

### 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 2021-2022 (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 3 March 2021, Council approved a net budget of £258.5 million for 2021-2022, without the use of general fund reserves. This budget included the delivery of budget reduction and income generation targets totalling £4.9 million.

This budget was set considering the potential ongoing impacts of the Covid-19 pandemic could have on 2021-2022 budget, including the cost of 'living with covid'. The pandemic has significantly distorted the budget and medium-term financial strategy. However, despite the net budget impact of Covid, the Council was able to set a balanced budget for 2021-2022, without the need to undertake fundamental review of services or the use of general fund reserves.

Covid-19 continued to affect many areas of the Council during 2021-2022 as it continued to play a proactive, leading role in responding to the pandemic. This included the delivery of many vital, short-term policy initiatives to protect the city's most vulnerable residents - including support for care home residents and staff, the NHS response, for city schools and young people and much needed help for struggling city businesses. As a result of these activities the Council incurred additional expenditure. In addition, to these important short-term initiatives, the Council's income streams continued to be adversely affected during 2021-2022 from the loss of fees and charges. This included revenue normally gained from leisure centre membership, and from car parking charges.

Government awarded a number of one-off grants to local authorities 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, taking into consideration evidence when drawing up a response to the pandemic to ensure the right response is delivered at the right level to support residents and businesses.

When setting the 2021-2022 budget, the Council considered and forecast the potential financial impact of Covid on its budget. It was stated whilst it was difficult to project the exact cost of the pandemic, (after taking into account Covid-19 grants), the estimated impact of the pandemic in 2021-2022 was in the region of £6.4 million. The 2021-2022 budget setting identified other efficiencies from across the Council to meet this cost pressure. The Council managed the use of Covid-19 grants very carefully which enabled some grant to be carried forward into the 2021-2022. In March 2022, as part of the Budget Strategy, Council approved the use of £5 million of Covid-19 Emergency Grant to be drawn down to support the underlying budget pressures in 2021-2022, thereby, releasing general fund resources to support the predicted budget deficit for 2022-2023.

The 2021-2022 revenue budget monitoring process identified 'in year' pressures across Adult Social Care. These financial pressures in 2021-2021 have been offset by the use of one-off grants which will not be available in future years. The medium-term financial strategy incorporates growth for future years to address these cost pressures going forward. However, there continues to be significant uncertainty around the cost of adult social care over the medium term due to the increase in demand for services, impact of a fee uplift, impact of the pandemic and the delivery of the 'Build Back Better: Our Plan for Health and Social Care'.

Despite this uncertainty and distortion, the Council has once again managed its finances well and is reporting a net underspend of £2.0 million for 2021-2022. This underspend has been transferred into the Future Years Budget Strategy Reserve to support the budget deficit 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 identify a total of £11 million from efficiencies to be transferred into the Future Years Budget Strategy Reserve to support the budget deficit over the medium term.

The General Fund balance at the end of 2021-2022 continues to stand at £13.7 million (representing approximately 5% of the net budget). The Council also reported earmarked reserves totalling £112.2 million at the end of 2021-2022. The Council is required to hold a number of reserves which have a specific criteria associated with funding, legal requirements or accounting practice; these reserves total £55.9 million. The balance of £56.3 million are reserves set aside by the council to fund future estimated liabilities and planned expenditure.

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 23 February 2022).

### **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 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 £173.2 million is forecast to be required in 2021-2022. Updates were approved by Council throughout the year, with the outturn being reported to be £82.5 million for 2021-2022.

The pandemic has understandably continued to impact on the development of capital projects during 2021-2022. Given the unprecedented circumstances, there have 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. In addition, there is considerable uncertainty and risk of inflationary pressures across the capital programme as costs of materials continue to increase. 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 2022, the Council was able to set a balanced budget for 2022-2023 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 it faced a forecast deficit of £12.6 million in 2023-2024, rising to £25.8 million in 2025-2026.

The Council's strategic approach to address the budget deficit is to align resources to Our Council Plan 2019-2024 which was approved by Full Council in April 2019. To ensure resources continues to be aligned to the needs of local people a refresh of the plan has been undertaken, this was approved by Council in March 2022, entitled

- Our City, Our Plan incorporating key policy areas into a refreshed narrative and updated structure, which has a focus on delivery and performance.

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.

In order that the Council can deliver on its priorities, a Corporate Contingency budget to support Council Priorities such as, discretionary housing support and financial wellbeing, support for businesses, Rainbow City, Youth Employment and Climate Change has been incorporated into the 2022-2023 budget.

In addition, the outturn position for 2021-2022 has enabled the council to transfer £3.4 million into the Our City, Our Plan reserve (previously called Recovery Reserve), to support our priorities going forward.

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**

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 cost of 'living with covid' beyond the short-medium term.

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 costs of dealing with the pandemic extend beyond 2022-2023, 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 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 can provide will be reliant on the availability of resources.

As detailed above, to ensure the Council could continue to deliver on its priorities, the favourable outturn position enabled the Council to contribute £3.4 million into Our City, Our Plan reserve to support Council priorities going forward.

## **Inflation and Cost of Living Crisis**

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.

In March 2022, the Council approved its Financial Wellbeing Strategy – Tackling the Cost of Living Crisis. This new strategy aims to support a reduction and future avoidance, of the financial hardship currently being experienced by residents in our city.

## **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.

Due to the receipt of one-off government grants received in 2020-2021 and throughout 2021-2022, there has been no adverse impact on the council's cashflow. However, we will continue to monitor the impact 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 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 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 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, this has now been incorporated into the Council's main Risk Register. The Risk Registers include both the budgetary pressures for the current year and the medium-term.

Budget reports considered by 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', and in 2022-2023, 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.