

Auditor's Annual Report on City of Wolverhampton Council

2020-21

January 2022



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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.



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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 recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council 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 Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

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

- Financial sustainability
- Governance

We have not had to apply any of our formal auditor's powers. For information the powers we can deploy are set out at Appendix C.



Financial sustainability

The Council is operating in an increasingly uncertain financial environment. For the second successive year, the Comprehensive Spending Review was a single year spending review. Wolverhampton, as with all local authorities, will need to continue to plan with little certainty over funding in the medium term.

Despite this uncertainty, and the challenges posed by COVID-19, the Council has maintained a good financial position. Having planned its budgets for future years well in advance will enable sensible phasing of proposals to minimise the impact of the financial climate on services to residents.

Our work has not identified any significant weaknesses in arrangements to secure financial stability at the Council, but we have identified two improvement recommendations.



Governance

Our work this year has focussed on developing a detailed understanding of the governance arrangements in place at the Council, including those in relation to the group as a whole, and the changes instigated as a response to the pandemic.

Our work on both business as usual governance and adapted structures has not identified any significant weaknesses in arrangements, but we have raised three improvement recommendations in relation to governance.



Improving economy, efficiency and effectiveness

The Council has demonstrated a clear understanding of its role in securing economy, efficiency and effectiveness in its use of resources.

Our work has not identified any significant weaknesses in arrangements.



Opinion on the financial statements: we have completed our audit of the Council's financial statements and issued an unqualified audit opinion on 11 October 2021.

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 or the Annual Governance Statement.

Audit Findings Report (AFR)

Detailed findings can be found in our AFR, which was published and reported to the Council's Audit and Risk Committee on 27 September 2021. At this Committee meeting we reported that there were some outstanding items which were still a work in progress, including anticipated changes to the accounts. Subsequently, a final version of the Audit Findings Report was provided to management on 11 October 2021 concurrently with our signed audit opinion. A summary of the misstatement is set out below:

Adjusted misstatements

6 adjustments were made, one of which resulted in a change to the Council's Comprehensive Income and Expenditure Statement (CIES) of £3.6m, but did not impact on the Council's reserves:

- 1) Derecognition of the Sports Ground at Wobaston Road from the balance sheet: £3.6m.
- 2) Reclassification of Wobaston Road land from other land and buildings to assets held for sale: £6.3m.
- 3) Reclassification of income and expenditure within the CIES: £3.0m.

- 4) Reclassification of two COVID-19 grants (tax income guarantee scheme and section 31 rates relief) within the CIES: £35.3m.

Unadjusted Misstatements

There were a further 6 unadjusted misstatements reported, which management did not adjust for on the grounds of materiality:

- 1) Reversal of a prior period adjustment (PPA) to assets held for sale opening balances, which was not material and therefore did not meet the criteria of a PPA: £1.6m.
- 2) Correction of the valuation of Loxdale Primary School for updated pupil numbers: £0.7m.
- 3) Understatement of the Council's share of the West Midlands Pension Fund pension fund assets: £6.39m.
- 4) Correction of CIES element of revaluation reserve debit entries: £4.5m
- 5) Note 2C - Pooled Budgets: in our view this did not clearly describe the nature of the arrangement or how the Council has accounted for the pooled budget.
- 6) Note 2K - Events after the Reporting period: In accordance with IAS10 this note should be used to describe an event after the year end that could potentially have an impact on the figures reported. Whilst informative, (as it explains the challenges the Council continues to face in light of the pandemic) it could be enhanced to more explicitly note what the event after the reporting period has been and which figures could be impacted.





Opinion on the financial statements: we have completed our audit of the Council's financial statements and issued an unqualified audit opinion on 11 October 2021.

Unadjusted Misstatements (continued)

These errors were considered immaterial both individually and in aggregate. There would have been no impact on the Council's usable reserves had these adjustments been made. The overall impact on the balance sheet would have been an increase to assets of £7.1m.

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 Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office. We will complete our work on the Whole of Government Accounts consolidation pack in line with the national deadline, when it is announced.



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 7 to 22.

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.

Financial position 2020/21

The Council has historically performed well, with a record of strong financial and budgetary management. That being said, it is in a challenging environment, and this is set to continue, as the impact of COVID-19 as well as pe-existing funding pressures persist. The Council has increased its level of general fund marginally, as it now stands at £13.7m and has increased its level of earmarked reserves significantly from £64.6m to £121.4m (Note that the table shown below is for the Council but the general fund and earmarked reserves balances for the group are the same). Reports to Cabinet note in order to be able to balance the budget for 2021/2022 work has continued to identify further efficiency measures. In summary and despite the net budgetary impact of COVID-19, we note that a balanced budget for 2021/2022 was proposed without the need to undertake a fundamental review of services or the use of general reserves.

