

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE

TUESDAY, 26 MARCH 2019 AT 14:00 HOURS
IN COMMITTEE ROOM 6, COUNCIL HOUSE, VICTORIA SQUARE,
BIRMINGHAM, B1 1BB

A G E N D A

1 NOTICE OF RECORDING/WEBCAST

The Chairman to advise/meeting to note that this meeting will be webcast for live or subsequent broadcast via the Council's Internet site (www.civico.net/birmingham) and that members of the press/public may record and take photographs except where there are confidential or exempt items.

2 APOLOGIES

To receive any apologies.

3 DECLARATIONS OF INTERESTS

Members are reminded that they must declare all relevant pecuniary and non pecuniary interests arising from any business to be discussed at this meeting. If a disclosable pecuniary interest is declared a Member must not speak or take part in that agenda item. Any declarations will be recorded in the minutes of the meeting.

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4 MINUTES - AUDIT COMMITTEE 29 JANUARY 2019 PUBLIC

To note the public part of the Minutes of the last meeting held on 29 January 2019.

9 - 14

5 EARLY YEARS HEALTH AND WELL-BEING RISK

Report of the Director, Education and Skills.

(Report was marked 'To Follow')

15 - 86

6 CORPORATE RISK REGISTER UPDATE

Report of Assistant Director, Audit and Risk Management

<u>87 - 118</u>	7	<u>AUDIT FINDINGS REPORT RECOMMENDATIONS - PROGRESS UPDATE</u>
<u>119 - 132</u>	8	Report of the Chief Finance Officer <u>BIRMINGHAM AUDIT – INTERNAL AUDIT PLAN 2019/20</u>
<u>133 - 152</u>	9	Report of the Assistant Director, Audit and Risk Management <u>GRANT THORNTON - EXTERNAL AUDIT PLAN</u>
<u>153 - 174</u>	10	Report of the External Auditor <u>GRANT THORNTON - EXTERNAL AUDIT PROGRESS REPORT</u>
<u>175 - 206</u>	11	Report of the External Auditor <u>GRANT THORNTON - INFORMING THE AUDIT RISK ASSESSMENT</u>
<u>207 - 232</u>	12	Report of the External Auditor <u>ADOPTION OF ACCOUNTING POLICIES FOR 2018/19</u>
<u>233 - 246</u>	13	Report of the Chief Finance Officer <u>HRA FUNDING OF WASTE</u>
<u>247 - 252</u>	14	Report of the Chief Finance Officer <u>EQUAL PAY UPDATE</u>
		Report of the City Solicitor. (Report was marked 'To Follow')
	15	<u>DATE OF THE NEXT MEETING</u>
	16	The next Meeting is scheduled to take place on Tuesday, 18 June 2019 at 1400 hours in Committee Room 2, Council House. <u>SCHEDULE OF MEETINGS FOR 2019/20</u>
		All Meetings to take place on Tuesdays at 1400 hours in the Council House. 18 June 2019 - Committee Room 2 30 July 2019 - Committee Room 6 24 Sept 2019 - Committee Room 6 19 Nov 2019 - Committee Room 6 29 Jan 2020 - Committee Room 6 24 March 2020 - Committee Room 6

17 **OTHER URGENT BUSINESS**

To consider any items of business by reason of special circumstances (to be specified) that in the opinion of the Chairman are matters of urgency.

253 - 272 18 **STATUTORY RECOMMENDATIONS MARCH 2019**

Report of the Chief Finance Officer.

19 **AUTHORITY TO CHAIRMAN AND OFFICERS**

Chairman to move:-

'In an urgent situation between meetings, the Chairman jointly with the relevant Chief Officer has authority to act on behalf of the Committee'.

20 **EXCLUSION OF THE PUBLIC**

That in view of the nature of the business to be transacted which includes exempt information of the category indicated the public be now excluded from the meeting:-

Exempt Paragraph 3

P R I V A T E A G E N D A

21 **MINUTES - AUDIT COMMITTEE 29 JANUARY 2019 PRIVATE**

Item Description

22 **EQUAL PAY UPDATE - PRIVATE**

- Refer to Private Reason

23 **OTHER URGENT BUSINESS (EXEMPT INFORMATION)**

To consider any items of business by reason of special circumstances (to be specified) that in the opinion of the Chairman are matters of urgency.

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE 29 JANUARY 2019
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**MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON
TUESDAY, 29 JANUARY 2019 AT 1400 HOURS IN COMMITTEE
ROOM 6, COUNCIL HOUSE, BIRMINGHAM**

PRESENT:-

Councillor O'Shea in the Chair;

Councillors Afzal, Bridle, Jenkins, Shah, Tilsley and Trickett.

NOTICE OF RECORDING/WEBCAST

- 75 The Chairman advised and the meeting noted that this meeting would be webcast for live or subsequent broadcast via the Council's Internet site (www.civico.net/birmingham) and members of the press/public could record and take photographs except where there were confidential or exempt items.

The business of the meeting and all discussions in relation to individual reports was available for public inspection via the web-stream.

APOLOGIES

- 76 Apologies for absence were submitted on behalf of Councillor Suzanne Webb and Clive Heaphy, Corporate Director of Finance and Governance.
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DECLARATIONS OF INTERESTS

- 77 Councillor Paul Tilsley declared a non-pecuniary interest in relation to the item on Group Companies – Informing the Audit Risk Assessment as a representative on the Birmingham Airport Board. Councillor John O'Shea declared non-pecuniary interests in relation to The Local Government and Social Care Ombudsman's Annual Review 2017/18 as a member of the Police and Crime Panel and in relation to Group Companies – Informing the Audit Risk Assessment as a Director of the Acocks Green BID and as a Director of the Stockland Green Community Association.

Martin Stevens, Head of City Finance Accounts, advised Members that he was a Director on the PETPS (Birmingham) Limited group of companies.

MINUTES

78

RESOLVED:-

That the Public Minutes of the last meeting be confirmed and signed.

**THE LOCAL GOVERNMENT AND SOCIAL CARE OMBUDSMAN'S
ANNUAL REVIEW 2017/18**

The following report of the Chief Executive was submitted:-

(See document No. 1)

Miranda Freeman, Senior Liaison Management Officer, Legal Services, introduced the report and, in response to Members' questions, advised that:-

- a) As the largest Local Authority, Birmingham received the most complaints. However, the Ombudsman viewed that as positive as The City Council informing complainants that they had recourse to the Ombudsman. Also, half the complaints were referred back and were resolved locally.
- b) Sometimes it helped to enable the complainant to understand that it was not always possible to resolve their problem. She understood that learning from complaints was referred to the Deputy Leader.
- c) With regard to criticism from the Birmingham Independent Improvement Panel that the City Council was too occupied with process when responding to complaints, Miranda advised that, if a request was made by the Ombudsman, a report could be submitted to Overview and Scrutiny for review. However, she could not advise on the position in relation to wider complaints.
- d) A report had been submitted by the Your Views team in 2015 as a 'one-off' report. However, the Ombudsman's report was public and had to be publicised. The Committee was required to consider his findings.

Members expressed concern that there was a systems failure in handling complaints and that the Ombudsman should be the last resort for complainants. It was suggested that discussions should be held with the Deputy Leader regarding a report being submitted to the Committee on lessons learnt from complaints.

79

RESOLVED:-

That the report concerning the Local Government and Social Care Ombudsman's Annual Report for 2017/18 be received and noted.

CORPORATE RISK REGISTER UPDATE

The following report of the Assistant Director, Audit and Risk Management, was submitted:-

(See document No. 2)

Sarah Dunlavey, Assistant Director, Audit & Risk Management, presented the report. Julie Young, Assistant Director - Education Safeguarding, advised Members that school funding issues had been highlighted recently in the press and that there had been changes in recent years to the funding arrangements. When a school converted to an academy, the school's financial position at conversion became the City Council's responsibility. As that meant that the City Council had to take on any deficit, there was now tighter oversight and management of school budgets.

Prior to conversion, the City Council appointed an Interim Executive Board and that had impacted significantly on deficits. A Finance and Governance Group had been established to 'RAG' rate schools on budget management and the process was checked twice each year. Training was undertaken and advice and guidance was given to Governors. An audit review was made in each September and means were identified of strengthening actions taken. The ultimate sanction available was to remove the delegation of the budget to the school.

A detailed discussion ensued, during which the following comments were made and responses were given to questions:-

- a) Julie Young confirmed that £13 million was the total deficit figure and was the actual amount at risk. £8 million of that had arisen from directive academy orders, which was historical and could not be recovered.
- b) Members were advised that the level of deficit was being arrested, but that schools were under pressure from the National Funding Formula. There was concern that schools were instructed to convert to academy status, but that the City Council was being left with all the financial risk.
- c) The Committee was informed that there was a difference between instructed and elected conversion to academy status. With regard to budgets, that was determined by the National Funding Formula. The funding of places for SEND pupils was separated out from the formula relating to pupil numbers. A recent review had been initiated on the 'high needs' budget situation.
- d) There had been a gap in City Council knowledge of how well schools were performing against their budgets. The system was reactive and needed to be more proactive. Members were advised that a report had been submitted to the Council Management Team on 14 January 2019 with an action plan for the dedicated schools grant.

- e) With regard to reporting lines for Data Protection breaches, Members were advised that breaches were reported to the Data Protection Officer and a small panel met to ensure that matters were addressed appropriately. Severe cases would be reported to the Council Management Team.
- f) With reference to Item 43 on Appendix A, relating to Early Years, it was questioned whether that matter should be referred to Overview and Scrutiny. The Chairman asked that a report be submitted to this Committee by April 2019.
- g) Concern was expressed that the Commonwealth Games had not been included in the risk register and that it must be included. It was noted that it was included in the West Midlands Combined Authority risk register, but also needed to be included locally.
- h) With reference to Item 26 (Page 10 of Appendix A), the Committee expressed considerable concerns regarding the traffic gridlock caused by the Bullring event and the failure to communicate in advance regarding the event. Lessons needed to be learnt and the Chair requested that a report be submitted to a future meeting of this Committee.
- i) Members were advised that all significant risks should be included in the risk register. It was felt that Universal Credit should be included to take account of the impact of forthcoming developments and Members supported that proposal.

80

RESOLVED:-

- i) That, having reviewed the Corporate Risk Register, the Committee accepts that the risk ratings are reasonable, that the action being taken is effective, and agrees that further explanation/information be requested as set out in the above preamble;
- ii) That approval be given for the:
 - deletion of risk No. 35 - GDPR implementation by May 2018. The wider information management and assurance programme being incorporated and captured within risk No.11; and
 - inclusion of risk No. 46 - Universal Credit;
- iii) That approval be given to the revised Risk Management Framework.

AUDIT FINDINGS REPORT RECOMMENDATIONS – PROGRESS REPORT

The following report of the Corporate Director - Finance and Governance was submitted:-

(See document No. 3)

Martin Stevens, Head of City Finance Accounts, presented the report.

A detailed discussion ensued, during which the following comments were made and responses were given to questions:-

- a) Concern was expressed regarding whether the actions taken with regard to Accounts Section Recommendation 1: Control Weakness – Payroll Leavers had reduced the problem over the previous 12 months and Martin Stevens undertook to report back on that matter.
- b) Concern was expressed that forms were not completed and submitted in good time to the West Midlands Pensions Fund when employees left, which incurred a charge back cost, and that the need for timely submission should be emphasised to Human Resources officers.
- c) With reference to Accounts Section Recommendation 5: Under Accrual of Waste Invoices, Members were advised that reminders were sent to managers to ensure that the process was working smoothly and no invoices were stuck. As well as reminders to managers, Council-wide notices were circulated.
- d) The Chairman asked that a report be submitted to the next meeting on Value for Money Recommendation 1: Budget Delivery and Reserves Management.
- e) Concern was expressed regarding controls in relation to waste and the Capital Budget and the Value for Money position in relation to the Commonwealth Games and HRA land. It was questioned where the liabilities lay, what priorities and risks there were and whether those issues could be set out on a spreadsheet for reference purposes.
- f) Members were advised that the Capital Programme was considered by Cabinet and by the City Council and Martin Stevens advised that a report could be submitted to a future meeting of this Committee, if Members wished to consider that further.
- g) Members noted that Outline Business Case reports included Capital and Revenue consequences. The Chartered Institute of Public Finance and Accountancy (CIPFA) was monitoring the financial health of Local Authorities and was developing a financial resilience index. It was understood that the index had not been published to date, but officers were requested to submit a copy to this Committee when it was available.
- h) With reference to Section 24 Recommendations No. 5 and reporting governance failures, it was questioned whether issues relating to the performance of the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP) were ever reported. Concern was expressed regarding the transparency and accountability of the GBSLEP and how effectively it was being held to account.
- i) Members were advised that, while not a governance issue, one performance issue had been reported in the Municipal Journal in 2018 around the management of grants.

- j) It was recognised that Members were reliant on officers to highlight and prioritise issues in their reports, in view of the large volume of documents to be considered.

81

RESOLVED:-

- i) That the progress in implementing management actions, set out in Appendix 1 to the report, to address the recommendations set out by the External Auditor in his Audit Findings Report issued in July 2018 be noted;
- ii) That officers be requested to submit updated reports to future meetings of this Committee on the continued progress in implementing the management actions proposed.

GROUP COMPANIES – INFORMING THE AUDIT RISK ASSESSMENT

The following report of the Corporate Director - Finance and Governance was submitted:-

(See document No. 4)

Martin Stevens, Head of City Finance Accounts, presented the report and advised that all the companies had provided a response. One response arrived slightly late and another was returned for more information to be provided. The responses had been reviewed by the Cabinet Committee – Group Company Governance and nothing substantial had been identified.

During the ensuing discussion, the following comments were made and responses were given to questions:-

- a) Concern was expressed that the Paradise Circus Limited Partnership should be encouraged to hold bi-monthly meetings to reflect a model of good governance. It was felt that regular meetings were important.
- b) Members noted the variety in the companies and the returns submitted. Concern was expressed regarding non-executive directorship arrangements and that, without remuneration, it was difficult to ensure that it was undertaken effectively. However, it was noted that remuneration had been considered previously and had been met with opposition.
- c) It was felt that Members needed to take an active part as Directors and add value, but it was recognised that they were reliant on accurate summaries from officers. It was noted that the Cabinet Committee – Group Company Governance was reviewing Director appointments.
- d) Members requested that a report on Acivico be submitted to this Committee and the Chairman advised that it should be submitted in or after May 2019 to fit in with the current work programme.

82

RESOLVED:-

- i) That the responses received to inform the audit risk assessment be noted;
 - ii) That this Committee confirms that it is satisfied that the information provided gives appropriate assurance on the use of resources by the Council's companies.
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BIRMINGHAM AUDIT – HALF YEAR UPDATE REPORT 2018/19

The following report of the Assistant Director, Audit and Risk Management, was submitted:-

(See document No. 5)

With regard to the Combined Heat and Power Scheme – Contract Management, Members welcomed the report and evidence that the contract arrangements were more secure. Members were advised that a change in personnel had caused a loss of continuity and a gap in management. The review due in January 2019 had commenced.

It was noted that 51% of reports regarding schools had resulted in negative assurances, which was an increase on the previous year. Members were advised that the work was risk based and that the line rose when resources decreased. Officers were looking at those schools in most financial difficulty.

83

RESOLVED:-

That the level of audit work and assurances provided be noted.

GRANT THORNTON - HOUSING BENEFIT ANNUAL CERTIFICATION LETTER

The following letter from the External Auditor was submitted:-

(See document No. 6)

Tess Barker-Phillips, Grant Thornton, made introductory comments to the letter.

84

RESOLVED:-

That the Housing Benefit Annual Certification letter be noted.

GRANT THORNTON - VALUE FOR MONEY PLAN

The report of the External Auditor was submitted:-

(See document No. 7)

Ian Barber, Grant Thornton, made introductory comments to the report.

Members welcomed the presentation of the report, the improvement made and the ongoing process. It was felt that it was right to include the Commonwealth Games financial situation, which should become clearer soon. Ian Barber advised that regular meetings were held with the Director for the Commonwealth Games and work was being undertaken closely with City Council officers.

85 **RESOLVED:-**

That the report be noted.

EQUAL PAY UPDATE

86 The Chairman advised Members that he had been told late on the previous day that the report would not be submitted. He was concerned that it had been withdrawn without reference to him or the Committee. He understood that there was a resource issue and that the report would be submitted in March 2019, along with details on exit packages for senior officers.

DATE OF NEXT MEETING

87 The next meeting was scheduled to take place on Tuesday, 26 March 2019 at 1400 hours in Committee Room 6.

OTHER URGENT BUSINESS

88 No matters of urgent business were raised.

AUTHORITY TO CHAIRMAN AND OFFICERS

89 **RESOLVED:-**

That in an urgent situation between meetings the Chair, jointly with the relevant Chief Officer, has authority to act on behalf of the Committee.

EXCLUSION OF THE PUBLIC

90 **RESOLVED:-**

That, in view of the nature of the business to be transacted, which includes exempt information of the category indicated, the public be now excluded from the meeting:-

Exempt Paragraph 3

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to: AUDIT COMMITTEE
Report of: Director of Education & Skills
Date of Meeting: 26 March 2019
Subject: Early Years Health and Wellbeing Contract
Wards Affected: All
1. Purpose of Report 1.1. The Early Years Health and Wellbeing (EYHWB) Services contract was added to the corporate risk register in July 2018 after escalation from the Directorate risk register. 1.2. A detailed review of the risks associated with the contract by Audit Committee was requested at the January 2019 meeting to take place by April 2019.
2. Recommendation 2.1. To note the report.

Contact Officers:

Interim Assistant Director – Sarah Sinclair – 07530 459597

Strategic Commissioning Manager – Chris Atkins - 07920275501

3. **Compliance Issues**

3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies:

The EYHWB service helps to achieve the Council objective 'Birmingham is an aspirational place to grow up in'. The contract strategy for the provision of Early Years Health and Wellbeing Services was approved by Cabinet on the 28th June 2016.

3.2 Relevant Ward and other Members /Officers etc. consulted on this matter:

The Chairman of the Committee and Cabinet Member have been consulted.

3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):

In line with the law, provided by the Childcare Act 2006 and summarised in the Department for Education guidance 'Sure Start Children's Centres Statutory Guidance April 2013. Local authorities are required to:

- "improve outcomes for young children and their families;
- focus, in particular, on families in greatest need of support;
- reduce inequalities in child development, school readiness, parenting aspirations, self-esteem, parenting skills, child and family health and life chances".

The local authorities (public health functions and entry to premises by local healthwatch representatives) and local authority (public health, health and wellbeing boards and health scrutiny) (amendment) regulations 2015.

This instrument amends Part 2 of the Act, Regulations 2013 (S.I. 2013/351) to require provision of five health and development assessment and reviews as set out in the Department's Healthy Child Programme¹ (HCP) to be offered to pregnant mothers and children between the ages of 0 – 5.

- The Healthy Child Programme (HCP) Pregnancy and the first five years of life (DH Oct 2009) set out the key priorities for both commissioners and providers in the delivery of a universal preventive service at the same time as focusing on vulnerable babies, children and families;
- The Health Visitor Implementation Plan 2011-15 "A Call to Action" (Department of Health (DH) Feb 2011) clearly articulated that the delivery of the HCP would be led, at a local level, by Health Visitors

with increasing emphasis on partnership working and the integration of services where appropriate with the intention of bringing together Sure Start Children's Centre staff, GP's, Midwives, a range of community nurses and other relevant services dependent on local needs. At the same time the health visiting service will provide or be the gatekeeper to other services that families may need.

3.4 Will decision(s) be carried out within existing finances and resources?

Yes

3.5 Main Risk Management and Equality Impact Assessment Issues (if any):

The EYHWB contract risk is monitored by Audit Committee in line with its consideration of the Corporate Risk Register.

4. **Relevant background/chronology of key events:**

- 4.1. In January 2018 the Children and Young People Directorate (now Education and Skills Directorate) entered into a contract with the Birmingham Community Health Care NHS Foundation Trust (BCHCT) for the delivery of its early years services.
- 4.2. This is a five year contract with an annual value of approximately £33M with BCHCT sub-contracting services to four partners; with an expected savings target of £10.1M on previous levels of spending in these service areas.
- 4.3. In April 2017 Cabinet gave approval to award the contract for EYHWB services to BCHCT, with a planned start date of September 2017. However, due to delays the contract didn't start until January 2018. This delay caused immediate pressures of approximately £4M on the achievement of the planned £10.1M savings.
- 4.4. The contract was transferred for on-going management to the then Children's and Young People directorate in January 2018. In May 2018 commissioning review was undertaken which identified that there were wider risks relating to the construction of the contract and a lack of robust contract management arrangements. No Contract Management Plan was in place and the CPS Supply Chain Methodology had not been used.
- 4.5. Additionally there was no budget monitoring system in place and there were a number of outstanding estate issues. Following this directorate review a request was made to Internal Audit to undertake further review and audit.

