Impact of Covid-19

In March 2020, the World Health Organisation categorised Covid 19 as a global pandemic. As mentioned above, the pandemic has significantly distorted the budget and medium term financial strategy and there will be a 'covid cost' beyond the short-medium term. In September 2020, Cabinet approved the City's covid recovery plan 'Relighting our City'. This plan outlines the Council's commitment to continue to work with partners to support the City to live with and recover from Covid-19.

As part of setting the 2021-2022 budget process and updating the medium-term financial strategy, the ongoing impact of the pandemic has been considered. Due to the distortion of the budget it is difficult to confirm the exact costs directly associated with Covid-19. However, after taking into account the grants specifically for Covid-19, our current assumptions estimate that the net impact of the pandemic is in the region of £6.4 million in 2021-2022. In order to balance the budget, these cost pressures have been met from other efficiencies identified across the Council.

The costs of dealing with the pandemic extend beyond 2021-2022, it is not yet known how long the pandemic will go on for or what the level of future support required will be. There is considerable uncertainty on the cost of 'living with covid' and the additional demand which will continue to be placed on services such as social care and public health and well-being. In addition, the economic costs of the pandemic will place additional pressures on the Council's income collected from fees and charges as well as council tax and business rates for years to come.

In Wolverhampton, as elsewhere across the country, the pandemic continues to affect the lives of our residents and businesses. A key priority of the Council's recovery plan is to support our vital local business as well as generate more jobs and learning opportunities for our residents. The level of support the council is able to provide will be reliant the availability of resources.

The council will continue to lobby government to be fully reimbursed for all cost pressures arising from Covid-19. However, if the grant funding is not sufficient then, the Council will need to review the use of reserves, and possibly identify alternative ways of reducing costs to mitigate against any cost pressures over the medium term.

As detailed above, to ensure that the Council could continue to deliver on its Relight recovery priorities, any efficiencies identified against the general covid grant for 2020-2021, will be carried forward to support the ongoing challenges we face over the medium-term. In addition, the outturn position for 2019-2020 enabled to Council to create a Recovery Reserve of £3 million which will be used to support the Councils Relight agenda.

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 in employing external treasury management service providers to assess specialist skills and resources. Therefore, the Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

Due to the receipt of one-off covid Government grants received throughout 2020-2021, there has been no adverse impact on the council's cashflow. However, we will continue to monitor the impact that the pandemic may have on the council's cashflow going forward, including the loss of income across council tax, business rates, and fees and charges.

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 that 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 on a monthly basis to the Executive Team updating Cabinet 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 Executive Team 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 of that 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.

The Council's risk register is updated and reported on a regular basis to the Senior Executive Board (SEB) and Audit and Risk Committee. At the very start of the pandemic, a separate Covid-19 Risk Register was established alongside the Strategic Risk Register. The Risk Registers include both the budgetary pressures for the current year and the medium term.

Budget reports considered by Cabinet (Resources) Panel and Cabinet also include details of 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 the impact of 'living with covid'.

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