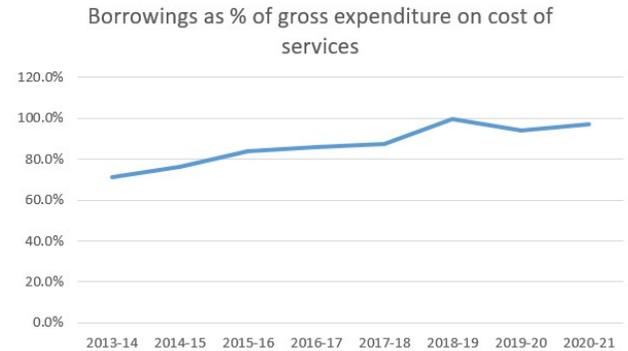
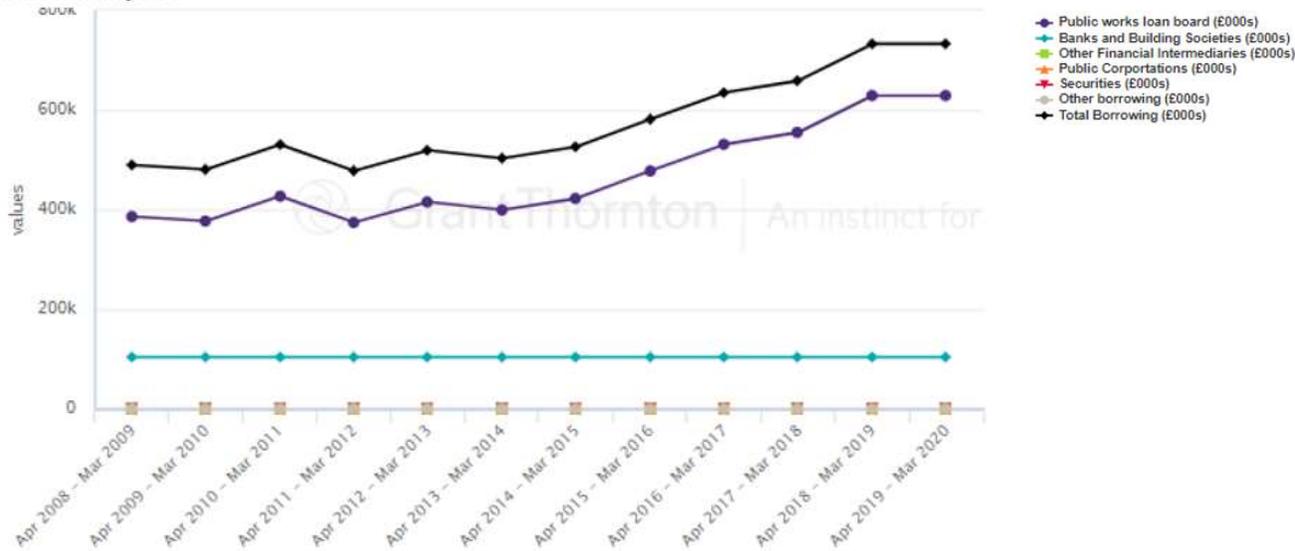
	General Fund Balance	General Fund Earmarked Reserves	Total General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Total Unusable Reserves	TOTAL (Council)
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance Brought Forward	(13.0)	(64.6)	(77.6)	(7.1)	(1.2)	(10.3)	(5.2)	(101.4)	54.8	(46.6)
Surplus/(Deficit) on Provision of Services	28.3	-	28.3	(21.2)	-	-	-	7.1	-	7.1
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	211.0	211.0
Total Comprehensive Income and Expenditure	28.3	-	28.3	(21.2)	-	-	-	7.1	211.0	218.1
Net Decrease/(Increase) before Transfers & other Movements	28.3	-	28.3	(21.2)	-	-	-	7.1	211.0	218.1
Adjustments between Accounting Basis & Funding Basis under Regulations	(85.7)	-	(85.7)	21.2	(0.5)	0.7	(2.3)	(66.6)	66.6	-
Transfers to/from Earmarked Reserves	56.8	(56.8)	(0.0)	-	-	-	-	(0.0)	-	(0.0)
(Increase)/decrease for the Year	(0.6)	(56.8)	(57.5)	-	(0.5)	0.7	(2.3)	(58.6)	277.6	218.1
Balance Carried Forward	(13.7)	(121.4)	(135.1)	(7.1)	(1.7)	(9.6)	(7.5)	(161.0)	332.4	171.5

Source: Movement in Reserves Statement from 2020-21 audited financial statements

Borrowings and cash

In comparison to its neighbours, the Council, has a reasonably high level of borrowings. The graph below to the left showcases the total borrowing of the Council over time, starting with 2008/09, while the graph to the right shows how borrowing has initially increased since 2013/14 as a % of gross expenditure on cost of services but has stabilised in recent years.

Wolverhampton



Source: CFO Insights: Total Borrowing

Source: City of Wolverhampton Council's historic financial statements

However, borrowing is one tool within the suite of treasury management armoury that the Council employs to ensure that the management of the local Council's borrowing, investments and cash flows is effectively controlled and optimum performance pursued, which is commensurate with those risks (as defined in the Council's Treasury Management Strategy). The Council therefore ensure that the levels of borrowing in any one year does not exceed the authorised borrowing limit, and that key targets are set, the monitoring of which ensures compliance with Prudential and Treasury Management Indicators. These are monitored on a quarterly basis by both Cabinet and Council. The report received by Cabinet on 7 July 2021 confirmed that all relevant prudential indicators and treasury management indicators had been complied with.

The Council demonstrates a clear and explicit link between the capital programme, treasury management and ongoing revenue costs. There are appropriate cross references in the relevant key documentation, which demonstrate the connection, including the impact of capital and treasury management decisions on the Council's minimum revenue provision.

Minimum Revenue Provision

Under Regulation 27 of the 2003 Regulations, local authorities are required to charge MRP to their revenue account in each financial year. Before 2008, the 2003 Regulations contained details of the method that local authorities were required to use when calculating MRP. This has been replaced by the current Regulation 28 of the 2003 Regulations, which gives local authorities flexibility in how they calculate MRP, providing the calculation is 'prudent'.