- 4.6. The Corporate Risk Register defines the risk with the contract as:
- The assumed financial savings from the contract will not be fully realised due to unforeseen costs and possible grant claw backs. Previous unforeseen costs have been identified in relation to estates and staffing issues;
 - There are also wider risks relating to the construction of the contract itself and the lack of robust contract management arrangements;
 - All risks have been increased due to a lack of permanent commissioning and contract management arrangements.
- 4.7. There is no Intelligent Client Function (ICF) in place and also no capacity or clear lines of responsibility within the service area to manage the contract. The Programme Board was disbanded too soon and as a result there were a number of high risk concerns that were unresolved when the contract started.
- 4.8. There are one hundred and forty Council staff that have been seconded to one of the four sub-contractor partners for a period of twelve months. The Secondment Agreement also sets out a series of Council liabilities that relate to the secondment situation, including liability for redundancy costs and any potential future claims.
- 4.9. A range of KPIs was established to measure and monitor the performance of BCHCT and its partners. These have been reviewed and revised and form part of the contract variation.
- 4.10. The sub-contractors were given the choice of property that they wanted rather than the Council identifying which properties they wanted the services to be provided from. This has left some properties empty and others unsuitable for the services that were being provided. No condition surveys have been undertaken and no budget allocated for any remedial work.
- 4.11. No leases have been drawn up and instead the properties have been occupied on a licence.
- 4.12. It was identified that there was a risk of claw back of grant by Department for Education (DfE), as some properties are no longer being used for the purposes for which the funding was provided. To offset this, smaller ad hoc outreach services are being provided from these properties but this means they are being under-utilised and it is proving difficult to let these properties outside of the hours that outreach services are being provided.

- 4.13. There are a range of discrepancies in the Estates Schedule with a number of buildings not being utilised as agreed in the contract.
- 4.14. There is a risk around VAT liability due to staff secondment arrangements. This cost has been picked up by the council and has created an additional budget pressure that was unfunded.
- 4.15. A number of mitigations have been established as follows:
- 4.15.1. A newly established Children's and Young People's Commissioning Board which has cross directorate senior representation;
 - 4.15.2. A Monthly EYHWB Programme Board was established and due diligence undertaken. Officers report formally about progress against the key actions required;
 - 4.15.3. Contract Governance mechanism in place that incorporates a Monthly Contract Management Review to hold BCHCT to account for contract performance against the metrics;
 - 4.15.4. A review of contract is underway with specific focus on performance measurement, estates, finance, employment and service specifications to be complete by end of March 2019;
 - 4.15.5. Discrepancies in the Estates Schedule are being jointly revised to ensure the correct buildings are in use or where appropriate changes made to correct these, following the process set out in the Change Control Schedule;
 - 4.15.6. The revised contract and schedules has been sent to the Councils legal services as part of a contract variation;
 - 4.15.7. There are formal Contract management arrangements in place through the recently established Intelligent Client Function (ICF) commissioning team in the Education and Skills directorate;
 - 4.15.8. A recent agreement has been reached with BCHCT to take on the staff currently seconded to BCHCT's sub-contractors from the end of June 2019;
 - 4.15.9. Monthly employee reports are being shared by HRBP to each of the sub-contractors to capture staffing data including resignations, changes to hours, moves, maternity, LTS, etc.;
 - 4.15.10. Discussion with the DfE around the Capital Clawback position with the children's centres is required.

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BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	Audit Committee
Report of:	Assistant Director, Audit & Risk Management
Date of Meeting:	26th March 2019
Subject:	Corporate Risk Register Update
Wards Affected:	All
1. Purpose of Report	
1.1	To update the Audit Committee on the management of risks and issues contained within the Corporate Risk Register (CRR); Appendix A. An index of risks, showing the direction of travel, together with a risk heat map are also included.
2. Recommendations	
2.1	That the Audit Committee reviews the Corporate Risk Register and decide if the risk ratings are reasonable, if the action being taken is effective, or if further explanation/information is required. Approval is sought to: <ul style="list-style-type: none"> • reduce the risk likelihood rating for Risk 29 (Not developing sufficiently robust plans to support setting a balanced budget (including in the medium term), and not containing net spending within the approved budget) from 'High' to 'Medium'; and • increase the likelihood and impact ratings for Risk 7 (Lack of capacity and capability to respond to threat of industrial action, employee relations tensions, poor service, performance issues, sickness absence levels and poor morale due to organisational downsizing and pay freezes) from Significant / Significant to High /High
3. Background Information	
3.1	Members have a key role within the risk management and internal control processes.
3.2	The Audit Committee terms of reference, sets out its responsibilities and in relation to risk management these are:

- providing independent assurance to the Council on the effectiveness of the risk management framework and the associated control environment;
- whether there is an appropriate culture of risk management and related control throughout the Council;
- to review and advise the Executive on the embedding and maintenance of an effective system of corporate governance including internal control and risk management; and
- to give an assurance to the Council that there is a sufficient and systematic review of the corporate governance, internal control and risk management arrangements within the Council.

4. Corporate Risk Register Update

- 4.1 The CRR is aligned to the corporate objectives of the Council and identifies the key risks to be managed at a corporate level.
- 4.2 The Council Management Team (CMT) and the Deputy Leader now review the CRR on a monthly basis to strengthen oversight arrangements and have agreed to the above changes.

5. Risk Management Framework

- 5.1 The Council's Risk Management Strategy, Policy and Toolkit have been reviewed and consolidated into a single Risk Management Framework.
- 5.2 This revised Framework places greater emphasis on the actions that are required to manage risks to their target level.
- 5.3 All risks are now being transferred to the new templates and will be presented to the July committee meeting.

6. Embedding Risk Management

- 6.1 There are directorate risk registers in place supported by individual risk registers for service areas. Monthly updates are facilitated through the Directorate Risk Representatives.
- 6.2 The current main route to provide risk management awareness is the e-learning package for managers, accessed via the internet. All documents and web pages are currently being refreshed.

- 6.3 Service managers are asked about their risk management arrangements as part of routine audit work. In addition the mandatory Public Sector Internal Audit Standards include a requirement with regard to risk management.
- 6.4 Risk management is also covered within the Annual Governance Statement.
- 6.5 To support the above arrangements the risk register format is being simplified so it is more action focused. Audit are also attending Directorate Management meetings to further embed the review and update of the CRR.
- 7. Legal and Resource Implications**
- 7.1 The work carried out is within approved budgets.
- 8. Equality Impact Assessment Issues**
- 8.1 Risk management forms an important part of the internal control framework within the Council.
- 8.2 The Council's risk management strategy has been Equality Impact Assessed and was found to have no adverse impacts.
- 9. Compliance Issues**
- 9.1 Decisions are consistent with relevant Council Policies, Plans and Strategies.

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Sarah Dunlavey
Assistant Director, Audit & Risk Management

Telephone No: 675 8714
e-mail address: sarah.dunlavey@birmingham.gov.uk

INDEX OF RISKS – PREVIOUS UPDATES

Safeguarding / Welfare

Risk No.	Risk Title	Appendix A Page No.	Actual Rating Nov 2017 L / I	Actual Rating March 2018 L / I	Actual Rating July 2018 L / I	Actual Rating Nov 2018 L / I	Actual Rating March 2019 L / I
2	Not responding fully and effectively to the improvement agenda for children - Failure to improve children's safeguarding and children's social care.	11	H/H ↑	H/H ↑	S/H ↓	S/H ↔	S/H ↔
32	Risk of significant disruption to Council services and failure to effectively manage and respond to emergency incidents, including acts of terrorism.	12	S/H ↔	S/H ↔	S/H ↔	S/H ↔	S/H ↔
33	Failure of the Council to make its contribution to deliver a step change to the Health and Social Care system resulting in an improvement to the health and well-being of Birmingham citizens.	14	S/S ↔	S/S ↔	S/S ↔	S/S ↔	S/S ↔
42	Travel Assist There are risks within the service over the cost of the provision and ability to deliver the agreed level of service within the agreed budget.	16			S/H	S/H ↔	S/H ↔
43	Early Years Health and Well Being contract There are risks that the assumed financial savings from the contract will not be fully realised due to unforeseen costs and possible grant claw-backs.	18			H/S	H/S ↔	H/S ↔

Statutory Responsibilities / Compliance with Statutory Responsibilities

Risk No.	Risk Title	Appendix A Page No.	Actual Rating Nov 2017 L / I	Actual Rating March 2018 L / I	Actual Rating July 2018 L / I	Actual Rating Nov 2018 L / I	Actual Rating March 2019 L / I
1	Management of equal pay claims.	21	H/H ↔	S/S ↓	S/S ↔	S/H ↑	S/H ↔
26	Failure to comply with all of the requirements of the Counter Terrorism and Security Act (2015) and the Prevent Duty.	22	H/H ↔	H/H ↔	H/H ↔	H/H ↔	H/H ↔
31	Increased pressure on the statutory homeless service.	25	H/H ↔	H/H ↔	H/H ↔	H/H ↔	H/H ↔
34	Risk of fines being passed down to Local Authorities in relation to air quality / ongoing fines related to not meeting air quality compliance.	29	H/M ↔	H/M ↔	H/M ↔	H/M ↔	H/M ↔
12	Failure to comply with all the requirements of the Equality Act 2012 and the Public Sector Equality Duty.	31	M/S ↔	M/S ↔	M/S ↔	M/S ↔	M/S ↔
25	Failure to comply with statutory timescales in relation to DoLS (Deprivation of Liberty) referrals, which could lead to legal challenge and result in financial loss to the Council.	34	M/S ↓	M/S ↔	M/S ↔	M/S ↔	M/S ↔
11	The loss of significant personal or other sensitive data	36	L/H ↓	L/H ↔	L/H ↔	M/H ↑	M/H ↔
36	Failure to respond positively and effectively to the required outcomes of the Grenfell Tower enquiry once known.	38		L/M	L/M ↔	L/M ↔	L/M ↔

Risk No.	Risk Title	Appendix A Page No.	Actual Rating Nov 2017 L / I	Actual Rating March 2018 L / I	Actual Rating July 2018 L / I	Actual Rating Nov 2018 L / I	Actual Rating March 2019 L / I
37	Homelessness Reduction Act – Insufficient council resources to meet the requirements of the Act fully.	40		M/H	M/H ↔	M/H ↔	M/H ↔

Financial Resilience

Risk No.	Risk Title	Appendix A Page No.	Actual Rating Nov 2017 L / I	Actual Rating March 2018 L / I	Actual Rating July 2018 L / I	Actual Rating Nov 2018 L / I	Actual Rating March 2019 L / I
29	Not developing sufficiently robust plans to support setting a balanced budget (including in the medium term), and not containing net spending within the approved budget.	42	S/S ↑	S/S ↔	H/H ↑	H/H ↔	M/H ↓
15	Not recognising the need to divest of costly property assets in radical new solutions to reframe service delivery.	44	S/M ↔	S/M ↔	S/M ↔	S/M ↔	S/M ↔
38	Management of the Enterprise Zone Programme in line with its delivery plan	47			H/H	M/H ↓	M/H ↔
41	School Deficits National funding arrangements have resulted in real term funding reductions	48			H/H	H/H ↔	H/H ↔
46	Universal Credit risks	51				M/H	M/H ↔

Political

Risk No.	Risk Title	Appendix A Page No.	Actual Rating Nov 2017 L / I	Actual Rating March 2018 L / I	Actual Rating July 2018 L / I	Actual Rating Nov 2018 L / I	Actual Rating March 2019 L / I
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None.

Technology

Risk No.	Risk Title	Appendix A Page No.	Actual Rating Nov 2017 L / I	Actual Rating March 2018 L / I	Actual Rating July 2018 L / I	Actual Rating Nov 2018 L / I	Actual Rating March 2019 L / I
16	That web services to customers or work with partners may be disrupted by malicious attacks on the City Council's web based services.	54	S/M ↔	S/M ↔	S/M ↔	S/M ↔	S/M ↔
17	Ineffective Corporate Risk Marker IT solution.	56	L/M ↔	L/M ↔	L/M ↔	L/M ↔	L/M ↔

Transformation

Risk No.	Risk Title	Appendix A Page No.	Actual Rating Nov 2017 L / I	Actual Rating March 2018 L / I	Actual Rating July 2018 L / I	Actual Rating Nov 2018 L / I	Actual Rating March 2019 L / I
7	Lack of capacity and capability to respond to employee relations tensions, poor service, performance issues, sickness absence levels and poor morale due to organisational downsizing and pay freezes.	58	S/S ↔	S/S ↔	S/S ↔	S/S ↔	H/H ↑

Risk No.	Risk Title	Appendix A Page No.	Actual Rating Nov 2017 L / I	Actual Rating March 2018 L / I	Actual Rating July 2018 L / I	Actual Rating Nov 2018 L / I	Actual Rating March 2019 L / I
10	Not building on the recently agreed collaborative approach with the Improvement Panel to deliver change following the Kerslake Report	60	M/S ↔	M/S ↔	M/S ↔	M/S ↔	M/S ↔
18	Failure to adequately evaluate the costs and benefits of alternative delivery models. Failure to fully implement the decisions made to change policy and service delivery.	61	M/M ↔	M/M ↔	H/H ↑	M/M ↓	M/M ↔
44	Allowance payments	62			M/M	M/M ↔	M/M ↔

Service Delivery

Risk No.	Risk Title	Appendix A Page No.	Actual Rating Nov 2017 L / I	Actual Rating March 2018 L / I	Actual Rating July 2018 L / I	Actual Rating Nov 2018 L / I	Actual Rating March 2019 L / I
6	Failure to achieve all of the services required including delivery of significant investment into the Highway network within the first five years of the contract.	63	H/S ↔	H/S ↔	H/S ↔	H/S ↔	H/S ↔
39	HS2 Delivery of HS2 following Royal Assent of HS2 Act. BCC role to help facilitate delivery of new railway (including Curzon Station and depot). Maximise benefits for City and minimise/mitigate impact during construction.	64			S/S	S/S ↔	S/S ↔

Risk No.	Risk Title	Appendix A Page No.	Actual Rating Nov 2017 L / I	Actual Rating March 2018 L / I	Actual Rating July 2018 L / I	Actual Rating Nov 2018 L / I	Actual Rating March 2019 L / I
40	Commonwealth Games – Athletes Village Delivery of the Athletes Village dependant on the funding & acquisition of land in addition to potential changes to sporting schedules affecting the village's capacity to accommodate athletes.	66			M/M	M/M ↔	M/M ↔

Risk Map – March 2019

Likelihood	High		<div>Risk of fines re air quality (R34)</div>	<div>Highways PFI – Core Investment deliverables (R6)</div> <div>The Early Years Health and Well Being Contract (R43)</div>	<div>Compliance re Counter Terrorism & Security Act (R26)</div> <div>Employee relations/ sickness absence levels (R7)</div> <div>Statutory homeless service (R31)</div> <div>Schools Deficits – National funding arrangements have resulted in real term funding reductions (R41)</div>
	Significant		<div>Not divesting of property assets (R15)</div> <div>Malicious attacks of web based services (R16)</div>	<div>Delivery of HS2 following Royal Assent of the HS2 Act (R39)</div> <div>Failure of STP to deliver change/improve health & wellbeing (R33)</div>	<div>Equal Pay claims (R1)</div> <div>Improving children’s safeguarding (R2)</div> <div>Responding to emergency incidents including acts of terrorism (R32)</div> <div>Travel Assist – cost of provision and ability to deliver the agreed level of service (R42)</div>
	Medium		<div>Evaluation of service deliver options (R18)</div> <div>Commonwealth Games – Athletes Village (R40)</div> <div>Allowance Payments (R44)</div>	<div>Respondin g to Kerslake Report (R10)</div> <div>Compliance to Equality Act 2010 & PSED (R12)</div> <div>Compliance to timescales for DoLS referrals (R25)</div>	<div>Loss of personal/ sensitive data (R11)</div> <div>Universal Credit (R46)</div> <div>Homeless Reductio n Act (R37)</div> <div>Containing expenditure within approved budget (R29)</div> <div>Management of the Enterprise Zone Programme in line with its delivery Plan (R38)</div>
	Low		<div>Ineffective Corporate Risk Marker IT solution (R17)</div> <div>Grenfell Tower Enquiry (R36)</div>		
	Key		Low	Medium	Significant
		Impact			
Severe	Immediate control improvement to be made to enable business goals to be met and service delivery maintained/improved.				
Material	Close monitoring to be carried out and cost effective control improvements sought to ensure service delivery is maintained				
Tolerable	Regular review, low cost control improvements sought if possible.				

Safeguarding / Welfare					
No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S) Review / Work & Internal Audit (IA) Work
2	<p>Not responding fully and effectively to the improvement agenda for Children - Failure to improve children's safeguarding and children's social care.</p> <p>Lead: Director, Education and Skills</p> <p>Owner: Assistant Director Commissioning</p>	Significant / High	<p>Lead Director comments:</p> <p>In April 2018 Birmingham Children's Trust became operationally independent of the council as part of the ongoing process of improvement. The Trust is a wholly-owned company of the council, and works in close partnership to continue to improve outcomes for disadvantaged children and young people in the city.</p> <p>The Director of Children's Services duties still remain within the Council and sit with the Corporate Director for Education and Skills</p> <p>Positive steps reported in the recent Ofsted Safeguarding Inspection, carried out in December 2018. Birmingham now rated as 'Requires Improvement to be Good'.</p> <p>Recent January report shows BCT as on track or within tolerance 14 out of 15 indicators.</p>	<p>Target risk rating: Medium / High</p> <p>Anticipated date of attainment of the target risk rating: April 2019</p> <p>Source(s) of assurance regarding progress with mitigating the risk:</p> <p>Service Delivery Contract is in place and Commissioning arrangements are being developed to manage the Contract with the Trust.</p> <p>A monthly Operational Commissioning Group meets to consider performance and contract issues; this will also include risk updates. The Lead Member for Children's Services will meet regularly with the Chief Executive of the Trust to be briefed on progress.</p> <p>The Trust will continue to deliver improvement based on the four pillars of:</p> <ul style="list-style-type: none"> - Leadership, Management and Governance - Support for Practice & Management 	<p>O&S - Schools, Children and Families O&S Cttee: The following discussions, reviews and updates have taken place:-</p> <p>The Inquiry into Corporate Parenting was undertaken to improve the Cllrs role as Corporate Parents for Children in Care. This was agreed at Council on 4th April 2017</p> <p>Continued with scrutinising the progress with the improvement journey at the July 2017 committee meeting with the Cabinet member and Corporate Director. A number of briefings and updates on the Children's Trust (11 July 17 briefing, 13th September 2017 item at committee meeting and</p>

Safeguarding / Welfare					
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				<ul style="list-style-type: none"> - Quality and Assurance - Engagement and Involvement <p>In addition a strong focus is being placed on individual case audits and quality reviews with dedicated resource set aside to do this.</p>	<p>22nd November 2017 workshop).</p> <p>In addition the committee have continued to scrutinise arrangements for children missing from home and care and Child Sexual Exploitation (18th October 2017).</p> <p>IA Review 2018/19: Contract monitoring framework, Service Delivery Framework, Operational review, Client contract monitoring, Correspondence management, Performance framework – high level review and Ofsted Inspection Framework.</p>
32	Risk of significant disruption to Council services and failure to effectively manage and respond to emergency	Significant / High	<p>Lead Director comments:</p> <p>Project Argus briefing to CLT undertaken during</p>	<p>Target risk rating: Medium / Significant</p> <p>Anticipated date of attainment of the target risk rating: Ongoing.</p>	<p>O&S update – Planned item on emergency planning to Co-ordinating</p>