Before the start of each financial year a local Council should prepare a statement of its policy on making MRP in respect of that financial year and submit it to full Council for approval. For local authorities without a full Council the statement should be presented for approval at the closest equivalent level. The statement should describe how it is proposed to discharge the duty to make prudent MRP during that year.

We have RAG rated the Council's MRP both as a percentage of its capital financing requirement (CFR) and of its total debt.

The Council's MRP as a percentage of total debt is 4.05% (4.8% in 2019/20). Anything greater than 2% we consider to be "green" on the grounds that it is indicative at a high level of appropriate amounts of provision being put aside to pay for ongoing debt obligations.

The Council's debt as a percentage of its CFR is 87% (91% in 2019/20). Anything above 80% we, consider to be high (with a "red" rating). This consideration is mirrored in the Council's own prudential indicators (PI5: in order to ensure that over the medium term debt will only be for a capital purpose, the local Council should ensure that debt does not, except in

the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years), which ensures that the capital financing requirement never exceeds gross debt.

Therefore while at the higher end, we are comfortable that this is being monitored by the Council appropriately.

Savings

Significant work has been undertaken by the Council to identify savings opportunities to balance the books, and the medium term financial planning undertaken demonstrates a prudent approach, with a recognition that future funding levels remain uncertain. There is no evidence that there are unrealistic plans in place. Strategic Directors are aware that their budgets are reasonably tight but acknowledge the financial reality facing the sector and are working within the limits made available to them.

Savings are taken out of the budget as it is developed, which is through an iterative process, in consultation with partners, tax payers and other stakeholders as appropriate, particularly if changes to the way services are operated are proposed, before it is formally reported through the Cabinet process and then onwards for formal approval by Full Council.

From discussions with officers, we are aware there are ongoing discussions, even once the budget is agreed and approved, to identify further savings, should slippage in the achievement of the budget occur.

Savings are monitored as part of quarterly budget monitoring meetings, which are also viewed through the leadership team.

At present the delivery of savings is not monitored independently of budget monitoring. The General Fund Revenue Budget Monitoring table does contain a column for a narrative for the reasons for variances. However it is uncertain whether these variances are adequately challenged. It is therefore difficult to measure the extent to which particular savings scheme have been successful as they are taken out of the budget. As there is no clear post-implementation review, there is also no clear assessment or whether any quality risks have occurred as a result of the savings being made.

If a service subsequently breaks even the assumption would be that the savings have been met, but this could mask underspends in other areas.



Medium Term Financial Strategy

There is evidence that the Council's financial plans are based on key assumptions that are realistic and are not reliant on uncertain income streams that are significant to the delivery of the plans. Scenario planning and modelling is undertaken to determine what increases in demand are likely to look like, though with the acknowledgement that there is still a sense of the unknown in terms of how we will live with the impacts of COVID-19 in the future, and consequently what support people will need from its local Council. The budget pressures and how they are managed are explicitly set out in the MTFs along with transparency on what the key assumptions are such as pay awards, council tax increase, adult social care precept, price inflation for utilities, borrowing interest rate etc. We are therefore satisfied that the Council's financial plans adequately reflect the impact of key expenditure drivers and potential pressures such as salary increments.

We note that the Medium Term Financial Strategy sets out the projected deficit to 2023/24 as shown to the right. Note that each year's gap is rolled up into the next year's net budget brought forward which impacts on the projected cumulative budget deficit.

The MTFs and annual budget are monitored on a quarterly basis alongside one another, which allows for timely revisions to be made to the MTFs as required. There is no planned use of reserves: we have reviewed the reserves of the Council to identify any 'pinchpoints' that could arise should the required savings not materialise. On the assumption that no savings are realised, based on the values in the accounts as at 31 March 2021, for the immediate future the Council has sufficiency of reserves to ensure that no shortfall arises.

We further note that there is a budgeted contingency reserve within the Medium Term Financial Strategy, and a further £3 million budget built into the Corporate Contingency for Budget Growth.

The MTFs as a standalone document does not reflect the impact of the Council's involvement with significant group entities. Although each component has its own separate business plans and is considered as part of separate scrutiny arrangement, the Council should consider expanding and enhancing the MTFs to include explicit consideration of the group's medium term financial plan and not just the Council's.

	2020- 2021 £000	2021- 2022 £000	2022- 2023 £000	2023- 2024 £000
Previous Years Net Budget Brought Forward	234,934	248,223	261,769	273,394
Increasing / (Decreasing) Cost Pressures				
- Pay Related Pressures	(533)	5,074	5,250	5,426
- Treasury Management	1,436	3,321	379	-
- Budget Growth	17,898	4,659	5,276	5,126
- Budget Reduction, Income Generation & Financial Transactions	(5,512)	492	720	(4,480)
- Net Impact on changes to specific grants	-	-	-	-
Net Budget (Before Use of Resources)	248,223	261,769	273,394	279,466
Projected Corporate Resources				
- Council Tax (including Adult Social Care Precept)	(108,843)	(114,318)	(120,068)	(126,107)
- Enterprise Zone Business Rates (including use of related reserve)	(2,700)	(1,530)	(1,490)	(1,450)
- Top Up Grant	(26,578)	(26,578)	(26,578)	(26,578)
- Business Rates (net of WMCA growth payment and Collection Fund deficit)	(73,769)	(74,199)	(75,703)	(77,237)
- New Homes Bonus	(1,614)	(568)	(265)	-
- Section 31 Grant – Business Rates support	(11,703)	(11,703)	(11,703)	(11,703)
- Improved Better Care Fund	(12,947)	(11,000)	(11,000)	(11,000)
- Winter Pressures – Adult Social Care	(1,376)	-	-	-
- Social Care Grant	(8,693)	(6,342)	(6,342)	(6,342)
	(248,223)	(246,238)	(253,149)	(260,417)
Projected Budget Annual Change in Budget Deficit / (Surplus)	-	15,531	4,714	(1,196)
Projected Cumulative Budget Deficit	-	15,531	20,245	19,049