Safeguarding / Welfare					
No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S) Review / Work & Internal Audit (IA) Work
	<p>incidents, including acts of terrorism.</p> <p>Lead: Chief Executive</p> <p>Owner: Director, Neighbourhoods</p>		<p>summer 2017.</p> <p>Major incident exercise (Assured) November 2017.</p> <p>Protect and prepare meetings programmed quarterly for 2017. Action tracker in place.</p> <p>Corporate and LRF emergency plans in place.</p> <p>Working with LRF partners on exercising 24/7 out of hours emergency duty officer service in place including emergency control room.</p> <p>Security awareness briefings held with Council House Staff and elected members.</p> <p>Work progressing with Prevent Community Reference Group to incorporate community responses into wider resilience plan</p> <p>Recruitment of Experienced Emergency Planning Professional</p>	<p>Source(s) of assurance regarding progress with mitigating the risk:</p> <p>Cooperation with WMP CTU on their proposed Birmingham Protect and Prepare Board.</p> <p>Meeting to discuss this and wider issues 14th July 2017.</p> <p>Consolidate BCC and WMP P&P Processes</p> <p>Active BCC engagement in the new Regional Multi-Agency sharing pilot with Home Office, MI6 and CTU colleagues in the West Midlands.</p> <p>Business Continuity Policy and Corporate Plan in final draft pending CMT.</p> <ul style="list-style-type: none"> • Michael Enderby (Head of Place Resilience) now in post. • Full Review of Emergency Plan and 	<p>O&S in Feb/March 2019</p> <p>IA Review - None.</p>

Safeguarding / Welfare					
No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S) Review / Work & Internal Audit (IA) Work
				<p>Business Continuity occurred.</p> <ul style="list-style-type: none"> • New interim Emergency Plan launched and new Emergency Plan being launched. • Roles and people identified. • Training programme starting for commanders. • New response and duty process implemented. • Further review of response arrangements underway. • Shelter and Volunteers plan being updated. 	
33	Failure of the STP to deliver a step change to the Health and Social Care system resulting in an improvement to the health and well-being of	Significant / Significant	<p>Lead Director comments:</p> <p>The leadership of the STP has changed. The STP board has agreed a revised purpose which will mitigate this risk. However, the scale of the challenge including meaningful public and staff engagement will</p>	<p>Target risk rating: Low / Medium</p> <p>Anticipated date of attainment of the target risk rating: March 2019.</p> <p>Source(s) of assurance regarding</p>	O&S - Health & Social Care O&S Committee have had regular updates on the STP both in main committee and Joint Birmingham / Solihull

Safeguarding / Welfare					
No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S) Review / Work & Internal Audit (IA) Work
	<p>Birmingham citizens.</p> <p>Lead: Director, Adults Social Care</p> <p>Owner: Director, Adults Social Care</p>		<p>mean this process will not be fast. Additionally there are “task” requirements of NHSE which may deflect attention this year.</p> <p>The STP “purpose” is evolving under new leadership. A draft vision and values has been developed and under consideration by the STP Board.</p> <p>The revised STP purpose has been accepted by the STP Board</p> <p>All STPs have been asked to respond to the NHS Long Term Plan and the BSol has prepared a draft which shows that it is well-placed to deliver the desired outcomes in the Long Term Plan.</p>	<p>progress with mitigating the risk:</p> <p>STP board which is represented by the Leader / Cllr Hamilton, CEO and Graeme Betts.</p> <p>STP is a standing item on the Health and Wellbeing Board bimonthly meetings to receive updates from the Birmingham and Solihull CCG. Graeme Betts is a member of the STP Programme Board and Becky Pollard is a member of the Development and Delivery Board. Public Health is currently auditing the involvement in the BSol STP process to ensure appropriate engagement.</p> <p>The STP Board has agreed its strategy and is engaging with the public and stakeholders. Work streams have been agreed and priorities identified. There is a high degree of commitment amongst the partners. The main risk is that the work streams are not all as well-advanced as others which means that the risk that improvement for some citizens may take longer than would be desirable.</p>	<p>Health Scrutiny Committee.</p> <p>On 8th March 2017, Andrew McKirgan, who was then the Director BSol STP and Judith Davis, Programme Director, Better Care Fund attended Birmingham / Solihull JHOSC to present a progress report.</p> <p>The new BSOL STP lead Dame Julie Moore, Andrew McKirgan, Director of Partnerships UHB and Graeme Betts attended the 21st November HOSC to update Members. Update on draft stakeholder engagement report shared at Oct 2018 HOSC by STP</p>

Safeguarding / Welfare					
No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S) Review / Work & Internal Audit (IA) Work
					<p>Director of Planning & Delivery together with input from CCG Chief Exec and Birmingham Interim Director of Public Health.</p> <p>STP draft plan discussed at City Council on 6th November 2018</p> <p>IA Reviews - None.</p>
42	<p>Travel Assist</p> <p>There are risks within the service over the cost of provision and ability to deliver the agreed level of service within the agreed budget.</p> <p>There are also wider service risks about the capacity of the market to deliver this service and the reliance upon a single provider due to limited</p>	Significant / High	<p>Lead Director comments:</p> <p>Birmingham has a higher than average number of children with SEN (17.8% in the city; 15.5% nationally).</p> <p>Travel Assist supports over 5,700 children and young people to an educational setting. Of these, over 4,200 are on some form of specialised transport (mini-bus/coach/one-to-one transport). It is a huge logistical operation on a daily basis.</p> <p>The TA budget for the last few years has been artificially low. It was significantly reduced to £13.6m in 2016/17 based on a consultancy report. This resulted in 2016/17 in a £5.3m overspend</p>	<p>Target Risk Rating: Medium/ Significant</p> <p>Anticipated date of attainment of target risk rating: Sept 2019</p> <p>Source of assurance regarding progress with mitigating the risk:</p> <ul style="list-style-type: none"> Plans are being developed to remodel and re-procure the service. As part of the planned procurement new models of delivery with less reliance on minibuses are being developed to provide greater choice with regards to the delivery of the 	<p>IA 2018/19:</p> <p>Work completed last year looking at contract arrangements. Work currently taking place in terms of assessment and allocation process which includes impact on cost of delivering service.</p> <p>Presentation made to November Children's</p>

Safeguarding / Welfare					
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	<p>minibus capacity with.</p> <p>Lead: Director, Education and Skills</p> <p>Owner: Assistant Director, Inclusion</p>		<p>(£18.9m), and an unprecedented number of complaints and negative attention placed on the service and BCC.</p> <p>Over the course of the academic year 2016/17 90% of the change programme was delivered. While the TA budget has been increased for 2018/19 the service still faces an potential anticipated deficit of up to £3,000k covering both contract hire and Guides</p> <p>Permission to consult on new policy and also development of new commissioning framework.</p> <p>Public consultation commenced in February.</p> <p>Detailed work to underpin the budget saving proposals has commenced.</p> <p>Market engagement sessions taking place in February and March.</p>	<p>service.</p> <ul style="list-style-type: none"> • A new 0-25 Transport Policy proposal was presented to Cabinet in December. • SENAR and Travel Assist will work more closely to consider the combined cost of an education placement and the cost of transport <p>In the longer term the implementation of the SEND and Inclusion Strategy will bring places back into the city closer to where the children who need them live, thus reducing transport costs.</p> <p>Options paper been produced as part of the latest budget template round.</p> <p>Communications and Engagement exercise to support the consultation being developed.</p>	<p>Social Care OSC meeting to report on and review Travel Assist. Also to be asked to report back to Resources O&S on overspends</p>

Safeguarding / Welfare					
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43	<p>Early Years Heath and Well Being contract</p> <p>There are risks that the assumed financial savings from the contract will not be fully realised due to unforeseen costs and possible grant claw backs. Previous unforeseen costs have been identified in relation to estates and staffing issues</p> <p>There are also wider risks relating to the construction of the contract itself and the lack of robust contract management arrangements.</p> <p>All risks have been increased due to a lack of permanent commissioning and contract management arrangements</p>	High/ Significant	<p>Lead Director comments:</p> <p>In January 2018 the EYHWB Contract was issued to BCHC and a Secondment Agreement put in place between all Parties. Contract mobilisation date was the 8 January 2018. Programme management arrangements were fully stood down in March 2018. In mid-April it was clear that there were a number of outstanding risks and issues in relation to this contract. The following actions have been taken/are planned;</p> <ul style="list-style-type: none"> • Interim AD capacity in place to oversee the programme • Urgent review of the Contract, Secondment Agreement and contract management arrangements completed • Stocktake report being developed • Programme management arrangements being reinstated with cross directorate representation 	<p>Target Risk Rating: Significant/medium</p> <p>Anticipated date of attainment of target risk rating: January 2019</p> <p>Source of assurance regarding progress with mitigating the risk:</p> <ul style="list-style-type: none"> - Newly established Children's and Young People's Commissioning Board which has cross directorate senior representation - Contract management arrangements in place to effectively monitor - Ongoing work to review the contract and address employment and building issues which are being reviewed. - There is a further risk around VAT liability due to staff secondment arrangements - Internal Audit have undertaken a review of at the request of the Directorate. The 	<p>IA Review: January 2019</p>

Safeguarding / Welfare					
No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S) Review / Work & Internal Audit (IA) Work
	<p>Lead: Director, Education and Skills</p> <p>Owner: Assistant Director Commissioning</p>		<ul style="list-style-type: none"> Risk and issues log reviewed and updated Key actions identified in relation to finance, HR, estates, performance management, contract mobilisation, IT Developing 1.0 fte grade 6 commissioning capacity as part of an overall Early Years re-structure <p>Detailed monitoring of contractual spend taking place monthly to identify variations to assumed savings.</p> <p>Discussions taking place with DfE in relation to capital grants (previous children centre capital funding)</p> <p>Contract management arrangements in place with monthly monitoring</p> <p>Secondment arrangement extended until the end of June 2019. Actions in place to secure agreement for next steps for the BCC workforce by the end of March</p> <p>Internal audit report complete and actions</p>	<p>recommendations from this will be fed into the improvement activity</p> <ul style="list-style-type: none"> - Contract Management Board now established - Urgent work is taking place to address gaps in contract in relation to finance, performance and estates 	

Safeguarding / Welfare					
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			<p>included in the contract management plan.</p> <p>Permanent commissioning capacity secured and in place.</p>		

Statutory Responsibilities / Compliance with Statutory Responsibilities					
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1	<p>Management of Equal Pay Claims</p> <p>Lead: Chief Finance Officer Owner: City Solicitor</p>	Significant / High	<p>Lead Director comments:</p> <p>Since 2007 to date a significant number of claims have been issued against the Council. The predominance of these claims relates to liability pre implementation of single status, which took place in 2008 and also liability post implementation of single status. The time limit for issuing further claims for both these types of claims has now expired.</p> <p>The Council has also received claims for post implementation of the Birmingham Contract (November 2011); some with limited pleadings. The recent industrial action in waste management (July – November 2017) has increased the profile of Equal Pay. There remain considerable unknowns as to how many further claims might be brought and what risk or level of liability these claims might attract.</p> <p>Significant progress has been made in terms of defending equal pay claims and managing settlement negotiations, where approved by the Council. The settlement strategy is based on level of assessed risks in relation to the likely success of claims through the tribunal/court process and the availability of</p>	<p>Target risk rating: Medium / Significant</p> <p>Anticipated date of attainment of the target risk rating: March 2019.</p> <p>Source(s) of assurance regarding progress with mitigating the risk:</p> <p>Management assurance - reporting to Equal Pay Executive Cabinet Sub Group and to Corporate Governance Group, Audit Committee and District Auditor. With a view to preventing any discriminatory working practices, robust review of processes and checks and balances to mitigate against / prevent further liability where evidence of potential risk(s) is known / identified.</p>	<p>O&S - None.</p> <p>IA - Payroll review work undertaken annually.</p>

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			financial resources. The validity of all equal pay claims is constantly challenged by Legal Services. Each claim is subject to robust legal challenge before any offer to settle is made.		
26	<p>Failure to comply with all of the requirements of the Counter Terrorism and Security Act (2015) and the Prevent Duty.</p> <p>Lead: Director, Neighbourhoods</p> <p>Owner: Director, Neighbourhoods</p>	High / High	<p>Lead Director comments:</p> <p>The threat and vulnerability risk assessment of a terrorist attack in the UK places Birmingham as the most vulnerable city after London. In 2015 the Council and partners reviewed its infrastructure around this risk to take into account the Counter-Terrorism and Security Act 2015, that includes a duty on certain bodies ('specified authorities' listed in Schedule 6 to the Act), in the exercise of their functions to have 'due regard to the need to prevent people from being drawn into terrorism'.</p> <p>The duty does not confer new functions on any specified authority. The term 'due regard' means that the authorities should place an appropriate amount of weight on the need to prevent people being drawn into terrorism when they consider all the other factors relevant to how they carry out their usual functions.</p> <p>The Council has applied a partnership and</p>	<p>Target risk rating: Medium / Significant</p> <p>Anticipated date of review/attainment of the target risk rating: Ongoing</p> <p>Source(s) of assurance regarding progress with mitigating the risk:</p> <p>Delivery continues to be monitored by the CONTEST Board Chaired by the Deputy Leader.</p> <p>Prevent Delivery Plan in place driven by Counter Terrorism Local Profile, monitored by the Prevent Executive Board, chaired by Jacqui Kennedy.</p> <p>Security briefings to Council House staff & Members.</p>	<p>O&S Waqar Ahmed and colleagues reported to the Schools, Children and Families O&S Committee on 21/3/18.</p> <p>Birmingham contributing to the Home Office Audit on national Prevent activity</p>

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			<p>mainstreaming approach to mitigate the risks associated with the threat.</p> <p>Governance for the Prevent programme has been strengthened with the Prevent coordinator now reporting directly to the Strategic Director and Assistant Chief Executive increasing visibility across the Council.</p>	<p>Training for front line staff moved to a 'train the trainer' model - 600 trainers having been trained to deliver future WRAP awareness training to schools alleviating capacity issues within the local authority.</p> <p>Support continues to be provided to schools around Prevent via the Schools Resilience Officer and officer has been recruited.</p> <p>Prevent is embedded within CASS/MASH arrangements and within the Right Services, Right Time safeguarding procedures. A new screening tool has been developed to support the request for support form and has been circulated to front line practitioners.</p> <p>CHANNEL is in place as a multi-agency pre-criminal space platform to support vulnerable people; and chaired by the DWP's Think Family Lead.</p> <p>Community initiatives in place commissioned by the Home Office to provide community solutions and are regarded by the Home Office as national best practice with scaling</p>	

Statutory Responsibilities / Compliance with Statutory Responsibilities					
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				<p>up plans initiated to extend into other regional areas. Funding for a second community engagement worker has been secured; a secondment arrangement with the youth service is being agreed.</p> <p>BCC Resilience Team continues to lead on the Prepare and Protect strand of the counter-terrorism strategy.</p> <p>CTLP for 2018 delivered to the Chief Executive in January 2018 and the Prevent Executive Board in early February.</p> <p>Recruitment of Michael Enderby as Head of Resilience. Experienced professional in Emergency Planning, Prepare and Protect.</p> <p>In the Chief Executive proposed new structure reporting lines would be to the Assistant Chief Executive only to ensure more profile and clarity of role and reporting line.</p> <p>The recent Home Office Peer review of Birmingham City Council's Prevent</p>	

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				responsibilities highly commended the work Birmingham is doing. The recent permanent appointment of a Head of Resilience is a positive step to ensure the City is prepared.	
31	<p>Increased pressure on the statutory homeless service in regards to volume of customers, which leads to significant financial pressure on the general fund due to increased use of B&B.</p> <p>Lead: Director, Neighbourhoods</p> <p>Owner: Director, Neighbourhoods</p>	High / High	<p>Lead Director comments:</p> <p>To mitigate the financial pressure on the service, several management interventions have been put in place. These include a report to Cabinet in August 2017 to increase the number of homeless centres owned and managed by Birmingham City Council. Properties are to be refurbished for use as temporary accommodation, which avoids use of Bed and Breakfast (the most expensive).</p> <p>The report sets out:</p> <ul style="list-style-type: none"> Proposals for the creation of two additional homeless centres for use as temporary accommodation as part of the Council's statutory duty to provide temporary accommodation; and 	<p>Target risk rating: Medium / Medium</p> <p>Anticipated date of attainment of the target risk rating: March 2019.</p> <p>Source(s) of assurance regarding progress with mitigating the risk:</p> <p>Management assurance - regular reporting to Cabinet Member, monthly meetings with finance, discussions at Housing DMT, 1to1s with Head of Service.</p> <p>Reduce known risks at fortnightly meetings with all partners and manage risk to reduce these through pro-active work</p>	<p>O&S -The Housing and Homes O&S Committee inquiry into rough sleeping was presented to City Council in June 2017. The Committee completed the tracking of the rough sleeping inquiry report at its October meeting but will continue to review non-delivered and on-going elements of the recommendations. At the October meeting Members also received an update on the review of the Allocations Scheme and will receive</p>

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			<ul style="list-style-type: none"> The approach and procurement strategy for the refurbishment of two Council owned properties for use as temporary accommodation. <p>The homeless prevention strategy has been launched and commitments gained from partners on how they will collaborate to prevent homelessness. The commitments will form the action plan which will be monitored through the homelessness partnership board.</p> <p>Work continues at Barry Jackson to remove asbestos and prepare the site for refurbishments works to begin this financial year. Risk is being managed by Capital Investment Team, the Service and contractors at fortnightly meetings. There is considerable pressure from and opposition to the proposal from the local community. A plan has been agreed to address concerns however the risk remains very high that this project may be withdrawn as a result of community activity and pressure. Costs have exceeded agreed budget as a result of additional capital works agreed. The requirement to install sprinklers at both locations, further to the Leaders commitment, will push the full</p>		<p>a further update in December as part of a wider update on implementation of the Homelessness Reduction Act.</p> <p>The Committee is also doing a piece of work on the Private Rented Sector, which will look in some detail at the use of private rented accommodation to address homelessness, and temporary accommodation.</p>

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			<p>occupancy dates back to yet to be confirmed dates.</p> <p>Targeting of readily available void dwellings suitable for re-housing homeless households and for use as temporary accommodation has been increased to help reduce B&B use.</p> <p>Planning permission has now been obtained for Barry Jackson Tower.</p> <p>Work is ongoing with Contractors to identify any potential for bringing this forward; however, this needs to be balanced with ensuring it is completed safely and appropriately.</p> <p>Work with Registered Providers has identified opportunities in regard to homeless prevention and provision of accommodation this is being worked on from both the Registered Provider Sector and Birmingham City Council.</p> <p>Following commencement of the Homelessness Reduction Act, there has been a predicted increase in homeless presentations. However, this has also resulted in an increase in preventions as a result of the new approach to handling homeless</p>		

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			<p>presentations.</p> <p>Report submitted to Cabinet in December and briefing note and presentation to CMT providing a more detailed update on current position with regard to responding to homelessness, increased risk and current position.</p> <p>The risk is continually reviewed and updates provided to Cabinet Member at weekly briefings.</p> <p>There is a shared Temporary Accommodation and Bed and Breakfast reduction action plan with Homeless Partnership Board and Housing Birmingham.</p> <p>The service is still faced with significant levels of households in B&B accommodation however due to Barry Jackson Tower and Magnolia House being opened in the next 2 months this will reduce this risk.</p> <p>The project team has recently been increased in number to expedite outstanding works. A number of floors will be handed over on Monday 4th February 2019. A final site inspection will be</p>		

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			undertaken Sunday 3rd February 2019 to ensure compliance and quality.		
34	<p>With uncertainty on the UK air quality action plan following challenges through the judicial system and the costs associated with the Government announcing infraction fines being passed down to Local Authorities in relation to air quality there is the potential of an initial £60m fine and then ongoing fines related to Birmingham not meeting air quality compliance.</p> <p>The Council has been mandated to introduce a Clean Air Zone by Government. The substantive risk is now to agree, fund and deliver the Clean Air Zone in the</p>	High / Medium	<p>Lead Director comments:</p> <p>The Council has been issued with ministerial directions under the Environment Act (1995) to complete key milestones to be compliant for roadside NO₂ by 2020</p> <p>Cabinet, in June 2018, agreed options for public consultation regarding a Clean Air Zone for Birmingham. The ambition demonstrated in the option for consultation has gone some way to mitigating the risk of Government fine. An Outline Business Case has been submitted to Government to release relevant funds for preventative work and allow for independent analysis of the modelling outputs. A special Cabinet in September 2018 considered the consultation response and endorsed a 'preferred option business case' for submission to Government.</p> <p>Significant milestones remain; however, a Preferred Clean Air Zone Option Business Case has been prepared, approved and submitted to Government for review.</p>	<p>Target risk rating: Medium / Low</p> <p>Anticipated date of attainment of the target risk rating: January 2020</p> <p>Source(s) of assurance regarding progress with mitigating the risk:</p> <p>Wider Air Quality Plan that includes:</p> <ul style="list-style-type: none"> Traffic management, signalling and signage controls - 12/2018. Controlled Parking Zones - 12/2018. BCC Internal & External Fleet transition to low / zero emission full Low / zero re-fuelling infrastructure - 04/2019. Clean Air Zone strategic business case signed off by Secretary of State by 12/2017 to enable CAZ infrastructure for 	<p>O&S - The Health & Social Care O&S Committee have carried out an inquiry into 'The Impact of Poor Air Quality on Health'. Evidence gathering took place on 17th January 2017 and 28th March 2017. Witnesses included:-</p> <ul style="list-style-type: none"> Public Health England Friends of the Earth Birmingham Trees for Life Transport for West Midlands Birmingham Children's Hospital Network Rail <p>The final report was</p>

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	<p>shortest possible time, with a target of January 2020.</p> <p>Lead: Assistant Chief Executive</p> <p>Owner: Assistant Chief Executive</p>		<p>This Business Case will need to be further refined into a Full Business Case to fully comply with the Ministerial Direction over the next 2-3 months.</p> <p>Significant milestones remain, however, with particular emphasis around a special Cabinet in September 2018 and submission of the Full Business Case</p> <p>These headline mitigations are supported by: -</p> <ul style="list-style-type: none"> - Weekly teleconference meetings with DEFRA's Joint Air Quality Unit to update mitigation plans. - Regular Cabinet Member briefing to provide strategic direction for wider Air Quality Programme including deployment of Clean Air Zone. - Ongoing feasibility studies to measure air quality impact and assess measures and controls to meet compliance, including level of Clean Air Zone to be deployed. 	<p>access restrictions deployed by 04/2019.</p> <ul style="list-style-type: none"> • Revised Birmingham Taxi Licensing Policy based on air quality compliance emissions - 12/2018. • All BCC procurement frameworks and tendering processes aligned with CAZ compliance -12/2018. 	<p>presented to City Council for ratification on 12th September 2017.</p> <p>Further reports tracking the implementation of recommendations will be presented to HOSC on a regular basis beginning in January 2018 with progress report from Cllr Trickett on behalf of the Air Quality Members Steering Group</p> <p>A report on the air quality at New Street Railway Station was presented to committee by representatives from Network Rail and the University of Birmingham on 20th March 2018</p> <p>The Sustainability & Transport Committee</p>

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			<ul style="list-style-type: none"> - Development of overarching clean air policy for Birmingham for 2018. - Ongoing joint development work and positive engagement with WMCA. <p>Key progress comprises the completion of a Preferred Clean Air Zone Option Business Case and Cabinet report to authorise submission to Government by 15 September 2018, as required by the Ministerial Direction. The report follows the largest ever response of circa 11,000 to the CAZ consultation.</p> <p>A special Cabinet in September 2018 considered the consultation response and endorsed a 'preferred option business case' for submission to Government. Submission of the Full Business Case followed in December 2018.</p>		<p>carried out a session focussed on the CAZ consultation on 2nd August 2018 with invited stakeholders. The Committee made a submission to the consultation following this session.</p> <p>IA Review - 2018/19 – Planned.</p>
12	Failure to comply with all of the requirements of the Equality Act (2010) and the Public Sector Equality Duty.	Medium / Significant	<p>Lead Director comments:</p> <p>The Public Sector Equality Duty (PSED) was created by the Equality Act 2010 and is set out in section 149. It applies to public bodies, such as local authorities</p>	<p>Target risk rating: Medium / Significant</p> <p>Anticipated date of attainment of the target risk rating: Attained.</p>	<p>O&S - Corporate Resources and Governance O&S Committee to have briefing on HR matters</p>

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	<p>Lead: Assistant Chief Executive / HR Director</p> <p>Owner: Assistant Chief Executive / HR Director</p>		<p>listed in Schedule 19 to the Act, and to other organisations when they are carrying out public functions. The PSED contains specific duties (Specific Duties Regulations 2011) which are an important lever for ensuring that public bodies take account of equality when conducting their day-to-day work. When delivering their services and performing their functions, bodies subject to the PSED must have due regard to the need to:</p> <ul style="list-style-type: none"> • Eliminate discrimination, harassment and victimisation and any other conduct that is prohibited by or under the Act. • Advance equality of opportunity between people who share a relevant protected characteristic and people who do not share it. • Foster good relations between people who share a relevant protected characteristic and those who do not share it. <p>Legal challenge can delay implementation of change and significantly delay or reduce the planned savings to be achieved this may also have a detrimental</p>	<p>Source(s) of assurance regarding progress with mitigating the risk:</p> <ul style="list-style-type: none"> • Corporate Governance is in place to manage this risk effectively and close monitoring by ECS&CS and Legal Services will continue in order to address any issues which may arise. • Corporate Consultation undertaken on savings proposals. • Unique EA reference will be tracked and reported against individual Corporate Savings Proposals. • Corporate Steering Group to oversee compliance. • Initial RAG assessment of savings proposals to be undertaken. • Legal advice sought on high risk 	<p>including workforce equality on 2nd November 2017.</p> <p>IA Review - None.</p>

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			<p>impact on other services. It is important therefore, that Equality Assessments (EAs) are carried out robustly across BCC regarding all initiatives and service delivery changes. The responsibility for ensuring that EAs for all major policy / budget changes lies with the Directorates. All EA are subject to audit by Quality Control Officers and Senior Officers who sign off the completed EA through the Equality Analysis Toolkit currently through the Black Radley software. This supports the equalities agenda and compliance to legislation. They should ensure that the EAs produced by the service are capturing evidence of ongoing compliance. Legal Services are advising on high risk EAs and check compliance through the cabinet report clearance system.</p> <p>Following consultation with Legal Services and Directorate Equality Leads, the Equality Analysis Toolkit was developed to improve the guidance information to staff. If followed, this guidance should help improve the content and standard of EAs submitted for approval.</p> <p>All budget planning paperwork requires equality assessments to be completed at an early stage and throughout.</p>	<p>initiatives.</p> <ul style="list-style-type: none"> • Process of Legal sign off on Cabinet Reports. <p>Management assurance. In addition to current guidance and information, the development and use of the online Equality Analysis Toolkit will help mitigate against managers undertaking inadequate EAs. The toolkit provides a step by step process and on line guidance to completing an EA and developing an action plan.</p> <p>The online toolkit provides an overview of all EAs undertaken on the system.</p> <p>Project managers are encouraged to take legal advice on high risk initiatives.</p>	

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			<p>Please note that this Equality Analysis Toolkit will be subject to review in-year 2018/19 as part of a whole-system review of equalities linked to the Councils new workforce strategy.</p> <p>Dedicated ELT session on the 12.09.18 considered workforce strategy and feedback from staff network reps. A self-assessment against the Equality Framework for Local Government was undertaken which will guide our action planning in 2019-20.</p> <p>CMT report and further ELT session scheduled for March 2019 to consider workforce demographics, self-assessment against the LGA equalities framework and draft equality objectives for the Council. Engagement with O&S will be scheduled for 2019-20 work planning.</p>		
25	Failure to comply with statutory timescales in relation to DoLS (Deprivation of Liberty) referrals, which could lead to legal challenge and result in financial loss to the Council.	Medium / Significant	<p>Lead Director comments:</p> <p>This risk is made of 2 components:</p> <p>1) DOLS in Care Homes and Hospitals - DOLS strategy was reviewed in July. ASC&H DLT and the Cabinet Member subsequently adopted the</p>	<p>Target risk rating: Medium / Significant</p> <p>Anticipated date of review/attainment of the target risk rating: September 2017.</p> <p>The target risk rating was achieved in September 2017 and now remains static</p>	<p>O&S - None.</p> <p>IA Review 2016/17: Deprivation of Liberty Standards F/Up.</p> <p>IA Review 2017/18: Deprivation of Liberty 2nd</p>

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	<p>Lead: Director, Adults Social Care</p> <p>Owner: Assistant Director, Adults Social Care & Health</p>		<p>recommendation to adopt an alternative view of the balance of litigation risks v financial risks in this area. In line with the approach taken by the majority of West Midland Local Authorities, it will in future only undertake DOLS assessments for those adults who meet the ADASS "High" criteria. The significantly enlarged Best Interest Assessor (BIA) team, with increased management and administrative support will remain but expenditure on the external BIA service has ceased. The effect is anticipated to be a reduction in the number of DOLS authorisations, but an increase of those of "High" priority (and existing cases due for renewal) being completed within the legal time limit. The overall position of the number of cases which have not been assessed will steadily increase, but this will be viewed as a lower risk to the Council than previously.</p> <p>2) Community DOLS - A business process, staff procedure, manager prioritisation guidance and staff training have been established, in conjunction with legal Services, and are now in</p>	<p>Source(s) of assurance regarding progress with mitigating the risk:</p> <p>A monthly position report is presented to the Directorate DOLS Project Board. A bi-monthly report is presented to the Cabinet Member.</p>	F/Up

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			<p>use. This level of activity seems to be in line with that of</p> <p>Other local authority areas.</p> <p>There has been no change since the last report so there is no update to report. The position remains as previously reported. The Target Risk Rating was achieved in September 2017 and now remains static.</p> <p>The situation described at 1) above altered during the period since the last update due to the number of DOLS referrals continuing to rise (up by 35% rise in the year to August). As a consequence a back log of high priority cases has begun to develop. The position is to be monitored in the period August to February to understand if the position can be managed within existing resources. A backlog of high priority cases could increase the likelihood of a challenge, but it is not clear that this would alter the position to the extent that a challenge could be described as highly likely.</p>		
11	That the loss of significant personal or other sensitive data may put the City	Medium / High	<p>Lead Director comments:</p> <p>The Information Assurance Board (IAB), chaired by</p>	<p>Target risk rating: Low / Medium</p> <p>Anticipated date of attainment of the</p>	<p>O&S - None.</p> <p>IA Reviews 2016/17:</p>

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	<p>Council in breach of its statutory responsibilities and incur a fine of up to £20million from the Information Commissioner.</p> <p>Lead: Senior Information (SIRO) and Director Digital and Customer Services</p> <p>Risk Owner: Assistant Director ICT and Digital</p>		<p>the Senior Information Risk Owner (SIRO) have agreed that the Council should achieve level 2 maturity to support the ongoing implementation of the Council's Information Assurance Framework. A plan of action is in development and agreed targets and resource commitments are being identified to support this work.</p> <p>Current key priorities discussed at IAB are:</p> <p>Across BCC, as well as capturing the data itself, we need to look at maintaining an inventory of the location of key personal data storage and the associated flows (including cross-border), with defined classes of personal data.</p> <p>We need to ensure that BCC is maintaining contracts and agreements with third-parties and affiliates consistent with the data privacy policy, legal requirements, and operational risk tolerance.</p> <p>BCC will need to maintain an information security program based on legal requirements and ongoing risk assessments. We will need to train our identified employees to be able to conduct a Data Protection Impact Assessment (DPIA) when managing change to personal data.</p>	<p>target risk rating: December 2019</p> <p>Source(s) of assurance regarding progress with mitigating the risk:</p> <p>Maintain clear lines of responsibility to the Senior Information Risk Owner (SIRO) and the Monitoring Officer.</p> <p>Security posture for the Council is monitored and has been recently reviewed as part of a SOCITM assessment as well as the LGA Stocktake.</p> <p>A secure email solution, Egress, has been deployed and is operational to prevent the accidental loss of data.</p> <p>Staff training was re-launched in Autumn 2018 and staff will be required to undertake the training on an annual basis.</p> <p>Review Breach management processes to ensure any learning from breaches is adopted to prevent further data loss.</p> <p>A project board is to be established, chaired</p>	<p>Sophos Post Implementation Review, N3 Network, IG - Fostering & Adoption F/Up, Third Party Service Provision F/Up, Network Management and Data Quality - DfE Returns.</p> <p>IA Reviews 2017/18: Data Sharing, Third Party Service Provision, Information Assurance Framework, and IG - Planning Application Compliance with DP Guidelines.</p>

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			<p>To satisfy GDPR requirements BCC must provide ongoing training and awareness to promote compliance with our data privacy policy and to mitigate operational risk.</p> <p>IAMM Action Plan now in place with allocated workstream leads with responsibility for the delivery of the tasks to achieve Level 2 maturity level. Monthly Project Boards have been in place since December 2018 and performance reporting against the plan is provided to each Project Board and IAB. Key focus is on all ten themes with the added prioritisation on activities for (1) the delivery of an Information Asset Register; (2) Training and Awareness across the Council; (3) Strategic Risk Management i.e. the development and embedding of Data Protection Impact Assessments (DPIAs) across the Council and (4) understanding our Third Party Risk.</p>	by the CIO, to take the IAMM action plan forward and report on progress to IAB and CMT.	
36	Failure to respond positively and effectively to the required outcomes of the Grenfell Tower enquiry once known.	Low/ Medium	<p>Lead Director comments:</p> <p>Project plan produced for all programmes of works required to investigate cladding systems and any associated remedial works to further enhance existing fire safety measures.</p>	<p>Target risk rating: Low/Low</p> <p>Anticipated date of attainment of the target risk rating: 2019/20 financial year.</p> <p>Source(s) of assurance regarding</p>	O&S – Members of the Housing and Neighbourhoods O&S Committee have noted the need to consider the outcomes of the inquiry

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	<p>Lead: Director, Neighbourhoods</p> <p>Owner: Director, Neighbourhoods</p>		<ul style="list-style-type: none"> • Programme to fit Sprinkler systems to 213 high rise blocks over a 3 year period starting 1/4/18 • Programme to carry out fire risk assessments to all communal areas annually <p>Programme of work underway to ensure tower block tenants understand fire safety measures and how to respond in the event of an emergency, including:</p> <ul style="list-style-type: none"> • Fire safety campaign – completion April 2018 • Fire awareness visits – completion autumn 2018 <p>Other actions include:-</p> <ol style="list-style-type: none"> a) Resilience processes review – completion autumn 2018 b) Night security service expansion c) Vulnerable persons review – completion 	<p>progress with mitigating the risk:</p> <p>Housing/West Midlands Fire Service</p>	<p>and to address any issues pertinent to Birmingham.</p> <p>IA Review – Proactive work to produce a fire risk index</p>

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			<p>autumn 2018</p> <p>Approached Government for grant funding for the installation of sprinkler systems</p> <p>Continuing to develop an approach to the installation of sprinkler systems in Council flats. Currently trialling installations in three blocks of different designs across the City. Have consulted with City Housing Liaison Board, Sheltered Housing Liaison Board and have arranged to consult with tenant management organisations and leaseholders board. All staff in housing management and repairs and maintenance have been briefed with regard to the sprinkler programme. The installation specifications and quality briefs are being signed off on a flat and block archetype basis by the Head of Service. Initial installations are underway on a number of high-rise blocks in the City and customers are being consulted as and when the work is commenced on a personal basis.</p>		
37	Homelessness Reduction Act – Insufficient council resources to meet the requirements of the Act fully.	Medium/ High	<p>Lead Director comments:</p> <p>Implementation Plan to ensure compliance has been produced and consists of the following key work streams;</p>	<p>Target risk rating: Medium/High</p> <p>Anticipated date of attainment of the target risk rating: April 2018 for initial implementation but further work over the next</p>	O&S: session on response to the Act (implementation plan) held in February 2018

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	<p>Lead Director, Neighbourhoods</p> <p>Owner: Director, Neighbourhoods</p>		<ul style="list-style-type: none"> Redesign the Housing Option Service Awareness and Training (Staff, Trade Unions and Elected Members) IT systems to be developed with Councils IT Fixture providers. Accommodation, additional accommodation for staff, communication plan being produced. Temporary Accommodation Services will require a complete review to reduce the Council's reliance on temporary accommodation moving to preventative measures. Report presented to EMT on 23rd January 2018. Cabinet Report March 2018 <p>The service is still seeking to recruit some additional staff due to the current workload. An</p>	<p>12 months.</p> <p>Source(s) of assurance regarding progress with mitigating the risk: MHCLG</p>	<p>An update on the impact of the implementation of the Homelessness Reduction Act is scheduled for the Housing and Neighbourhoods O&S Committee.</p> <p>Audit: 2017/18 Housing Options Service IA Review planned for 2018/19 in February 2019</p>

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			update regarding HRA implementation was presented to Cabinet in December'		

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC					
No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S) Review / Work & Internal Audit (IA) Work
29	<p>Not developing sufficiently robust plans to support setting a balanced budget (including in the medium term), and not containing net spending within the approved budget</p> <p>Lead: Chief Finance Officer.</p> <p>Owner: Assistant Director Finance</p>	High Medium /High	<p>Lead Director comments:</p> <ul style="list-style-type: none"> Delivery of the budget and savings programme is being closely monitored, by CMT and ECMT to review delivery and to identify mitigating actions. This includes the future years' dimension as well as the in-year position. There are regular reports to Cabinet and to the Resources Overview & Scrutiny Committee. Directors have clear accountability for the delivery of savings in their directorates and this includes attendance at monthly meetings with the 	<p>Target risk rating: Low / Significant</p> <p>Anticipated date of attainment of the target risk rating: Ongoing.</p> <p>Source(s) of assurance regarding progress with mitigating the risk:</p> <p>Planned activities to further mitigate this risk:</p> <ul style="list-style-type: none"> There is close monitoring of the delivery of the Budget and additional governance arrangements have been introduced. 	<p>O&S - A Resources O&S Committee has been set up to scrutinise budget matters with the Deputy Leader.</p> <p>Resources O&S is scrutinising budget matters on an ongoing basis and flagging up areas of concern as appropriate. Where concerns are identified relevant scrutiny committees will</p>

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC					
No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S) Review / Work & Internal Audit (IA) Work
			<p>Cabinet Member for Finance.</p> <ul style="list-style-type: none"> The Council's LTFP is refreshed regularly to take account of latest information, including savings delivery issues. Plans for 2018/19 and later years were revised accordingly. More robust arrangements for the programme and project management of the delivery of savings have been introduced Proposals are have been subject to corporate public consultation commencing following Cabinet approval on 13 November 2018 and more specific engagement and consultation will also take place where appropriate. Some of the savings proposals have been amended in the light of consultation feedback and after further consideration of deliverability. The budget was approved at the City Council meeting on 26 February 2019 The Council holds reserves as part of its risk management strategy, but plans are being 	<ul style="list-style-type: none"> The Council has a risk management strategy to address issues relating to difficulties in the delivery of the savings programme. There is a clear focus on the development of robust consultation and implementation plans for all savings. <p>There is focus on the project management of the savings programme. The Council maintains a medium term perspective in its financial plans - spending, savings and resources.</p> <ul style="list-style-type: none"> The budget for 2019/20 onwards includes a savings delivery contingency. The Council is moving to a more integrated planning and performance management approach. 	scrutinise impact on specific service areas including impact on services of in-year mitigations.