Source: Table 7 – Medium term Financial Strategy, as presented to Cabinet 19 February 2020

Improvement recommendations



Financial sustainability

1 Recommendation	Consideration should be given to more formal, explicit monitoring, at a Member level, of the extent to which proposed savings are realised.
Why/impact	The Annual budget sets out proposed savings per service area and their impact on the budget. Reporting on the progress of these specific programmes would help Members (and other readers of the documents) to better understand the performance in each area which would inform decision making as to any additional spending which may be required.
Auditor judgement	The monitoring of specific savings programmes could be made clearer. Currently it is not apparent whether proposed savings are monitored and reported against.
Summary findings	No distinction is made in the Revenue Budget Monitoring Reports of the progress being made against the proposed savings as set out in the Annual Budget.
Management comment	Savings are identified on specific cost centres and are monitored as part of the monthly and quarterly monitoring process. Going forward we will make clear reference to the delivery of savings within the budget monitoring reports to Cabinet/Cabinet (Resources) Panel.



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

Improvement recommendations



Financial sustainability

2 Recommendation	The Medium Term Financial Strategy should be expanded to explicitly consider group entities, particularly those which are considered sufficiently significant to be consolidated into the group accounts; namely City of Wolverhampton Housing Company Limited and Wolverhampton Homes.
Why/impact	The Council's financial plans should reflect the impact of its involvement with significant group entities.
Auditor judgement	The inclusion of the group entities as part of the MTFS would ensure a more cohesive reporting of group strategy, especially important given that each of the consolidated components have a part to play in helping to deliver the Council's strategic objectives.
Summary findings	The MTFS as a standalone document does not reflect the impact of the Council's involvement with significant group entities
Management comment	Going forward, the Budget and MTFS report will include reference to our group entities and corresponding financial implications. We will also ensure that, in future, the HRA business plan report is strengthened to consider the group impact of Wolverhampton Homes.



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

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.

Monitoring and assessing risk

Risk registers are used to monitor risks: risks can change over time and need to be monitored closely to make sure proper controls remain in place. The leadership team and the Audit and Risk Committee receive quarterly reports on the strategic risk register. This gives them assurance that risks are being reviewed and actions are being taken to either reduce, mitigate or monitor them. Such reporting also provides a chance to identify and discuss new and developing areas of risk.

The Strategic Risk Register is updated on an ongoing basis: evidence that risk is embedded in the every day business of the Council is that at the commencement of the pandemic, a COVID-19 specific risk register was put into place to recognise that it brought very specific risks with it. That the COVID-19 specific risk register no longer exists, as the risks have been subsumed within the "normal" strategic risk register, is further evidence of risk assessment being embedded, given that COVID-19 is now considered as part of business usual activity.

The register is informed by departmental registers, which are also updated on an ongoing basis, and follow a similar format with a RAG rating of risks based on an assessment of their impact/likelihood. Risk owners and relevant cabinet members associated with each risk, are named but there is no explicit link to corporate objectives nor information in relation to the key controls and sources of assurance available as well as what gaps exist. There is a commentary which includes some of this information but it is not clearly set out.

The Council considers risks as part of its decision making role on corporate policies, including the annual budget setting processes, major policy decisions and major projects. The Council's Strategic Executive Board also reviews these corporate risks through quarterly monitoring reports.

There is a good audit and investigations function operating at the Council. Internal Audit has demonstrated itself to be a dynamic service capable of reacting and responding to changing circumstances. Planned Internal Audit work for 2020/21 has been subject to some delay and postponement as the audit team were redeployed as part of the response to COVID-19. Nevertheless, the audit team were able to complete 24 reviews (15 substantial, 7 satisfactory and 2 limited) which compares against total of 31 reviews in 2019-20. It has therefore proved itself to be sufficiently agile to change its plan in order to certify a number of COVID-19 grants, providing assurance over the grants process itself as well as delivering a sufficient number of audits in

All issued reports have their agreed actions tracked and followed up, with internal audit providing a report on the progress made by management in implementing the agreed actions. Progress against delivery of actions to address high priority recommendations are reported to the Audit and Risk Committee for information and discussion. Similarly, the Counter Fraud Specialists undertake a programme of work to support the Audit and Risk Committee, including a mix of proactive and investigatory work. Findings are reported appropriately.

Budgetary Setting Process

The budget-setting process is multi-layered and thorough, with several stages, including stakeholder consultation. The draft budget was presented for review in November, with additional papers presented to Council to approve the budget in February. The following year's budget and forward looking MTFS are considered concurrently.

This high level of scrutiny together with the Council's track record of achieving its planned savings and balancing its budget confirm the strength and validity of the budget setting processes in place.

Budgetary control

There are good systems in place for oversight of the budget. As well as quarterly budget reports to Cabinet Resources Panel, budget holders have access to real time

information via self-service budget reports. These can be viewed either at a summary (high) level or at a detailed level. The quarterly budget monitoring reports detail variances by department (and service lines within departments) demonstrating a regular identification of in-year variances. Actions being taken or to be taken by departments in response to such variances are set out.

Leadership and committee effectiveness/decision making

The work of the Council's committees is governed by the Constitution. This constitution is regularly reviewed and updated, including very recently, in order to ensure that any changes in processes occurring as a result of COVID-19 were constitution-compliant. The Annual Governance Statement needs to be read alongside the Council's Constitution, which 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 antifraud culture.

The Council seek user feedback via the consultation hub, "Citizen Space", which invites thoughts and comments from the public when changes are planned. While there is a list of open and closed consultations it is not clear how the public responses have been taken into account in the decision making process. We have therefore raised a recommendation in this regard for the Council to consider.

Monitoring and ensuring appropriate standards

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. Local authorities are required to apply the requirements of CIPFA's Financial Management Code with effect from 1 April 2020. We have considered the requirements and commend the Council on undertaking a self-assessment against the Code and reporting it to the Audit and Risk Committee. This has allowed the Council to create a base from which improvement opportunities can be identified, and will constitute good evidence in its next Annual Governance Statement of how it is continuously monitoring and improving its arrangements.



Group Governance

We identified in our audit plan a risk of significant weakness in relation to group governance arrangements. This is because in our Audit Findings Report in respect of the year ending 31 March 2020 we raised a number of recommendations for the Council to consider as part of its ongoing investment in and work with the City of Wolverhampton Housing Company Limited. We also noted that there had been a number of Public Interest Reports (PIRs) issued: Nottingham City Council (August 2020), the London Borough of Croydon (October 2020), and Northampton Borough Council (January 2021), which are the first issued since 2016. [Lessons from recent Public Interest Reports | Grant Thornton](#).

Along with other weaknesses, the PIRs have drawn attention to failings in the governance arrangements where subsidiaries and associated entities are involved as well as a lack of understanding of how to manage financial and commercial uncertainty and risk in the medium to long term.

We have followed up action taken by the Council in response to the recommendations made. In addition we have reviewed the governance arrangements in its place with its associated entities.

City of Wolverhampton Housing Company Limited

The Council has significantly enhanced its Annual Governance Statement for the year ended 31 March 2021, and as part of the additional information now included, are details as to how the Council have addressed previous recommendations made.

In order to better understand the risks to the Council should the company suffer delays to its house building schemes and there being a knock on effect to its ability to repay loans, the Council has worked with the company to approve a new business plan which is regularly reviewed and reported against both at officer and member level, to ensure continued compliance with agreed targets. Updated business plans will be brought to Cabinet for approval on an annual basis.

The Company previously had little equity funding: the split between equity and debt means that the Company was highly leveraged, creating a risk regarding the Company's ability to make loan repayments especially if there were adverse changes in projected sale or take-up rates, fluctuations in demand or increase in development

costs. This has been partly addressed by the continuing monitoring of the Company's ongoing compliance against targets, as well as the issuance of equity by the Council to the company as agreed by Council in December 2020, for the purposes of supporting the delivery of housing in Wolverhampton.

In our 2019/20 Audit Findings Report, we recommended that given recent failures in local government energy companies, the Council should ensure that the majority of board directors have housing company expertise. This is a work in progress though the skills of the Board have been bolstered by the appointment of a non-executive director with significant housing experience. Additionally, the Council's shareholder board has been strengthened by increasing the number of members from six to ten.

In addition to the specific details set out earlier, there is also a standing monthly agenda item for the Monitoring Officer/Chief Operating Officer to provide an update to the Executive Team on those bodies either owned by the Council with potentially large liabilities to the Council. Ostensibly this covers City of Wolverhampton Housing Company, Wolverhampton Homes, Wolverhampton College and Yoo Recruit Ltd, but will expand as necessary to cover any new partnerships.

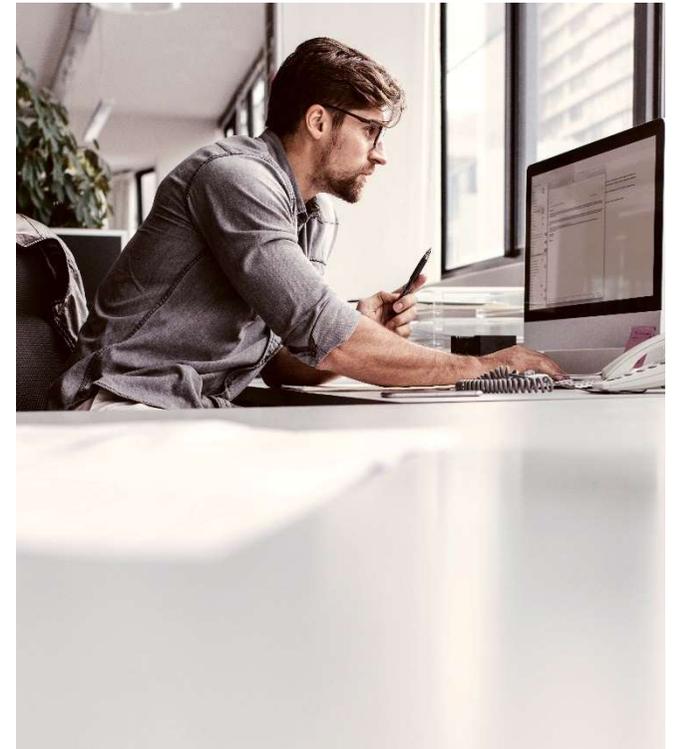
Conclusion

Overall, we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks. We have identified three opportunities for improvement, set out overleaf.