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			<p>developed have been put forward which that will do not assume reliance on these.</p> <ul style="list-style-type: none"> Long-term collection rates for principal sources of income, together with any expected surplus/deficit in the Collection Fund for business rates and council tax, are taken into account in setting budgets. Rigorous action is taken to pursue outstanding debts wherever possible. 		
15	Risk of not recognising the need to divest of costly property assets in radical new solutions to reframe service delivery; driving out property for disposal, but beyond capital receipt generation, ultimately solutions should deliver innovative and appropriate reductions in future revenue operating costs.	Significant / Medium	<p>Lead Director comments:</p> <p>Risk mitigated by:</p> <ul style="list-style-type: none"> The approval by Cabinet in November 2018 of a new corporate Property Strategy with the Operational Portfolio as one of four themes. Recommendations include reducing the level of directly managed stock in order to retain a smaller, multi-faceted, well-maintained estate The current rounds of budget proposals for FY19/20 onwards contain a number of property rationalisation propositions across the service 	<p>Target risk rating: Medium / Low</p> <p>Anticipated date of attainment of the target risk rating: April 2018. Ongoing and subject to potentially, significant change driven by BCC corporate business plan (this is currently "continuously changing in the short term").</p> <p>Source(s) of assurance regarding progress with mitigating the risk:</p> <p>Management assurance.</p>	<p>O&S - None.</p> <p>IA Review - None.</p>

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	<p>Lead: Director, Inclusive Growth</p> <p>Owner: Head of Operational Property Management</p>		<p>areas as part of the contributions to future years cost reductions. This includes the Public Hubs Programme which will remodel and reduce the Council's frontline estate.</p> <ul style="list-style-type: none"> Through the recommendations of the Property Strategy services will need to articulate their medium term asset plans and associated utilisation / resourcing which in turn will be subject to critical appraisal by the Property & Assets Board. To assist with property rationalisation alongside future service planning and development programmes, a Property Services Business Partner role has been established with the Place Directorate-Neighbourhoods Directorate with regular attendance of the Directorate's Wider Savings and Performance Board. The Corporate Landlord service has continued to deliver the facilitation of delivery of further organisation changes e.g. Service Birmingham 		

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			<p>and the Contact Centre the creation of the Children's Trust, absorption of Service Birmingham / ICTDS and Contact Centre functions within the estate, accommodating the CWG project Team etc.</p> <ul style="list-style-type: none"> Continued development of the corporate property database (Techforge) - information and systems development continues to progress as planned and the additional functionality is being applied in the management of repairs and maintenance costs, provision of information and analysis to inform strategic decision making, etc. <p>The 'Smarter Working' project is intended to increase agility and bring further organisation and management culture change across the Council. A key outcome will be further rationalisation of the Central Administration Buildings portfolio.</p>		
38	To manage the Enterprise Zone Programme in line with its delivery plan.	Medium / High	<p>Lead Director comments:</p> <p>Develop EZ and Curzon projects to meet</p>	<p>Target risk rating: Medium/Significant</p> <p>Anticipated date of attainment of the</p>	Internal Audit 2018/19: Work on Enterprise Zones Final Report

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	<p>Risk of under achieving: potential business rates income, economic growth, and outputs/achievements.</p> <p>Risk of reputational damage to BCC</p> <p>Lead: Director, Inclusive Growth</p> <p>Owner: Inclusive Growth (Delivery) / Finance and Governance (Accountable Body)</p>		<p>requirements as outlined in the Investment Plan.</p> <p>Deliver Enterprise Zone and Curzon Programme activity against the Investment Plan.</p> <p>To monitor Enterprise Zone BCC managed projects (EZ and Curzon).</p> <p>To maintain state aid systems and monitor EZ business rates relief.</p> <p>Collate BCC EZ and Curzon delivery programme outputs and outcomes.</p> <p>Report to GBSLEP.</p>	<p>target risk rating: Ongoing</p> <p>Source(s) of assurance regarding progress with mitigating the risk:</p> <p>Management of Enterprise Zone Model Regular Monitoring of projects Capital Board</p>	issued 03/04/18.
41	<p>School Deficits</p> <p>National funding arrangements have resulted in real term funding reductions which coupled with rising costs means that there is a risk</p>	High/High	<p>Lead Director comments:</p> <p>Maintained schools are facing significant pressures on funding. As of 31-3-18 the number of schools in deficit compared to a year ago has increased by 5 to 37 (14% of the total number of LA maintained schools) but the cumulative value of deficits has reduced to £10,964k. If a school is issued with a</p>	<p>Target Risk Rating: Significant/Medium</p> <p>Anticipated date of attainment of target risk rating: March 2019</p> <p>Source of assurance regarding progress with mitigating the risk from school deficits:</p>	<p>IA 2018/19:</p> <p>Work completed last year looking at schools financial management, we are working with the Directorate on their response. Schools work programme adjusted to</p>

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	<p>that increasingly, schools schools are not able to run balanced budgets:-</p> <p>-There is the potential that some schools may build up deficits which cannot be cleared and which ultimately may need to be met by BCC</p> <p>In addition there is a pressure on the high needs block which centrally supports places for children with SEND.</p> <p>Lead: Director Education and Skills</p> <p>Owners: Assistant Director – Education and Early Years / Assistant Director SEND</p>		<p>directive academy order then any deficits at the point of conversion may become the responsibility of the local authority. (Any school converting with a surplus may retain this)</p> <p>Separately</p> <p>Even after allowing for a cumulative high needs deficit brought forward from 2017/18 of £13.8m, Indications are that there will continue to be extremely challenging budget pressures in 2018/19.</p> <p>Guidance notes on financial expectations sent out to schools.</p> <p>Further warning notices sent out to schools with concerns requesting action is taken.</p> <p>Ongoing work around SEND in line with recent Ofsted inspection. This will include review of SEND Strategy and building on the initial priorities.</p> <p>Meeting with DfE and NHS advisors on 10 October to discuss requirements for the required Written</p>	<ul style="list-style-type: none"> - Schools Financial Governance Group set up to co-ordinate support and challenge to schools. - Schools financial monitoring procedures to be reinforced with requirement that these are reported to ALL Governors. - Earlier use of financial warning notices where there are financial concerns. Intervention considered as appropriate inc. removal of cheque book facility to the removal of governing body and replacement with an Interim Executive Board - Collaboration with Regional schools Commissioner to ensure swift action taken to address school improvement requirements by identifying a Sponsor early to then maximise the impact of additional investment in school 	<p>take account of schools financial management, and a number of schools themed jobs planned during the year.</p>

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			<p>Statement of Action for Birmingham.</p> <p>Monthly meeting of the schools financial governance group to co-ordinate action and identify early concerns (met 24 October). This group is also being used to focus audit activity on schools causing concern</p> <p>First audit report on schools financial management published and further work underway.</p> <p>Revision of the audit inspection framework for schools to be used from the beginning of November with a stronger focus on financial processes and strategic financial planning</p> <p>Ongoing schools causing concern meetings taking place and financial concerns are being fed into this work</p> <p>CMT have received a paper in January outlining the financial overview of schools including those</p>	<p>improvement.</p> <ul style="list-style-type: none"> - Initial Audit review carried out with findings being adopted and second review to be set up to include more detailed stress testing of schools ability to cope with further cuts in funding. - More targeted audits of schools - Maintaining an in year balanced budget for placements. - Looking to address any pressures with possible mitigations coming from potential underspends. <p>Source of assurance regarding progress with mitigating the risk from high needs block:</p> <p>In the longer term CYP will implement the SEND and Inclusion Strategy's following three strands to reconfigure the provision funded from the high needs block and alleviate pressure on the budget:</p>	

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			<p>with deficits.</p> <p>An action plan is being finalised to determine key actions to arrest more schools falling into deficit. This will return to CMT in March and then the level of current risk will be reviewed.</p>	<p>1. Develop a framework of SEND assessment and planning from 0-25 years to enable professionals and partners to meet the full range of individual need and raise achievement.</p> <p>2. Ensure there is a sufficient and appropriate range of quality provision to meet the needs of children and young people with SEND aged 0-25 years and improve outcomes from early years to adulthood and minimising dependence on high cost independent placements.</p> <p>3. Develop a unified resource allocation system to distribute the range of SEND funding across all schools and settings in order to make the most effective use of available resources and maximise the impact on outcomes for young people.</p>	
46	<p>Universal Credit</p> <p>Lead: Director, Digital and Customer Services</p> <p>Owner: Assistant Director, Revenues and Benefits</p>	Medium/ High	<p>Lead Director comments:</p> <p>UC related arrears has already increased with 12% of the arrears accounting for 33% of the total arrears (Over £5 million out of a total of £15 million).</p> <ul style="list-style-type: none"> Pilot work is underway to examine interventions in order to mitigate the impact on tenants and 	<p>Target risk rating: Low/Medium</p> <p>Source(s) of assurance regarding progress with mitigating the risk:</p> <ul style="list-style-type: none"> Close monitoring of rent arrears 	

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	<p>UC was introduced to BCC in May 2015. Full Service has been rolled out since February 2018. The major risks for UC are:</p> <ul style="list-style-type: none"> • Reduction in HB income of £28 million to the rent account per annum • Increase in rent arrears • Decrease in tenancy sustainability • Increase in evictions and homelessness • Increase in citizens debt • Increased council tax 		<p>the HRA. This will be built into a forthcoming service redesign for the Rent Service.</p> <ul style="list-style-type: none"> • Alternative Payment Arrangements (APAs) are being encouraged so the Council receives the rent direct from UC payments where possible. • Close working with DWP work coaches and other partners is helping to reduce the impact. • Alternative ways of working have been explored with other housing providers – as well as software solutions. • Council tax support cases are down by around 3,000. Awareness is being increased at regular strategic meetings between the Council and the DWP. • Housing Benefit recovery is being closely monitored and a recent initiative will increase recovery rates for people who are in work. • New 50% earnings disregard in place and 	<ul style="list-style-type: none"> • Ongoing dialogue with DWP • Progressing rent and benefit service redesigns • Maintaining a view of national picture through attendance at meetings with LGA/DWP • Promoting council tax support (CTS) • Consider options for council tax debt on CTS cases – work with Enforcement Agents on vulnerability issues • Close subsidy monitoring on UC/HB related cases • Use of specific reserve to ensure vulnerable people don't suffer and subsidy income is maximised 	

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	<p>arrears</p> <ul style="list-style-type: none"> • Lower rates of debt recovery of housing benefit overpayments • Lower take-up of council tax support • Reduction in DWP funding adds pressure to budgets and remaining HB recipients • Further short notice change announcements from DWP • Confusion for citizens 		<p>allowing increased rates of recovery on HB cases before more are 'lost' to UC</p> <ul style="list-style-type: none"> • Benefit Service is working on new arrangements for service delivery from 2019/20 in order to mitigate against DWP cuts and protect vulnerable tenants. • Rents arrears are still around £15 million. • Work on new structure to embed pilot work is ongoing. • Further Government announcements on delays to UC programme have been made – generally, once in place the changes should be beneficial to tenants and landlords. • Meetings have taken place with senior DWP staff to improve local liaison – including the need to promote CTS. • Subsidy position still looks strong. 		

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			<ul style="list-style-type: none"> Benefit processing times still excellent and up on target. HB overpayment recovery is ahead of target. Benefits staff structure agreed. 		

Political - Risks driven by the political agenda					
No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work

None.

Technology

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16	<p>There is a risk that web services to customers or work with partners may be disrupted by malicious attacks on the City Council's web based services.</p> <p>Lead: Director, Digital and Customer Services</p> <p>Owner: Assistant Director, ICT and Digital</p>	Significant / Medium	<p>Lead Director comments:</p> <p>The following control measures are routinely taken by the Council's Information, Technology and Digital Services Team:</p> <ul style="list-style-type: none"> Continuously scan the information security landscape with partners to detect upcoming and new vulnerabilities which could be exploited by potential hackers. This ensures that SB are aware of all risk posed by different intrusion methods. Have updated the Council's firewalls and introduced Intrusion Prevention Services as part of the firewall implementation. This means the firewalls are receiving regular updates from the supplier to detect new and evolving types of security attack. The firewalls detect and defeat many thousands of attacks every day. Have implemented a cloud based Distributed Denial of Service system that defends four of the Council's main websites from high volume attacks where hackers are trying to flood the Council's websites with requests for service. This service regularly defends the Council's web sites from 	<p>Target risk rating: Low / Medium</p> <p>Anticipated date of attainment of the target risk rating: Ongoing - this risk can only ever be mitigated, and never fully closed due to the nature of hacking etc.</p> <p>Source(s) of assurance regarding progress with mitigating the risk:</p> <ul style="list-style-type: none"> The Council are now transmitting sensitive data securely through the PSN secure infrastructure together with the improvements / enhancements made to the firewalls. BCC has successfully passed its PSN accreditation. Service Birmingham, on behalf of the Council, is constantly monitoring the information security landscape with solution providers to detect upcoming and new vulnerabilities which could be exploited by potential hackers. Given the nature of this risk these 	O&S - Referenced in the Scrutiny Inquiry 'Refreshing the Partnership: Service Birmingham' (presented to Council in June 2015).

Technology					
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			<p>attackers and the contract is currently being renewed.</p> <ul style="list-style-type: none"> Have implemented the PSN walled garden which has enhanced the security of all users accessing web based government systems. PSN services have been remodelled and are currently being monitored to ensure secure transmission. <p>The management of cyber risks within BCC will form part of the security strategy and responsibilities clearly defined. The ICF will ensure that the cyber risk investment strategy is aligned to, and supports strategic priorities.</p> <p>There is improved reporting of cyber risks and security incidents which will be presented to the Corporate Information Security Group bi-monthly. This will ensure BCC are fully aware of potential regulatory & legal exposures and can assess the implications for future investment decisions.</p> <p>This is an acknowledged ongoing risk that should remain on the CRR. For reference a PSN Compliance Certificate was issued to Birmingham City Council on</p>	<p>activities are now being kept under constant review.</p> <ul style="list-style-type: none"> The next health check (a mandatory requirement of PSN) has recently been completed. 	

Technology					
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			<p>27/03/18.</p> <p>As highlighted this is an ongoing risk which can never be fully mitigated due to the fact that new technologies are emerging all of the time. BCC however have undertaken a Cyber Security Stocktake and are in the process of developing a combined Cyber Security and Resilience strategy to mitigate risks identified in the stocktake.</p> <p>Update 12.02.19</p>		
17	<p>Ineffective Corporate Risk Marker IT solution.</p> <p>Lead: Director Human Resources</p> <p>Owner: Director Human Resources</p>	Low / Medium	<p>Lead Director comments:</p> <p>Joint report went to CLT (from customer services and HR) on 18th January 2018, explaining how this worked currently and what the issues were around funding the costs of accessing the register, including a suggestion we bring the budget together centrally so people don't feel they can't afford to do it. There were a number of discussions points and follow on actions from CLT, including that: 1) CLT approve the use of the Data Warehouse as a mandatory requirement to check risk markers prior to any visits being undertaken by BCC employees to both domestic properties and businesses 2) CLT will review the funding of the</p>	<p>Target risk rating: Low / Medium</p> <p>Anticipated date of attainment of the target risk rating: March 2019 further work on effective access is required</p> <p>Source(s) of assurance regarding progress with mitigating the risk:</p> <p>Management assurance.</p> <p>Currently the data warehouse pulls in the risk markers from CRM, Housing, MAPSS and CareFirst. Any user of the warehouse that searches a relevant name or address</p>	<p>O&S - None.</p> <p>IA Review - None.</p>

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			<p>Data Warehouse as part of the Councils long term financial plan to ensure that the risks associated with failure to comply are minimised and that the data warehouse continues to be available for use across the council 3) CLT will identify the appropriate Director to be the named officer responsible for their risk marker solution (currently this is the director of HR but only as a temporary measure – may sit better in Revenues and Benefits) 4) CLT will require the safety manager to draft the appropriate guidelines for usage of the risk marker solution by employees and managers prior to any visits being undertaken. A further report is to be brought back to CLT in the future.</p>	<p>will have the respective risk markers presented to them. The risk markers not only relate to health and safety but child / vulnerable adult safeguarding too.</p> <p>The Audit team are in the process of creating an Intelligence Network across the City for anyone who has an investigative, enforcement or regulatory element to their role; or are likely to have some contact with the public. However there remain challenges regarding balancing the need for timely access by a large number of staff and the requirement to ensure sufficient security of the sensitive data. Further work on this is required</p> <p>Council Tax, Business Rates and Rents have a risk marker on their respective systems; this risk marker is extracted and added to the data warehouse.</p> <p>Monitoring the use of the IT system by Corporate Safety Services.</p> <p>Guidance for employees will be completed</p>	

Technology					
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				once surety of access for all required has been secured	

Transformation					
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7	<p>Lack of capacity and capability to respond to threat of industrial action, employee relations tensions, poor service, performance issues, sickness absence levels and poor morale due to organisational downsizing and pay freezes.</p> <p>Lead: Director of Human Resources Owner: Dawn Hewins</p>	<p>Significant / Significant</p> <p>High/High</p>	<p>Lead Director comments:</p> <p>There are a number of high level localised disputes that could result in further escalation of service specific industrial action, some on-going at the moment. There have been localised disputes resulting in a series of action short of strike / strike actions. The Council is utilising non-binding mediation as a means of seeking to resolve these matters. Reports have been considered by Cabinet as a potential means of bringing conclusion to current action. There are business continuity plans in place in readiness for industrial action. Bespoke HR support is being provided to identify high risk</p>	<p>Target risk rating: High / High</p> <p>Anticipated date of attainment of the target risk rating:</p> <p>Will be on-going. Despite this, overall there continues to be regular and positive engagement and dialogue with the trade unions at a corporate, regional and local level as appropriate (excluding where in dispute). Expert HR support is being provided to areas experiencing significant employee relations challenges relating to service redesign</p>	<p>O&S - The Corporate Resources OSC received an update from the Deputy Leader and senior HR officers at a briefing in September 2017.</p> <p>IA Review - None.</p>

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			<p>areas. However, service contingency plans need testing. A monthly review of Industrial Relations disputes within legal services and HR is occurring ensuring that we have Council wide oversight and a consistency of approach.</p> <p>The proposed national pay award is more generous than originally anticipated and unlikely to elicit national action; however local trade union consultation is on-going.</p> <p>Council wide attendance levels are variable as the organisation delivers service redesigns and staffing changes.</p>	<p>and headcount reductions.</p> <p>Source(s) of assurance sought regarding progress with mitigating the risk:</p> <p>All budget proposals are subject to validation via full council, before consultation with trade unions will commence. There are some delays in delivery timescales where any applicable disputes are considered.</p> <p>Focus on attendance and wellbeing occurs to provide support to employees who are experiencing change.</p>	
10	<p>Not responding fully and effectively to the recommendations made in the Kerslake Report and implementing the Future Council Programme.</p> <p>Lead: Assistant Chief Executive Owner: Jonathan Tew</p>	Medium / Significant	<p>Lead Director comments:</p> <p>Monthly meetings have continued with MHCLG and the BIIP with a proactive approach to updating / sharing monthly finance summaries, performance management and Corporate Governance Plan documents.</p> <p>Collaboration workshops are now in place between BCC and the BIIP on development issues such as performance management, homelessness and skills.</p>	<p>Target risk rating: Low / Significant</p> <p>Anticipated date of attainment of the target risk rating: March 2019</p> <p>Source(s) of assurance regarding progress with mitigating the risk:</p> <p>The collaborative approach between BCC and the BIIP is now established through the</p>	<p>The Leader and Deputy Leader will report to the O&S co-ordinating committee on a monthly basis, where our improvement planning will be essentially a standing item. The first such session was in June 2018.</p>

Transformation					
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			The Secretary of State has published a letter endorsing the Council's published stock-take report and clarifying the importance of the planned budget strategy.	<p>joint editorial against documents released in June 2018. That represented a crucial milestone against our original plan for 2018-19. Monthly meetings (with BCC represented by the Leader, Deputy, Chief Executive, Assistant Chief Executive and CFO) will now embed this way of working and will also provide a monthly opportunity to review the status of this risk.</p> <p>It is clear that the BIIP and MHCLG will come to a view in March 2019 about the future degree of intervention in BCC and that would be a rational point at which to formally review this risk.</p>	Similarly, the Resources O&S committee will, less frequently, consider the implications of BIIP challenge against that provided by external audit. The first such session will be in July 2018.
18	<p>Evaluation of Alternative Delivery Models</p> <p>a) Failure to adequately identify and agree the costs and benefits of alternative delivery models arising from Service Reviews</p>	Medium / Medium	<p>Lead Director comments:</p> <p>Any alternative delivery model must demonstrate some benefit and better value for the Council. There needs to be the early identification of all costs, benefits, losses/impacts as part of the formulation and evaluation of options in the development of the business case.</p> <p>The financial implications of any change against the existing model need to be evaluated on a case by case</p>	<p>Target risk rating: Medium / Low</p> <p>Anticipated date of attainment of the target risk rating: As soon as possible</p> <p>Source(s) of assurance regarding progress with mitigating the risk: Management assurance - reports to CMT, notes and actions from CCMB agenda. Dialogue with directorate lead</p>	<p>O&S - Corporate Resources and Governance O&S Committee undertaking overview of procurement strategy for DCFM services.</p> <p>IA Reviews 2016/17: Acivico Contract</p>

Transformation					
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	<p>before the decision to proceed is made.</p> <p>b) Failure to fully implement the decisions taken to change the service model to enable delivery of expected benefits / efficiency gains.</p> <p>Lead: Relevant Chief Officers</p> <p>Owner: Head Of Category</p>		<p>basis, seeking specialist advice where necessary to inform recommendations. The evaluation should be proportionate to the value and complexity of the service and the assumptions and level of confidence will need to be made clear in order to avoid over-engineering financial modelling.</p> <p>The Finance Business Partners will provide the necessary skills for the project requirements, as follows:</p> <ul style="list-style-type: none"> • All costs and income of the proposed model as compared with existing, together with some sensitivity and risk analysis. • remaining costs to BCC (e.g. fixed overheads, income targets, resource requirements etc.) • any costs/benefits to customers/residents who are the recipients of the service <p>These risks/costs need to be presented to and managed by the Commissioning and Contract Management Board (CCMB)/CMT and included in any cabinet reports.</p>	<p>commissioners. Finance to be embedded in commissioning reviews.</p> <p>Commissioning expertise established in CPS to ensure best practice is applied across the Council.</p> <p>Risk will be managed on a case by case basis through proper use of the Commissioning Toolkit, and through reviews supported by the Finance Business Partners.</p> <p>Working with Finance Business partners on forthcoming commissioning projects CPS will establish templates and guidance for the level of financial detail required to inform decisions. Projects identified are Birmingham City Laboratories, Civic Catering and Cleaning. The risk is now Med/Med while these projects are being considered.</p>	<p>Monitoring - Overall delivery of Contract and Contracts & Procurement Summary Report 2015/16. Acivico Contract Monitoring - Final Accounts Process.</p> <p>IA Review 2017/18: Acivico Review of Business Continuity Arrangements.</p>

Transformation					
No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S) Review / Work & Internal Audit (IA) Work
44	<p>Allowance payments.</p> <p>Lead: Director Human Resources</p> <p>Owner: Director Human Resources</p>	Medium / Medium	<p>Lead Director comments:</p> <p>The bulk of unpaid allowances claims have been successfully managed by HR and Legal Services on a case by case basis.</p> <p>As new case law is decided challenges to payments have arisen including:</p> <ul style="list-style-type: none"> • Holiday pay – there are some new claims • Sleeping in allowance - case law remains ambiguous so at this point all claims are on hold. • Travel time - currently a subject of internal challenge, but may become a matter for Employment Tribunal. 	<p>Target risk rating: Medium / Medium</p> <p>Anticipated date of attainment of the target risk rating: Attained.</p> <p>Source(s) of assurance regarding progress with mitigating the risk:</p> <p>Management assurance.</p> <p>All new claims for allowances are being assessed on their merits and defended wherever practical.</p> <p>Use of overtime is being monitored on a monthly basis, with Strategic Directors taking responsibility for addressing any areas of concern.</p> <p>There is a Governance Board monitoring any potential high risk claims.</p>	<p>O&S - None.</p> <p>IA Review – Reviewing allowances relating to Payment of Language Supplement, Temporary Night Allowance, Tool Allowance, Disturbance Allowance and Laundry Allowance.</p>

Service Delivery					
No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work
6	<p>Failure to meet the council's objectives going forward with the Highway Maintenance and Management PFI contract. these are to:</p> <ul style="list-style-type: none"> i. Obtain the investment for which we are paying; ii. Retain the capacity and financial support from government; iii. Ensure we manage the contract and only pay for what we receive; and iv. Develop a way forward that will 	High/Significant	<p>Lead Director comments:</p> <p>The council has made extensive effort to resolve issues with Amey informally and through various stages of the contractual Dispute Resolution procedure since April 2014. It has numerous disputes relating to non-delivery of investment, non-performance and delivery of previous settlement requirements.</p> <p>To fully resolve this matter requires a number of complex issues to be resolved, including payments, programming of work and assurance of delivery to the appropriate standards.</p> <p>We are considering the appropriate way forward that meets the council's objectives and are discussing this with the project lenders and SPV Board. At the same time, we are taking steps to recover money payable to the council, establish the condition of the network, continue to manage the contract and defend our position in disputes.</p> <p>A briefing for Audit Committee took place in November 2018.</p>	<p>Target risk rating: Low / Significant</p> <p>Anticipated date of attainment of the target risk rating:</p> <p>At this stage it is not possible to confirm this. It is proposed to bring a further decision on the way forward to Cabinet in late 2018 / early 2019</p> <p>Source(s) of assurance regarding progress with mitigating the risk:</p> <p>External legal advice and representation has been engaged.</p> <p>Department for Transport (as the sponsoring government department) is also fully engaged.</p>	<p>O&S - Economy, Skills and Transport OSC discussed with Cabinet Member at Committee on 22nd September 2016. Private briefing sessions have been held for members, most recently in March 2018</p> <p>O&S – The Sustainability & Transport Committee received a briefing on the current position in line with the cabinet report agreed in July 2018 at their meeting on 13th September 2018.</p> <p>IA Review 2016/17: Highways PFI.</p>

Service Delivery					
No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S) Review / Work & Internal Audit (IA) Work
	<p>enable us to have confidence in future delivery.</p> <p>Lead: Director, Inclusive Growth</p> <p>Owner: Director, Inclusive Growth</p>				
39	<p>HS2</p> <p>Delivery of HS2 following Royal Assent of HS2 Act. BCC role to help facilitate delivery of new railway (including Curzon Station and depot). Maximise benefits for City and minimise / mitigate impact during construction.</p> <p>Lead: Director, Inclusive Growth</p>	Significant / Significant	<p>Lead Director comments:</p> <p>HS2 Ltd is the government's delivery body for the new high speed railway.</p> <p>HS2 governance established including regular meetings on individual projects (station, depot etc.)</p> <p>Regular meetings with HS2 Ltd including HS2's planning team regarding programme for Schedule 17 applications and other consents. Schedule 17 application for the HS2 Curzon Station is programmed for submission in March this year.</p> <p>New burdens on local authority recognised by HS2. Service Level Agreement (SLA) has been completed</p>	<p>Target risk rating: Medium/Medium</p> <p>Anticipated date of attainment of the target risk rating: Ongoing</p> <p>Source(s) of assurance regarding progress with mitigating the risk:</p> <p>On-going meetings and joint working with HS2.</p> <p>Internal meeting established at Directorate level to co-ordinate and support work and address any issues.</p>	None.

Service Delivery					
No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S) Review / Work & Internal Audit (IA) Work
	Owner: Director, Inclusive Growth		<p>and signed.</p> <p>On-going meetings and joint working with HS2.</p> <p>Internal meeting established at Directorate level to co-ordinate and support work and address any issues.</p> <p>Joint working with HS2 is ongoing to develop the design of the station, including the public realm, which will create a world class arrival to the city, whilst also improving connectivity to the wider area that will maximise the economic impact of HS2.</p> <p>Consultation has taken place with Planning Committee and senior BCC officers regarding the design of the Curzon Station.</p> <p>Additional funding has been provided to HS2 to improve the design over and above the base scheme developed through the HS2 Act.</p> <p>The SLA is now signed to provide the appropriate resources needed to meet the requirements for Schedule 17 etc. Curzon Station design has now been launched publicly and HS2 are holding a series of consultation events on the design.</p>		

Service Delivery					
No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S) Review / Work & Internal Audit (IA) Work
			<p>Pre applications on-going regarding the number of schedule 17 planning applications.</p> <p>Time sheets for actions covered by SLA to be submitted to HS2 covering the period from April 2017.</p>		
40	<p>Commonwealth Games – Athletes’ Village</p> <p>Delivery of the Athletes’ Village dependant on funding & acquisition of land in addition to potential changes to sporting schedules affecting village’s capacity to accommodate athletes.</p> <p>Lead: Director, Inclusive Growth</p> <p>Owner: Director, Inclusive Growth</p>	Medium/ Medium	<p>Lead Director comments:</p> <p><u>Funding</u> First phase approval for the HIF Bid has now been given, BCC officers now need to contribute to the development of the WMCA business case (the umbrella bid under which the BCC HIF bid falls). Decision on funding from Government required in September.</p> <p><u>Land</u> Compulsory Purchase Orders will be used to support the delivery of the Village.</p> <p>Changes to Sporting Schedule Identify potential options for suitable additional accommodation.</p> <p>Flag the risks and consequences of adding additional</p>	<p>Target risk rating: Medium/Medium</p> <p>Anticipated date of attainment of the target risk rating: Ongoing</p> <p>Source(s) of assurance regarding progress with mitigating the risk:</p> <p><u>Funding</u> BCC officers working with WMCA to develop the FBC. Engagement with Government through WMCA re: timescales.</p> <p><u>Land</u> Land required for residential element of the Village acquired. CPO progressing to agreed timeline.</p>	<p>O&S – The Economy & Skills Committee received a briefing on the economic impact of the CWG village at their meeting on 10th October 2018.</p> <p>IA: None.</p>

Service Delivery					
No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S) Review / Work & Internal Audit (IA) Work
			<p>events to Senior Officers/Members.</p> <p>Government funding for the regeneration proposals has now been confirmed, which ensures that the majority of necessary external funding is now confirmed.</p> <p>Activity to deliver early elements of the regeneration of the area (principally demolition and site acquisitions) continues to be delivered within approved budget levels.</p> <p>1. Funding - Government funding levels have been agreed in principle, with discussions under way to confirm drawdown profiles and administrative arrangements. Status remains M/M .</p> <p>2. Land Acquisition - Substantial acquisitions being undertaken voluntarily. CPO will be used to support acquisitions/delivery of village. CPO made and objection period concluded 18th Jan 2019. Activity to date remains within the approved cash envelope. Status remains M/M .</p> <p>3. Changes to sporting schedules resulting in increased accommodation requirements - The existing plan will allow for the accommodation of</p>	<p>HCA are keen to be involved and have been providing advice to the City Council in relation to planning and delivery.</p> <p>Changes to Sporting Schedule A final date for adding events needs to be agreed and clearly communicated with politicians.</p> <p>The Village will be built to accommodate 6500, that number being inclusive of Games Officials, so if additional athletes are scheduled, Officials could be relocated. Student accommodation has been retained to account for additional influx.</p>	

Service Delivery					
No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S) Review / Work & Internal Audit (IA) Work
			6,500 athletes and officials, and is in accordance with the Host City contract. The sports review is scheduled to take place in March 2019 and the project is awaiting an update. The addition of any additional supports will need to take into account both affordability and the availability of accommodation to house any additional athletes. Status remains M/M .		

Removed Risks:

Ref No.	Risk description	Reason for removal	Date removed
53	Inadequate or ineffective corporate control of non-core IT spend.	Merged with risk 52 to become: Insufficient in-house IT expertise within Directorates & Inadequate or ineffective corporate control of non-core IT spend.	July 2013
5	Safer recruitment.	Had been at target level of risk for over 12 months, will be managed locally in future.	July 2013
36	Council Tax Rebate scheme.	The Council Tax Rebate scheme has been adopted by Full Council and was implemented with effect from 1/4/2013.	July 2013
49	Delivery of Business Charter for Social Responsibilities.	Cabinet reports and policies for Social Value: The Charter and Living Wage were approved by Cabinet in April 2013.	July 2013
43	Implications to BCC regarding decision making due to the provisions within the Localism Act and need to respond to community approaches under the Act.	This issue has been assessed as having met the target level of risk (Low likelihood and Medium impact) since May 2013. Corporate Resources and Development & Culture Directorates to continue to monitor locally.	November 2013
4	Need to achieve the full benefits from the whole business transformation programme - including financial and non-financial benefits.	The risk has been fully mitigated and is assessed as being a low likelihood and low impact. The financial challenge going forward is covered within Risk 28 "On-going reduction in government grants resulting in a shortfall in resources compared to projections from 2013/14".	March 2014
1d	Failure to successfully settle pay & grading and allowances equal pay claims.	The issues will be addressed within risks 1a - 1c & 44.	July 2014
26	Failure to utilise resources well in jointly working with the NHS to reduce delayed discharges as measured by National Performance Indicator ASCOF2C.	No Birmingham hospitals are now fining the Council for delayed transfers of care activity, and Members are supportive of the progress made and sustained.	July 2014

Appendix A

Ref No.	Risk description	Reason for removal	Date removed
48	Delivery of new Public Health responsibilities.	All of the actions relating to the transition of Public Health have been actioned.	July 2014
20	Demonstration of benefits arising from Customer First.	All of the actions for 2014/15 are being put in place, ie: Launch of the new Housing Repairs functionality which was delayed from last year, re-design of the website, promotion of self service, improvements to online forms, etc.	November 2014
25	Production of timely & accurate IFRS Final Accounts.	The accounts were submitted on 30 th June 2014.	November 2014
51	Service Birmingham support provided to the SAP HR and payroll system.	There has been significant progress against an agreed improvement plan and the service is now significantly more stable.	November 2014
2015/16.08	Insufficient resources (finance & people) to agree / deliver the change programme.	Cabinet approved a report on 20 th April 2015 that set out the Children's Social Care and Early Help Improvement Plan for 2016-2018, including the appropriate financial envelope for the plan.	July 2015
2015/16.25	Supply chain failure by reason of supplier withdrawal, liquidation or contract non-compliance.	Following identification of this risk, processes and procedures were developed and rolled out to key contract managers across the organisation with supply chain risk assessments being completed by suppliers. The supply chain risk assessment process is now captured as an annual activity within the supplier annual reviews and the Council's contract management toolkit.	July 2015
2015/16.26	PSN resubmission.	The Council has successfully retained PSN submission till April 2016.	July 2015
2015/16.27	Financial implications of failing to meet obligations regarding climate change and sustainability - carbon tax cost.	We have made four submissions out of four without issue (and passed an Environment Agency Audit in 2011), giving a 100% success record. The 2014/15 return is progressing normally.	July 2015
2015/16.28	Potential for disruption to council services due to the need to transition to a new Banking Services provider with effect from 1/4/2015.	The banking transfer has been successfully concluded.	July 2015

Appendix A

Ref No.	Risk description	Reason for removal	Date removed
2015/16.10 a	Resolution of contractual issues in the Highway Maintenance & Management PFI contract.	A commercial settlement signed on 18th December 2015, resolved a number of contractual issues.	March 2016
2015/16.29	Risk of Court deciding against the Council regarding the Homeless Service.	The High Court dismissed the four applications for Judicial Review.	March 2016
21 (old 35)	IT refresh / update.	The desktop refresh is progressing as business as usual, and PSN compliance means that we cannot have unsupported applications running on our network.	July 2016
23 (old 59)	Risk of enforcement action and fines of up to £500,000 by the Information Commissioners Office (ICO) for failure to comply with the 40 day timescale for responding to Subject Access Requests (SARs).	There has been considerable improvement in responding to Subject Access Requests. The Information Commissioner's Office is happy with the progress being made and are no longer monitoring the Council.	November 2016
8 (old N/A)	Risk of challenge regarding implementation of the Younger Peoples Re-Provision Programme.	The work stream is now closed, and efficiency and savings targets have been transferred to the Maximising Independence of Adults (MIA) Board.	March 2017
9 (old 57)	Failure to respond fully and effectively to the issues from recent reviews concerning school governance and related matters.	A much improved performance culture and set of arrangements are now in place for the Council's education services.	March 2017
13 (old 28)	Not planning appropriately for the on-going reduction in government grants.	This is an annual risk, but there are processes in place to manage it.	March 2017
24 (old N/A)	That the need to address the updated Pensions Deficit will result in an increase in employer contributions.	This risk crystallised in the setting of the 2017/18+ budget. The information received has been fully taken into account in the update of the Council's medium term financial plan, and in the development of savings proposals.	March 2017
28	Risk that in its early stages of delivery the Sustainability Transformation Plan (STP) will not alleviate the financial position of social care.	The Council budget from April 2017 does not make assumptions regarding this proposal contained in the previous year's budget; and is no longer a major financial risk to the organisation.	July 2017

Appendix A

Ref No.	Risk description	Reason for removal	Date removed
22	Risk of fines from HMRC for Directorates employing long term consultants.	There are now processes in place for the engagement of off payroll individuals.	November 2017
27	Risk of claims for payback of search fees charged by the Council.	The potential liability is less than £160k, and this risk will be monitored via the directorate risk register.	November 2017
4	Defend and or settle pre 2008 equal pay claims	Equal pay risks have been reworded and updated and included on one risk No1.	March 2018
5	Further equal pay claims	Equal pay risks have been reworded and updated and included on one risk No1.	March 2018
14	Insufficient in-house IT expertise within Directorates	Transition of Service Birmingham	March 2018
19	Delivery of Localisation Agenda	Majority of work has now progressed	March 2018
20	Allowance Payments	The bulk of unpaid allowance claims have been successfully managed by Legal Services. All other new claims are being assessed on their merits and defended wherever practical.	March 2018
3	Failure to identify alternative funding stream for school PFI contracts revenue pressures.	Immediate concern over PFI gap has been met. Longer term concerns are being evaluated.	July 2018
11	GDPR	Incorporated into one single risk on information assurance – Risk No.11	November 2018

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	AUDIT COMMITTEE
Report of:	Chief Finance Officer
Date of Decision:	26 March 2019
Subject:	AUDIT FINDINGS REPORT RECOMMENDATIONS – PROGRESS REPORT
Wards affected: All	
1	Purpose
1.1	At its meeting on 30 July 2018, Members considered the External Auditor's Audit Findings Report and the draft Annual Audit Letter following the audit of the Council's financial statements for 2017/18.
1.2	The External Auditor made a number of recommendations within the Audit Findings Report for management to consider. These recommendations were in addition to the recommendations made under Section 24 of The Local Audit and Accountability Act 2014 that were considered by Council at its meeting on 11 September 2018.
1.3	The management responses to the External Auditor's recommendations have been presented to previous meetings of this committee. This report provides a progress update on the implementation of the management actions proposed.
2	Decisions recommended:
	Members are recommended to:
2.1	Note the progress in implementing management actions, attached as Appendix 1, to address the recommendations set out by the External Auditor in his Audit Findings Report issued in July 2018
2.2	Seek updated reports to future meetings of this committee on the continued progress in implementing the management actions proposed.

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3 Compliance Issues:

- 3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?:
The coverage of the management actions in response to the Audit Findings Report recommendations are consistent with the policy framework and budget.
- 3.2 Relevant Ward and other Members/Officers etc. consulted on this matter:
The Chair of the Committee has been consulted.
- 3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):
The work of the external auditors is governed by the Code of Practice issued by the National Audit Office in accordance with the Local Audit and Accountability Act 2014.
- 3.4 Will decisions be carried out within existing finances and resources?
Yes
- 3.5 Main Risk Management and Equality Impact Assessment Issues (if any):
The Audit Findings Report includes details on activities where the External Auditor has identified that the Council can make improvements or reduce risks in its operations. This report provides a response on the progress in addressing the recommendations made.

4 Relevant background/chronology of key events:

- 4.1 The Audit Findings Report was considered by this committee on 30 July 2018. At the time of reporting to this committee, there had been no time to consider the management responses to the recommendations set out in the Audit Findings Report.
- 4.2 Management responses to the recommendations set out in the Audit Findings Report have been considered by this committee at previous meetings. This report sets out the current progress in addressing the issues raised in the recommendations.
- 4.3 Further reports will be provided to this committee setting out the additional progress in implementing the proposed activity in response to the recommendations set out in the Audit Findings Report.