Improvement recommendations

Governance

3 Recommendation	When documenting a strategic risk, the Council should be explicit in linking it to which of the corporate objectives is at risk, as well as clearly setting out details of the controls and assurance already in place, such that gaps can be easily identified.
Why/impact	With all the relevant information at their command, Committee members will be more readily able to hold officers to account on the action being taken to fill any gaps.
Auditor judgement	It is important for the Audit and Risk Committee (and all users of the risk register) to be able to clearly identify what actions have been taken to mitigate the risk identified, along with any further work that is proposed to be carried out, so that it has greater assurance over the continual monitoring and risk management activity that is being undertaken.
Summary findings	There is not a clear link in the register between the issue identified and the corporate objective being put at risk, should appropriate measures and mitigations not be effective. Information in relation to the key controls and sources of assurance available as well as what gaps exist is not clear.
Management comment	<p>During 2021-2022 the Strategic Risk Register reported to Audit and Risk Committee has been strengthened. Council priorities are now identified against each risk. The latest iteration reported in December 2021 included additional information on mitigating action being taken and other sources of assurance.</p> <p>Consideration will be given to how quarterly performance/budget reporting can be enhanced to reference to risk aligned to new council plan objectives.</p>

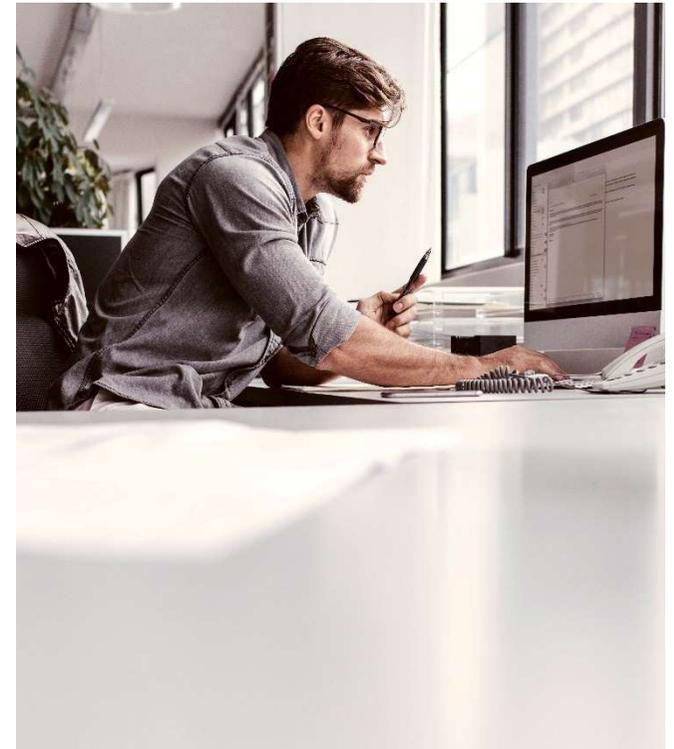


The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

4 Recommendation	The Council has a consultation hub, which invites thoughts and comments from the public when changes are planned. We recommend that the Council consider including a section in its consultation pages setting out details of the questions asked, the responses received, and what was done as a result.
Why/impact	While there is a list of open and closed consultations it is not clear how the public responses have been taken into account in the decision making process.
Auditor judgement	The Council could enhance the transparency of its consultation process by setting out explicitly what difference the public response has made to the decision.
Summary findings	Actioning the above recommendation will demonstrate that service user feedback is being taken into account.
Management comment	The outcome of consultations is reported to Cabinet, and therefore we are exploring how we add a link on our consultation hub 'citizen space' to the specific cabinet report, which will include the outcome of the consultation and the decision made, and also make this clear in future consultation and engagement strategy.