Signature:

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Clive Heaphy, Chief Finance Officer

Appendices

Appendix 1 – Progress update on Response to Audit Findings Report Recommendations

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
	Accounts				
1	Control Weakness - Payroll Leavers We recommend that management consider the adequacy of controls in place to ensure authorisation of leaver documents does not lead to payments being made to individuals once they have ceased employment.	<p>To improve managerial compliance HR services will undertake the following:</p> <p>a) half yearly communication reminders to managers to remind them of their obligations where there are pay related requirements</p> <p>b) Monthly audit check of 'non-completed' actions which are items awaiting approval in a manager's worklist.</p> <p>c) Where there are repeat offenders the relevant Director will be notified and formal disciplinary action may be taken. Targeted training to be offered to those repeat offenders.</p> <p>d) Ensure People Solutions training in respect of 'Self-service' is completed as part of the induction.</p>	<p>Complete</p> <p>Complete</p>	Dawn Hewins	<p>November 2018: The first communication has been prepared and will be sent out shortly.</p> <p>March 2019: The communication was issued 6th December 2018. A further communication is scheduled for June 2019.</p> <p>November 2018: The check has been embedded into processes and is being completed on a monthly basis.</p> <p>March 2019: Completed monthly.</p> <p>November 2018: A monitoring system has been established and implemented.</p> <p>March 2019: No repeat offenders identified thus far.</p> <p>November 2018: Preparations are underway for a revised induction programme to be delivered.</p>

Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		e) HR Services proactively chase managers where we have cause to believe an overpayment may arise.	Complete		<p>March 2019: Revised induction programme is being piloted.</p> <p>November 2018: This is included as part of the monthly checking and validation process.</p> <p>March 2019: This is included as part of the monthly checking and validation process.</p>
2	<p>Control Issue - Heritage Asset Valuations</p> <p>We recommend that management consider the appropriateness of these insurance valuations.</p>	The appropriateness of the current approach to Heritage Asset valuations will be kept under review.	<p>March 2019</p> <p>Complete</p>	Martin Stevens	<p>November 2018:</p> <p>The current method of accounting for heritage assets is compliant with the CIPFA Code of Practice.</p> <p>Alternative accounting methodologies have been considered. However, placing a 'market' valuation on heritage assets would give a significant range in value for the assets which would make it difficult to identify a figure that would be materially correct. The cost of undertaking such a valuation would not be economically viable.</p> <p>The insurance team meet with the Museums Trust on a regular basis to assess insurance valuations for the collections to determine a suitable level of cover.</p> <p>The consideration of valuations has been discussed with external auditors.</p>

Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
3	SAP-User Access We recommend that management considers which users need SAP_ALL access and removes access to this function where it is not required.	SAP BSC will carry out daily checks to monitor individuals who have access to SAP_ALL and any errant users will have their access revoked immediately. Capita ICTD will review all SAP_ALL access IDs and any that are out of use are removed.	Complete Complete	Jan Perks Capita ICTDS	November 2018: SAP BSC continue to carry out daily checks to ensure that SAP_ALL has only been granted where formally requested and that the access is revoked at the earliest opportunity. November 2018: This has been completed.
4	Multiple Accounts Assigned to a single user We recommend that management considers which users need multiple accounts within SAP and removes access to those where this function where it is not required.	SAP BSC will carry out a monthly check to ensure that all Firefighters are valid. Access for Firefighters will be revoked where they are no longer required	Complete Complete	Jan Perks	November 2018: A regular monthly check has been undertaken to ensure that all Firefighter IDs remain valid. November 2018: Firefighter IDs are removed at the earliest opportunity.
5	Under Accrual of waste invoices We recommend that the Council considers its controls in place to ensure other invoices are not paid before they are recognised within the ledger system.	The requirement to comply with the policies and procedures in respect of accounts payable will be reinforced through management team meetings.	Complete	Guy Olivant/Fazal Khan	November 2018: The Place Directorate Management, and Waste Management Teams have been reminded of the appropriate Policy and Procedures that need to be adhered to January 2019: A reminder of the requirement to use Purchase Orders as set out in the Council's Financial Regulations was included in the November 2018 Voyager Newsletter that is emailed to staff and on the Voyager portal.

Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		At year-end any significant unmatched purchase orders will be reviewed to determine the appropriateness of any accruals			<p>March 2019: Directorate staff have been reminded of the requirement for the use of Purchase Orders as per Council Financial Regulations through team meetings and through inclusion in the Neighbourhood Directorate closedown guidance.</p> <p>November 2018: As part of the preparations for the year end this issue recommendation will be implemented</p> <p>January 2019: An exercise has been undertaken in December to strip out old unmatched or mismatched purchase orders.</p> <p>March 2019: The Financial Transactions Team have liaised with colleagues from Corporate Procurement Services to identify purchase orders raised retrospectively and to take the appropriate remedial action to curtail the practice. It is planned to publish this data on a regular basis on the Corporate Procurement Compliance Dashboard.</p> <p>After the year end, an extract of the data for the final quarter 18/19 will be provided with an analysis for each of the directorates. This will provide dashboard highlights plus details of all orders raised retrospectively for each directorate. By circulating this to relevant senior officers in each directorate, this will enable them</p>

Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
					<p>to tackle any non-compliance in their own service area.</p> <p>The exercise will be repeated quarterly, to monitor compliance and provide directorates with an ongoing tool to manage retrospective ordering</p>
6	<p>Control weakness - HRA revaluation</p> <p>We recommend that a reconciliation control is put in place to ensure the prevention of similar errors in the future.</p>	<p>The timeline for the provision of HRA asset valuations will be reviewed with a view to allowing more time for effective reconciliation and consistency checks to be applied to the calculation of revaluation adjustments, whilst still ensuring that the valuations are materially correct as at the year-end date.</p>	Complete	Guy Olivant	<p>November 2018: Discussions have commenced with valuers to accelerate the timescales for provision of valuations, whilst ensuring that the accuracy of valuations is not compromised.</p> <p>January 2019: The recommended reconciliation is now in place and the issues identified in the Audit Findings Report have been resolved. Discussions are ongoing with valuers to accelerate the timescales for provision of valuations, whilst ensuring that accuracy is not compromised. The next update meeting with valuers is due by the end of January 2019.</p> <p>March 2019: Meetings with valuers have continued and provisional valuations have been provided.</p>

Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
7	Control weakness – Business Rates Appeals We recommended that the Council accurately calculate out the amount of business rate appeals used in year which will result in an accurate figure for additional provisions to be made in year.	The figures will be analysed at the year end to determine whether there are any significant movements to the provision, either additional amounts required or provision withdrawn.	March 2019	Ian Harris	<p>November 2018: The transactions relating to the appeals provision are monitored quarterly at a high summarised level to determine the amount of provision used in year. The figures will be analysed further at the year end to determine if the provision brought forward should be reduced or if additional provision is required.</p> <p>January 2019: Transactions will continue to be monitored.</p> <p>March 2019: The calculation of the Appeals provision for outturn 2018/19 will be carried out during the next couple of weeks including a final analysis of provisions required and used in year. The anticipated completion date is 26th March as per the closedown timetable.</p>
	Value for Money				
1	Budget Delivery and Reserves Management, as well as savings proposals We recommend that the Council deliver the elements of the statutory recommendation that relate to finance and transparency and governance (see page 5).	The Council will take the following steps to ensure that financial and performance monitoring is provided on a timely basis. This will be effected through: <ul style="list-style-type: none"> Improving the quality and timeliness of monthly budget monitoring 	Complete & ongoing	Clive Heapthy	<p>November 2018: The budget monitoring process has been reviewed in order to provide more timely reporting to CMT</p>

Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		reports, which will allow for budget holders to take corrective action more appropriately.			<p>and EMT. CMT receives monthly reports within around 2 weeks of the month end. EMT receives monthly reports within a month of the previous month end. Reports are taken to Cabinet quarterly, generally within 6 weeks of the relevant month end.</p> <p>In addition, Resources Scrutiny Committee considers the quarterly Cabinet reports and the monthly EMT reports.</p> <p>CMT receives the monitoring report far earlier than previously, thus maximising the opportunity to understand the scale of any challenge and the time available to develop plans to address this.</p> <p>January 2019: Monthly monitoring reports have continued to be delivered to CMT, EMT and Resources Scrutiny Committee.</p> <p>Cabinet was due to consider the Month 9 monitoring report at its meeting on 22 January 2019.</p> <p>The format of reports will be further reviewed for the new financial year.</p> <p>March 2019: The monthly monitoring approach has continued for Month 10 and will be considered by Resources O&S Committee on 21 March 2019.</p>

Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		<ul style="list-style-type: none"> Introducing a star chamber for relevant Service Directors and Cabinet Members to meet the Cabinet Member for Finance and Resources and the Chief Finance Officer. 	Complete & ongoing		<p>November 2018: Star Chamber meetings take place monthly between the Cabinet Member for Finance and Resources, the Corporate Director of Finance and Governance and each Corporate Director to discuss the revenue forecast for each Directorate and any mitigations that could be introduced in order to improve the Council's forecast outturn.</p> <p>January 2019: Star Chamber meetings have continued to meet on a monthly basis with the focus on finding mitigating actions to offset any budget pressures.</p> <p>March 2019: Star Chambers have continued to take place and it is planned to continue them into the new year.</p>
		<ul style="list-style-type: none"> Tightening the use of reserves through Cabinet approval to ensure that recovery plans are considered before the use of reserves. 	Complete		<p>November 2018: In order to provide transparency on use of reserves, a position statement is provided in each monthly monitoring report, including a comparison of current forecast use of reserves with the original budget.</p> <p>Any revised use of reserves has to be approved by Cabinet before it can be implemented. Use of reserves to mitigate overspends are not allowed and so the forecast variance provides an estimate without any mitigation from reserves.</p>

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Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		<ul style="list-style-type: none"> The introduction of more formal scrutiny arrangements for the Council's finances in addition to the creation of a Capital Board chaired by the Leader. 			<p>Some reserves which have been set aside for specific purposes are allowed to be used e.g. grants reserves.</p> <p>January 2019: The tightened use of reserves is continuing.</p> <p>March 2019: A reserve policy has been developed and was approved by Cabinet at its meeting on 21 January.</p> <p>The Financial Plan 2019/20 – 2022/23 has been set in line with the reserves policy.</p> <p>November 2018: Resources Scrutiny Committee considers the joint revenue and capital monitoring report on a monthly basis. The Capital Board has been meeting monthly since June, reviewing proposed business cases and monitoring information and to advise EMT on resource allocation and other capital policies.</p> <p>January 2019: Capital Board and Resources Scrutiny Committee have continued to meet on a monthly basis.</p> <p>March 2019: Capital Board and Resources Scrutiny Committee are continuing to meet on a regular basis.</p>

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Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		<ul style="list-style-type: none"> The introduction of more robust arrangements for the programme and project management of the delivery of savings initiatives. 			<p>November 2018: The budget planning and monitoring processes require each savings proposal to provide an implementation plan and provide progress updates on both the financial forecast and the forecast of when key milestones in the delivery of the saving will be achieved.</p> <p>Furthermore, the Council has reinvigorated its Corporate PMO function which is beginning to meet with Directorates in conjunction with Finance Business Partners to consider the delivery of the current savings programme.</p> <p>Furthermore, the PMO has been involved in the scrutiny of the implementation plans for the new savings programme which will be consulted on shortly.</p> <p>January 2019: PMO is currently reviewing and monitoring savings implementation plans and, where appropriate, is seeking clarification and/or further information on proposals.</p> <p>March 2019: The budget has been set and the PMO has been involved in reviewing implementation plans for all savings. A Budget Programme Board of officers is being implemented (in addition to Star Chamber) to review savings delivery and agree actions to bring any issues back on track.</p>

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Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
2	<p>The Panel</p> <p>We recommend that the Council implement the actions identified in its Improvement Stocktake Report and demonstrate measurable outcomes to the Panel</p>	<p>The Council will provide regular reports on progress against its self-assessment and improvement plans through monthly meetings with MHCLG and the BIIP and through the sharing of monthly finance summaries, performance management and Corporate Governance Plan Jonathan Tew documents.</p>			<p>November 2018: The Committee engaged directly with the BIIP at their 25th September meeting to reflect on the contents of the Stocktake Report and actions undertaken by the Council since. Subsequently, meetings have taken place between the BIIP, MHCLG and the Council on a monthly basis, with minutes and updates to the Corporate Governance Plan subsequently circulated to all elected members such that, if they choose to do so, the Audit Committee can re-examine actions against the agreed plan. Performance and finance updates to Cabinet are similarly published on a monthly basis, and are available for Committee review.</p> <p>January 2019: Monthly meeting cycle has continued as indicated above. Evidence compilation is underway prior to a proposed year-end report in March 2019.</p> <p>March 2019: Monthly meeting cycle has continued as indicated above and 'stock-take' documents have been drafted by the Council to outline the position as at end of March 2019. These documents will provide an update on the June 2018 stock-take report, outline the priorities for improvement in 2019-20 and also describe the 'quality assurance' model post-BIIP of which audit committee and internal audit practice is a key factor.</p>

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Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		Collaboration workshops have been put in place between the Council and the BIIP that will cover development issues such as performance management, homelessness and skills.			<p>These documents will be publicly noted by Cabinet in March or April (pending BIIP feedback and agreement) and published alongside submission to the Secretary of State.</p> <p>November 2018: Workshops have taken place against the three themes of skills, homelessness and performance management with notes circulated to all group leaders and outputs reported via the monthly cycle indicated above. Subsequent sessions are planned for January 2019.</p> <p>January 2019: Subsequent officer workshops relating to skills, homelessness and performance management with the BIIP are scheduled for January and early February such that they can inform the evidence compilation cited above.</p> <p>March 2019:</p> <p>Outputs from workshops will feature in the final stock-take documentation referenced above.</p>
3	Services for Vulnerable Children We recommend that the Council continue to demonstrate measurable improvements in services for vulnerable children through the Children's Trust	The Council manages its contract with Birmingham Children's Trust through an agreed set of performance measures. Monthly reports are provided through to		Tim O'Neill	November 2018: Performance reported at the October meeting (month 6) shows that 14 out of the 15 agreed performance indicators were meeting their target (either above the target or within the

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Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		ensure that the Trust remains on track, within agreed level of tolerances.			<p>accepted threshold for tolerance). In addition a strong focus is being placed on individual case audits and quality reviews with dedicated resource set aside to do this. Plans are underway for an expected Ofsted inspection.</p> <p>January 2019: An Ofsted Inspection took place in December. For the first time in over ten years children's social care services in Birmingham have been judged as 'requires improvement to be good' having previously been rated inadequate. Whilst many areas flagged for improvement positive recognition of the work that the Children's Trust have started.</p> <p>Performance reported for end of November (latest available shows 14 out of 15 indicators being within their agreed tolerance (or positively exceeding)</p>
4	<p>Management of Schools</p> <p>We recommend that the Council increase the pace of improvement in schools governance arrangements to ensure that it can demonstrate to Ofsted that it has addressed the issues that it raised.</p>	<p>1. A new school improvement contract has been agreed with Birmingham Education Partnership to run from 1 Sept 2018 for two years and a set of priorities and performance framework is being agreed.</p>		Tim O'Neill	<p>November 2018: A contract for 2 years is in place with the Birmingham Education Partnership.</p> <p>January 2019: In place and work ongoing. Presentation to Learning and Culture Overview and Scrutiny on academic performance given December</p> <p>March 2019: 6th March O&S presentation on school attainment outcomes 2018, which</p>

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		<p>2. Stronger guidance has been provided to schools to ensure appropriate governance around finance to avoid the risks of schools moving into deficit. Where schools are demonstrating financial concerns a cross directorate group made up of School Financial Services, HR, Audit, Governor Support and Infrastructure works together to address wider concerns and co-ordinate support.</p> <p>3. A more focused programme of work has been agreed with Internal Audit to consider financial risks within schools. The Directorate Management team will review on a termly basis the work of</p>			<p>includes, for the first time, a performance target for the next 3 years. Recruitment underway for the permanent AD, with responsibility for Education and Early Years. Focus on 'system leadership' in leading and managing aspects of school improvement.</p> <p>November 2018: Monthly meeting of the schools financial governance group to co-ordinate action and identify early concerns. This group is also being used to focus audit activity on schools causing concern.</p> <p>January 2019: Report on current position to CMT and progress being made with schools</p> <p>March 2019: The Corporate Director for Education and Skills will take over the chair of the Schools Financial Governance Group from March 2019. A detailed action plan is being finalised and will be reported back to CMt late March.</p> <p>November 2018: First audit report on schools financial management published and further work underway. Revision of the audit inspection framework for schools to be used from the beginning of</p>

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Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		<p>Internal Audit with high risk reports acted upon.</p> <p>4. A Schools Causing Concern meeting takes place each month and there are regular conversations with Ofsted and the Regional Schools Commissioner.</p> <p>5. A focus of the Education Safeguarding Board on addressing resilience in schools through providing</p>			<p>November with a stronger focus on financial processes and strategic financial planning.</p> <p><u>January 2019:</u> On going</p> <p><u>March 2019:</u> Internal audit will return within 12 months, to those schools with a significant number of recommendations, to ensure the actions have been completed. The summer term audit programme has been finalised.</p> <p><u>November 2018:</u> Ongoing schools causing concern meetings taking place and financial concerns are being fed into this work.</p> <p><u>January 2019:</u> Ongoing – meetings being held</p> <p><u>March 2019:</u> In February the terms of reference have been amended to reflect the requirements of the new Corporate Director Education and Skills and the Regional Schools Commissioner. The new format is scheduled for the 19th March 2019.</p> <p><u>November 2018:</u> Latest meeting took place 23 October</p>

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		support, advice and training on safeguarding and extremism.			<p>January 2019: Latest meeting took place 15 January 2019</p> <p>March 2019: The Chair of the Executive Safeguarding Board is scheduled to attend the next meeting scheduled for the 19th March. The Section 175 and early help assessments returns will be a focus of this meeting.</p>
	Sec 24 Recommendations				
1	The Council needs to deliver its savings plans in 2018/19, in particular by identifying alternatives where existing plans are not deliverable, to mitigate the impact of the combined savings and budget pressure risks.	<p>A monthly star chamber process has been instigated whereby the Chief Finance Officer and the Cabinet Member for Finance and Resources meet with relevant Services Directors and their Cabinet Member to understand the reasons for the continuing forecasting overspend and to agree the mitigations which will lead to bringing forecast back within budget.</p> <p>Access to reserves as mitigation for base budget pressures and savings</p>		Clive Heaphy	<p>November 2018: Star Chamber meetings take place monthly between the Cabinet Member for Finance and Resources, the Corporate Director of Finance and Governance and each Corporate Director to discuss the revenue forecast for each Directorate and any mitigations that could be introduced in order to improve the Council's forecast outturn.</p> <p>January 2019: Star Chamber meetings have continued to meet on a monthly basis with the focus on finding mitigating actions to offset any budget pressures.</p> <p>March 2019: Star Chamber meetings have continued to meet.</p> <p>November 2018: In order to provide transparency on use of reserves, a position statement is provided in each</p>

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Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		<p>non-delivery has been severely restricted.</p> <p>The updated revenue (and capital) monitoring process is far more risk-focussed and concentrates on identifying solutions to issues and delivering these solutions.</p>			<p>monthly report, including a comparison of current forecast use of reserves with the original budget.</p> <p>Any revised use of reserves has to be approved by Cabinet before it can be implemented. Use of reserves to mitigate overspends are not allowed and so the forecast variance provides an estimate without any mitigation from reserves.</p> <p>Some reserves which have been set aside for specific purposes are allowed to be used e.g. grants reserves.</p> <p>January 2019: The tightened use of reserves is continuing. The Medium Term Financial Strategy is based on the specifically approved use of earmarked reserves only with no reliance on a general use of reserves to support the budget.</p> <p>March 2019: The tightened use of reserves has continued. Cabinet has agreed a reserves policy at its meeting on 21 January 2019 to reinforce this approach.</p> <p>November 2018: The focus of the monthly Star Chamber sessions is to identify solutions that can be implemented to address any budget challenges.</p>

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Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		<p>More formal Scrutiny arrangements have been introduced for the Council's Finances and there is an expectation that areas of financial concern will be examined in detail.</p>			<p>The Capital monitoring process also focuses on the material variances which have the highest levels of inherent risk.</p> <p><u>January 2019:</u> The monthly Star Chamber meetings and monitoring reports are continuing to focus on seeking solutions to any issues raised in budget forecasts.</p> <p><u>March 2019:</u> The monthly Star Chamber meetings and monitoring reports are continuing to focus on seeking solutions to any issues identified in budget forecasts.</p> <p><u>November 2018:</u> Resources Scrutiny Committee considers the quarterly Cabinet reports and the monthly EMT reports.</p> <p>Furthermore, the star chamber discussions examine the reasons behind budgetary issues in services.</p> <p><u>January 2019:</u> Resources Scrutiny Committee continues to consider the monthly EMT and quarterly Cabinet monitoring reports together with specific financial issues arising from them.</p> <p><u>March 2019:</u> Resources Overview and Scrutiny Committee has continued to consider the monthly EMT and quarterly Cabinet monitoring reports together with</p>

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Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		<p>A Capital Board, chaired by the Leader, has been established to ensure that capital controls and monitoring are in place and that capital spend proposals are in line with the Council's objectives.</p> <p>The appointment of dedicated Business Partners will enable more collaborative working to be undertaken with budget holders to assess the financial implications of policy proposals along with robust implementation plans to reduce the likelihood of overspends.</p>			<p>specific financial issues arising from them.</p> <p>November 2018: The Capital Board has been meeting monthly since June to improve capital programme management prior to executive decisions</p> <p>January 2019: Capital Board has continued to meet on a monthly basis.</p> <p>March 2019: Capital Board has continued to meet on a monthly basis.</p> <p>November 2018: Finance Business Partners are now in post (with one remaining vacancy)</p> <p>January 2019: All Finance Business Partner posts are now filled.</p> <p>March 2019: All Finance Business Partner posts are now filled. Permanent recruitment will be considered for those posts that have been filled on an interim basis.</p>
2	The Council needs to develop a realistic medium term financial plan for 2019/20 to 2021/22 which incorporates realistic and detailed savings plans and takes account of key budget and service risks.	The Council is adopting a priority-based budgeting approach for future years that will align the use of financial resources with its policy priorities, and involve considerable use of performance, unit cost and trend information.		Clive Heaphy	November 2018: The Council's Budget Process required each Directorate to consider proposals in the context of the Council Plan and also its performance and unit costs relative to relevant authorities.