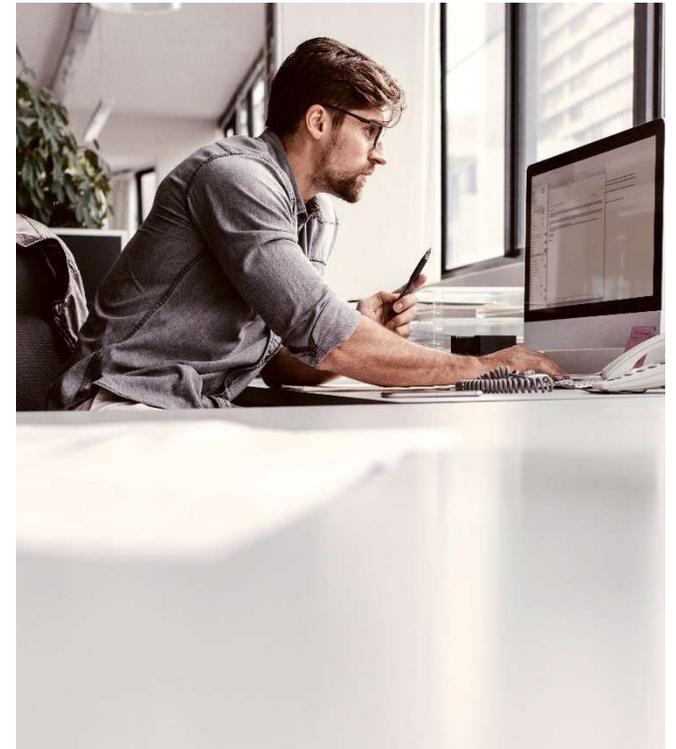


The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

5 Recommendation	We recognise the improvements made by the Council in partnership with City of Wolverhampton Housing Company Limited in terms of it having relevant sector expertise on the Board. We recommend that the a skills and knowledge assessment is undertaken to inform the consideration of whether further additional expertise would add value to the Board.
Why/impact	Without appropriates sector knowledge and expertise there is a risk that decisions are not appropriately challenged or informed, or that risks themselves are not identified and addressed sufficiently.
Auditor judgement	Given recent failures in local government energy companies, the Council should ensure that the majority of board directors have housing company expertise.
Summary findings	The Council has appointed one member to the Board with significant housing experience and the Board would benefit from considering whether additional expertise in this area would be of benefit.
Management comment	We will ensure that a skills and knowledge assessment is undertaken and that the WV Living Shareholder Board are assured that the company board has sufficient expertise.



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

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.

We have reviewed arrangements at the Council for improving services and the way in which they are delivered.

Performance review, monitoring and assessment

The Council has an Insight and Performance team which is driving a real focus on performance management and how the Council uses insights and data. This has been done by developing an intelligence team but also a technical reporting team to bring together all data and create power BI dashboards: working in partnership with the services to enable them to bring together data and understand how data is best presented and used to drive evidence-based decision making.

Council-wide there is a move to build on a more integrated finance and performance reporting approach, which was first presented to Cabinet after the year under review (in July 2021), but nevertheless is evidence of the trajectory the Council was on during the year ended 31 March 2021. This included a variety of relevant benchmarking information such as CIPFA nearest neighbours, regional comparators and national comparators which will be tracked against over time to ensure that outcomes in the areas of, for instance, social value, jobs to skills gaps, grow our businesses are all monitored and reported against.

The key principle underpinning the “Relighting our City” programme is “We are a first and foremost a public service organisation. Everything we do will be based on delivering the very best possible services for our city” and therefore key to that is understanding current levels of performance, including its drivers so decisions can be made on how best to improve.

Between 20 September 2021 and 24 September 2021. Ofsted and the Care Quality Commission conducted a joint inspection of the local area of Wolverhampton to judge the effectiveness of the area in implementing the disability and special education needs (SEND) reforms as set out in the Children and Families Act 2014. This was done after the year in question (as was not published until October 2021) but is clearly therefore indicative of arrangements in place during the year in question. As a result of the findings of this inspection and in accordance with the Children Act 2004 (Joint Area Reviews) Regulations 2015, Her Majesty’s Chief Inspector (HMCI) has determined that a Written Statement of Action (WSOA) is required because of significant areas of weakness in the area’s practice.

Ahead of the report being published the informal feedback was considered by Children, Young People and Families Scrutiny Panel: minutes show that panel members appropriately scrutinised the presenters in terms of improvement action already being taken. This is not considered to be indicative of a significant weakness as it is not pervasive across the entire service area. Furthermore, we note that the Council was anticipating the outcome of the review to be mixed given the significant change that had occurred in that area before the review was undertaken, which therefore demonstrates good self-awareness on the part of the Council. We will consider this further, particularly the actions taken to address the findings, as part of our 2021/22 considerations.

Partnership Working

The need to work with others in partnership is an implicit part of the remit of each strategic director. A positive legacy of COVID-19 identified is that it has brought people together into a much stronger joint working culture, where teams now naturally think to talk to one another as part of their business as usual activities.

The Council is proactive in identifying its stakeholders and ensuring each is appropriately informed and/or consulted as appropriate including workforce, businesses, other public sector entities, communities, and members.

Additionally, there is evidence of partnership working in the development of the Wolverhampton pound. The City of Wolverhampton Council, City of Wolverhampton College, Royal Wolverhampton NHS Trust and Wolverhampton homes have signed an agreement committing to spending more money within the city and working with businesses, communities and the voluntary sector to retain local wealth, create new jobs and opportunities for residents.

As mentioned earlier as part of governance arrangements, the Council has already addressed the need to formally consider the performance of the partner it works with on a formal and regular basis, which is a positive step.

Procurement and contract management

The Council recognises that more can be done in relation to contract management: a contract management framework has been developed to train relevant officers to ensure that the right skills are in place across the Council, as while there were pockets of good practice, there were also instances of contracts being awarded but then not closely monitored within the services.

A paper was presented to the Strategic Executive Board picking up best practice from the NAO, and identifying potential savings that could be made if contract monitoring is fully embedded as well as recognising the Council's responsibility as a local Council achieving best value.

A working group was developed and staff surveyed to set a baseline and determine what current practices were. A contract management system will be put in place with links to the procurement system, linked to payments made so that there is a full comprehensive

understanding of what the spend is and can therefore enhance informed decision making.

Major capital projects

For major capital projects, there are arrangements in place to monitor, control and report on costs. There are a number of capital projects underway at any one time, but the most high profile of them is arguably Civic Halls, due to the time delays and expansion of budget that have occurred. This continues to receive a significant level of scrutiny, appropriately so, given the high profile nature of the project. Arrangements are as follows:

The operational group meet on a 2-weekly basis and look over the day to day matter of operations. There are representatives within this group from corporate assets, finance, procurement, the project management team as well as internal audit (in an advisory capacity). The group consider actions taken, the programme overview, costs, and risks on a day-to-day basis.

Above the operational group there is a Programme Board dedicated to overseeing the Civic Halls Restoration, with senior management membership including the Director of Finance, and the Chief Executive. The Council has commissioned Faithful Gould in a project management capacity, and they also sit on the Programme Board.

For additional oversight, there is a Project Assurance Group, to which all such projects and programmes report.

Progress is reported frequently to members and lessons learned from the internal audit review into the management of the project, have been taken on board and applied more widely to other projects.

Based on our discussions with officers, and review of relevant documentation, we are satisfied that this is being given the appropriate management attention and proactive rather than reactive measures are being taken to ensure that the Council's exposure to risk is mitigated and would encourage continued senior management focus on this issue.

Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources.

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

The Council has adapted arrangements to respond to the new risks being faced from 2020-21 onwards in respect of COVID-19 and have arrangements in place to identify and monitor additional costs arising from responding to the COVID-19 pandemic.

From a financial perspective the additional costs have been tracked through the normal monitoring process and through regular returns to Central Government: costs which are non-operational (i.e. of a nature which the service has only incurred because of the pandemic) were charged to a separate cost centre controlled by Finance, which meant that no budget changes were needed to reflect these costs. Most of the individual items of expenditure incurred because of COVID-19 come into this category (e.g. food hubs, accommodating the homeless, community mobilisation fund, and one-off IT costs).

Costs which are of an operational nature, but which have increased because of the pandemic, were charged to service budgets.

This is a sensible approach as it recognises the difference between what are likely to be one-off costs from potentially recurring costs, which may continue to impact on a service's budget due to longer term changes in demand and need.

Monitoring reports were received by Cabinet along with regular verbal updates from a range of Officers, both at Cabinet and Full Council as well as other sub committees, where members were kept abreast on how each service area was responding to the needs of its users as a result of the pandemic.

Governance

While the Council generally maintained a business-as-usual approach to its governance arrangements during the pandemic, some adjustments were required. As a result of the lockdown restrictions announced on the 16th March 2020, 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.

When the pandemic began, it was acknowledged that it was appropriate for decisions to be made in the correct way, but it was deemed necessary to utilise emergency powers, as set out in the constitution. Decision logs have been maintained throughout and continue to be live documents: key members were briefed frequently (eg the Council Leader was briefed every day, as well as the Leader of the Opposition, with councillor briefings held weekly) and communications

were sent out from the Director of Governance clearly setting out expectations about who could make decisions and how.

The Strategic Executive Board routinely used to meet regularly via their 9am check-in, (which was in place prior to COVID-19 as a helpful way to connect) but in respect to the pandemic this was extended to include a 5pm check in, which provided a space for agile decision making.

The Council was conscious that there were three overarching themes to consider at any one time: COVID-19 response, business as usual, and recovery. It is clear that the Council concluded early that all three things needed to continue and therefore they were stepped up to and down from the agenda at the daily meetings as required: this grip meant that the Project and Programmes team quickly moved around the organisation depending on the key priority.

The Council recognises that it has had to act promptly to carry out central government requests, but to ensure that Governance arrangements were adequate, post implementation audits were commissioned from the Council's internal audit service, such as to consider contract arrangements during COVID-19, as well as

COVID-19 arrangements

how the distribution and allocation of grants was managed.

In its Annual Report delivered to the Audit and Risk Committee in July, internal audit reported that at the Council a significant proportion of the audit resources during 2020-2021 was temporarily redeployed to other areas of the Council's business in order to provide support in a number of critical areas including:

- the food distribution hub
- helping to administer the wide range of business support grants provided by Central Government – including reviewing and assessing applications, payment uploads,
- reconciliations, monthly returns and introducing a pre and post assurance framework
- undertaking supplier due diligence checks with Procurement regarding the supply of personal protective equipment (PPE)
- sense checking other COVID-19 related support and grant package returns

There were no adverse findings referred to in this report as a result of this work and the overall Head of Internal Audit opinion given in respect of the year ended 31 March 2021, was that there was reasonable assurance that the Council has adequate and effective governance, risk management and internal control processes.

Improving economy, efficiency and effectiveness

To recognise its ongoing impact, as noted on page 14, a COVID-19 specific risk register was put into place to recognise that it brought very specific risks with it. That the COVID-19 specific risk register no longer exists, as the risks have been subsumed within the "normal" strategic risk register, is further evidence of risk assessment being embedded, given that COVID-19 is now considered as part of business usual activity.

As noted in the Governance section of this report, risk management is well embedded and therefore that, COVID-19 continues to be included in risk discussions.

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.

Conclusion

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

We have not identified any improvement recommendations.



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 Council 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'.	No	N/A
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 – pages 11 and 12 Governance – pages 16 to 18

Appendix C - Use of formal auditor's powers

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 have not made any such recommendations.

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 have not issued a public interest report, nor do we consider that the issuance of such a report is necessary from the results of our review.

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 apply for such a declaration.

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 Council or an officer of the Council:

- is about to make or has made a decision which involves or would involve the Council 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 have not issued an advisory notice.

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 Council, or of a failure by an Council to act, which it is reasonable to believe would have an effect on the accounts of that body.

We have made no application for a judicial review.