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		<p>The budget setting process will also focus on exploring opportunities for service re-design and partnership working and promote links to the development of capital and asset strategies.</p> <p>The process for the 2019/20 – 2022/23 four-year cycle commenced in May 2018 – considerably earlier than in previous years. A workshop took place in June and further workshops are planned in September and October 2018 prior to the draft budget being issued for consultation.</p>	Complete		<p>January 2019: Consultation on the new budget savings proposals began on 13 November and closed on 31 December. The results of the consultation, including the medium term implications, were presented to EMT for review on 17 January.</p> <p>March 2019: Council approved the Financial Plan 2019/20 -2022/23 at its meeting on 26 February.</p> <p>November 2018: The revenue budget process has been more closely aligned to the capital process. Both capital and revenue implications of proposals have been considered.</p> <p>January 2019: The budget proposals have been subject to consultation and will be considered by CMT in due course.</p> <p>March 2019: Council approved the Financial Plan 2019 – 2023 at its meeting on 26 February 2019. The Plan included changes to savings proposals following feedback from consultation.</p> <p>November 2018 The consultation on new savings proposals has been issued a month earlier than in recent years (became public 6 November and consultation begins on 13 November)</p> <p>January 2019: Consultation closed on 31 December and Members are</p>

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Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		The creation of a central Project Management Office (PMO) and robust business cases/implementation plans will enable delivery to be tracked and monitored with rigour.			<p>considering their response. The consultation period was 7 weeks, which is longer than in previous years.</p> <p>March 2019: Council approved the Financial Plan 2019 – 2023 at its meeting on 26 February 2019.</p> <p>November 2018: PMO created and involved in consideration of the new savings proposals and their implementation plans.</p> <p>January 2019: PMO is providing a challenge to implementation plans and is Providing support to the development of implementation plans ensuring improvements are made where necessary. PMO is also in the process of setting the monitoring framework for 2019/20.</p> <p>March 2019: The budget has been set and the PMO has been involved in reviewing implementation plans for all savings. A Budget Programme Board of officers is being implemented (in addition to Star Chamber) to review savings delivery and agree actions to bring any issues back on track.</p>
3	The Council needs to ensure that it maintains an adequate level of reserves to mitigate the impact of budget risks, in particular one-off risks such as the Commonwealth Games and Equal Pay.	The Council is developing a risk-based approach to identify an appropriate minimum level of reserves which it needs to hold to mitigate its risk profile and plans to manage those risks.		Clive Heaphy	November 2018: The November Cabinet report on the Budget Consultation confirms that the assessed minimum balance of reserves will be

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		The Council will keep risks under regular review to ensure that adequate resources are set aside where necessary as its risk profile changes.			<p>reviewed for the MTFS update in February 2019.</p> <p>January 2019: Assessment of the prudent minimum value of reserves that the Council should hold is currently taking place.</p> <p>March 2019: A reserves policy has been developed and approved by Cabinet at its meeting on 21 January 2019. In addition the Financial Plan 2019 – 2023 includes an assessment of Budget Risks for which general reserves may need to be applied if they occur and mitigations are not able to be developed.</p> <p>November 2018: Risks are reviewed monthly by CMT and quarterly by Audit Committee, including the risk profile and planned mitigations.</p> <p>January 2019: CMT receives a monthly audit and risk update, whilst Audit Committee receives a quarterly update.</p> <p>March 2019: The Financial Plan 2019 – 2023 includes an assessment of Budget Risks for which general reserves may need to be applied if they occur and mitigations are not able to be developed.</p>
4	The Council needs to ensure that its financial monitoring and budget reports are clear, transparent, and timely	Improvements in reporting will continue to be developed and the Council remains committed to open and full		Clive Heaphy	November 2018: The budget monitoring process has been reviewed in order to provide more timely reporting to CMT

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	particularly in relation to the use of reserves, whether in-year or at year-end.	<p>reporting. This includes working with the Finance and Resources Scrutiny Committee to improve accountability.</p> <p>Financial reporting will continue to evolve to ensure that members, the public and stakeholders have a clear picture of the council's finances and the opportunity to challenge and shape spending as budgets continue to fall.</p>	Complete		<p>and EMT. CMT receives monthly reports within around 2 weeks of the month end. EMT receives monthly reports within a month of the previous month end. Reports are taken to Cabinet quarterly, generally within 6 weeks on the relevant month end.</p> <p>In addition, Resources Scrutiny Committee considers the quarterly Cabinet reports and the monthly EMT reports.</p> <p>January 2019: The revised monitoring arrangements have continued with earlier reporting on a monthly basis to CMT and quarterly to Cabinet.</p> <p>March 2019: The revised monitoring arrangements have continued with earlier reporting on a monthly basis to CMT and quarterly to Cabinet.</p> <p>November 2018: The consultation on new savings proposals has been issued a month earlier than in recent years (became public 6 November and consultation begins on 13 November)</p> <p>January 2019: Monitoring reports give a clear overview of base budget pressures or underspends and any savings delivery challenges that have arisen.</p>

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Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
					March 2019: Monitoring reports give a clear overview of base budget pressures or underspends and any savings delivery challenges that may have arisen. These were considered when Council agreed the Financial Plan 2019 – 2023 on 26 February.
5	The Council needs to report governance failures and emerging issues promptly and clearly to Members and local citizens.	A full review of governance, including the governance of associated bodies and companies, is taking place.		Clive Heaphy	<p>November 2018: A cycle of governance reviews for material subsidiary and associated companies is planned as part of the CC-GCG programme and independent professional training took place on the 29 October 2018 to assist committee members in their review process. Officers will facilitate this and action recommendations under shareholder directions.</p> <p>The GBSLEP annual governance review is reported through GBSLEP public meetings, any issues or failures arising as a result of this will be reported to council members in their capacity as accountable body.</p> <p>A review of major capital works being implemented under company structures, their governance, project management and reporting processes is in place, assisted by external advisors. The capital board will receive update and progress reports in the first instance prior to onward reporting as appropriate.</p>

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		<p>The Cabinet Committee - Group Company Governance (CC-GCG) Terms of Reference are being revised to ensure that it is able to provide effective oversight of the many stakeholder interests, including associated companies and bodies, where some of the greatest risks apply.</p>	Complete		<p>January 2019: CC-GCG is meeting on a monthly basis where it considers business plans, risk registers and other relevant information to enable effective governance over its company arrangements to be exercised.</p> <p>March 2019: CC-GCG has continued to meet regularly</p> <p>November 2018: The Terms of Reference for CC-GCG were considered by the committee at its meeting on 18 September. The committee resolved to meet on a monthly basis to maintain oversight of related companies and entities.</p> <p>A proposed workplan for CC-GCG has been developed and covers the regular reporting to members on requests to create new companies, the risks associated with companies and related parties, consideration of the risk assurances processes within companies and regular reporting by companies and by contact officers to cover a wide spread of the total activity.</p> <p>January 2019: CC-GCG is meeting on a monthly basis. Two subsidiary companies have presented their business plans to the committee for consideration. The committee receives a monthly risk register update and has</p>

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		<p>For matters within the Council, more transparent performance, financial and risk reporting will identify issues earlier to allow actions plans to be developed. The Council is working to improve the efficacy of its role as client in a number of key relationships (such as The Children's Trust) and ensuring that its role as stakeholder is clearly separated from its role as service deliverer where a conflict exists.</p> <p>The Council is working with the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP) both in relation to the role of the Council as the Accountable Body and in establishing GBSLEP as an independent and self-controlling company in line with the findings of the</p>			<p>received risk assurance reports from the Council's major companies.</p> <p>November 2018: The role of the client function and of contact officers will continue to be developed so that performance, financial and governance factors can be assessed and reported.</p> <p>Training has been provided to members of CC-GCG in respect of the shareholder role. Training will be cascaded to Council nominated directors and other relevant staff and will cover the differing roles of shareholder and contractor.</p> <p>January 2019: Training is being provided to Council nominated directors and those who are likely to provide advice to them on 24 January. Training is also undertaken by companies themselves to ensure that directors have the necessary skills in place.</p> <p>November 2018 The Council has agreed a Joint Working Protocol and capital charging protocol with GBSLEP underpinned by a detailed SLA for financial and legal services which is currently in consultation. GBSLEP consultants, council officers and specialist advisors are working on the</p>

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		Government's LEP review and the Ney Review.			<p>transfer of operations to a self-controlling company structure by April 2019.</p> <p>January 2019: Work is continuing to be undertaken on the transfer of the GBSLEP operations to a self controlling structure.</p> <p>March 2019: Work has continued on the transfer of the GBSLEP operations</p>
6	The Council needs to ensure that appropriate arrangements are implemented in relation to the Council's subsidiary bodies, including regular financial reporting and Council nominees on subsidiary body boards, to ensure that emerging risks are monitored, reported and managed promptly.	The shareholder role is discharged through the CC-GCG, with attendance by subsidiaries either on a cyclical timeframe or where there are concerns with a Council-owned company, on a more regular basis.		Clive Heaphy	<p>November 2018: The workplan and timetable for the CC-GCG is being developed and regular reports of and presentations by the Council's subsidiary companies will be programmed into the timetable.</p> <p>The CC-GCG has been timetabled into the Committee calendar on a monthly basis and will be chaired by the Deputy Leader and be supported by senior officers.</p> <p>Training has been provided to members of CC-GCG on the role of directors within companies and on aspects of business planning and a consistent approach for constructive challenge. Training is planned for current directors nominated by the Council.</p> <p>Acivico Limited presented its business plan to CC-GCG at its meeting on 13 November 2018</p>

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		<p>The Intelligent Client Function is more robustly developed for some subsidiary bodies than others and the role of contact officers requires formal definition. This will form part of the work programme for CC-GCG in 2018, along with further development of the training package for officers and members who take up directorships.</p>			<p>December 2018: Birmingham Children's Trust CIC presented its business plan to CC-GCG</p> <p>Cabinet considered a report on the Options for the Future of Acivico at its meeting on 11 December 2018</p> <p>January 2019: A workplan for the CC-GCG has been developed which includes regular presentations to the committee by companies and by relevant client officers on a regular basis. The workplan will be kept under review to identify any matters that require urgent consideration.</p> <p>February 2019: Acivico presented a business plan update to CC-GCG at its meeting on 13 February 2018</p> <p>November 2018: The role of client functions will be developed and implemented during the year to ensure that there remains a strong focus on the relationship with subsidiary companies.</p> <p>Client Officers will report to the CC-GCG on a regular basis in support of presentations by subsidiary companies.</p> <p>January 2019: The role of the client officer will continue to be developed.</p> <p>A training session for Council appointed directors was delivered on 24 January. Further training will be provided to</p>

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		Risks within subsidiary bodies are formally reported to Audit Committee annually as part of an assurance statement. The Council will extend this mechanism to capture emerging in-year risks.			<p>support those who couldn't attend and also consider the training needs of Charity Trustees.</p> <p>November 2018: CC-GCG will consider a regular report on the risks associated with subsidiary companies and emerging issues will be identified at the earliest opportunity to allow consideration at the committee.</p> <p>January 2019: A risk register has been considered at each of its monthly meetings by CC-GCG.</p> <p>Assurance statements from companies on their governance arrangements, approach to risk and financial performance were considered by CC-GCG at its meeting on 16 January and by Audit Committee at its meeting on 29 January.</p> <p>February 2019: An updated risk register of the Council's involvement in companies was presented to CC-GCG at its meeting on 13 February.</p>
7	The Council needs to ensure that robust management and governance arrangements are put in place within the Place Directorate, particularly to ensure effective oversight of the waste	A new Memorandum of Understanding (MoU) is due for implementation in September 2018 and arrangements are being put in place to monitor performance and financial arrangements that will lead to improvements in		Rob James	<p>November 2018: Following extensive discussion with Trade Unions and the workforce the new operating model was implemented in September 2018. The new system involved the appointment of waste collection and recycling officer and</p>

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	service, to ensure that it delivers its financial and service objectives.	services to the public and most particularly to recycling rates.			<p>moving to a five day working week for waste collection services. Collections rounds have been revamped to equalise the workload for crews and this has been achieved without changing the day of collection for the 360,000 properties affected.</p> <p>Collections are being monitored in addition to individual crew performance as well as that of the waste collection and recycling officers.</p> <p>The budget for the service will be adequate for the service being provided and monthly reports are provided to the Cabinet Member and to Finance Star Chamber.</p> <p>March 2018: The Service has been in dispute since January 2019. The budget implications of the MoU have been identified and incorporated into the base budget. Budget holders have been identified and trained. We are devolving the budgets down to the Service Managers from April 2019. Street cleansing has been redesigned to match the budget and devolved to Service Managers. Waste Disposal has been restructured following the contract renewal.</p>

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	Audit Committee
Report of:	Assistant Director, Audit and Risk Management
Date of Meeting:	26th March 2019
Subject:	Birmingham Audit – Internal Audit Plan 2019/20

Wards Affected: All

1. Purpose of report.

1.1 To update members on progress in developing the 2019/20 internal audit plan.

2. Recommendations

2.1 That members of the Audit Committee:

- 2.1.1 note progress and the methodology applied and assumptions made in developing the 2019/20 internal audit plan;
- 2.1.2 consider the proposed audit coverage and identify any areas they wish to suggest for inclusion in the risking process; and
- 2.1.3 subject to any agreed adjustments, approve the proposed plan.

3. Legal and Resource Implications

- 3.1 The Internal Audit service is undertaken in accordance with the requirements of section 151 of the Local Government Act and the Accounts and Audit Regulations 2015. The work is carried out in compliance with Public Sector Internal Audit Standards and within the approved budget.

4. Risk Management & Equality Analysis Issues

- 4.1 Risk management forms an important part of the internal control framework that the Council has in place and is taken into account in setting the audit plan.
- 4.2 We have undertaken an equality analysis for all of our key policies and procedures and where appropriate have developed action plans to address any potential adverse impacts.

5. Compliance Issues

- 5.1 Decisions are consistent with relevant Council Policies, Plans or Strategies.

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Birmingham Audit –Internal Audit Plan 2019/20

26th March 2019

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Appendix A: Internal Audit Plan Summary

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1. Background

- 1.1 It is a statutory requirement for Local Authorities to have an internal audit function. Within the Council this function is delivered in house by Birmingham Audit.
- 1.2 Birmingham Audit provides a range of internal audit and counter fraud services. These include assurance reviews of the Council's financial and operational systems, computer audit reviews, corporate and social housing fraud investigations, fraud awareness, corporate governance and risk management reviews, and compliance reviews to check adherence to policies, procedures and systems. The legislative framework and professional standards / guidelines we are required to adhere to include:
- Accounts and Audit Regulations 2015;
 - Fraud Act 2006;
 - Social Housing Fraud (Power to Require Information) Regulations 2014;
 - Council Tax Reduction Schemes (Detection of Fraud and Enforcement) Regulations 2013; and
 - Public Sector Internal Audit Standards (PSIAS).
- 1.2 The annual audit plan is prepared using a risk based methodology that enables the provision of an independent opinion on the adequacy and effectiveness of the systems of internal control (comprising of risk management, corporate governance, financial and operational controls). The plan is dynamic and is constantly reviewed and updated to reflect the changing risks faced by the Council.
- 1.3 This assessment has regard for the adequacy of the overall assurance framework that is in place across the Council. Whilst Internal Audit is a key part of this framework, it also includes internal and external processes such as day to day management controls, performance management, 'inspection' functions, directorate assurance statements, and assurances provided by external sources, such as the Council's external auditor.

- 1.4 The independent audit opinion feeds into the published Annual Governance Statement. The emphasis of internal audit provision remains reviewing the controls around the risks that may prevent the Council from meeting its objectives and detecting and preventing fraud. Within this, there is a need to ensure that legislative and regulatory requirements and professional standards are met.
- 1.5 We continue to review, revise and update our working practices and methodologies to ensure we remain in line with recommended best practice. In particular, we are continuing to use technology and the data at our disposal to work 'smarter' and ensure the most efficient and effective use of the available resources.

2. Quality Assurance

- 2.1 In line with PSIAS a Quality Assurance and Improvement Programme (QAIP) is in place. This programme requires both internal and external assessments of internal audit to be undertaken to ensure compliance with standards, that the audit service is efficient, effective and continuously improving, and that the service adds value and assists the organisation in meeting its objectives.
- 2.2 During the year, we retained our accreditation to the internationally recognised, and externally assessed, information security standard ISO27001:2013. The external assessor commented *"management systems continue to operate effectively"* and *"a culture of continual improvement is evident and well demonstrated"*.
- 2.3 Our external PSIAS review was last undertaken in July 2016. This independent assessment confirmed that the Internal Audit Service is well positioned, valued and makes an active contribution to the continuous improvement of systems of governance, risk management and internal control. We are currently completing a self-assessment against the PSIAS standards to verify that we continue to comply with requirements. The result of this self-assessment will be reported to Members as part of the Annual Audit report issued to Committee in June 2019. Our next external review is due in 2021.

3. Internal Audit Plan 2019/20

- 3.1 Our estimated number of audit days available for 2019/20 is 4691 (including a vacancy on the Schools Audit Team). This compares to 4681 in 2018/19. We have been able to maintain this level of resources by reducing non-productive overheads and the appointment of an audit apprentice.
- 3.2 As part of our planning process we have undertaken an assurance mapping exercise across the whole of the organisation. This involves identifying the key objectives and priorities of the Council, the systems of governance and financial control, together with the risks associated with their achievement / operation. A view as to where 'assurance' over activities can be gained is then formed. In undertaking this mapping exercise we have used our knowledge and experience of the organisation as well as liaising with key stakeholders including Audit Contact Officers, Directorate Management Teams and Directors / Assistant Directors.
- 3.3 The first call on our time is to provide assurance around the main financial systems. We are continuing to utilise data analytical techniques to review transactions and controls. This is less resource intensive and enables us to provide greater coverage and a more informed assurance. In completing our work in this area we liaise with the Council's external auditors. We have allocated 725 days for the main financial systems work, including the review of IT controls, in 2019/20 the main areas we intend to cover are:
- Payroll
 - Accounts Payable
 - Accounts Receivable
 - Procurement - incorporating Contract Auditing
 - Council Tax
 - NNDR
 - Benefits
 - Financial Management/Control

- Asset Management/Fixed Assets
- Rent Collection and Charges
- Non invoiced income / Cashiers
- Income and Expenditure in Schools
- Direct Payments
- Carefirst / Eclipse

3.4 We have also 'ring-fenced' a number of days to support the Corporate Fraud Team, complete the school visiting programme and for undertaking chargeable work.

3.4.1 The Corporate Fraud Team undertake investigations on allegations of internal fraud involving members of staff, Council members, suppliers of goods and services to the Council and / or organisations that are in receipt of Council funding. The team also undertakes pro-active anti-fraud work and develops and delivers fraud awareness training throughout the organisation. Within the 2019/20 plan we have allocated 830 days for this work (this excludes work on application based fraud e.g. Social Housing, Council Tax, NNDR etc.). We use a referral assessment process to determine which referrals we will investigate; this ensures our specialist skills are deployed in the areas of greatest risk. Where we are not able to devote resources to investigating a referral we will continue to provide support and guidance to managers as appropriate.

3.4.2 The initial objective of the Schools Team was to visit all Birmingham schools to review aspects of governance, financial management and safeguarding. A revised risk based visiting programme has now been implemented to help target our resources. The audit work programme has also been updated to give a greater focus on financial management. 720 days have been allocated for the completion of school visits during 19/20. This includes one vacant post; we are currently seeking approval to appoint to this vacancy.

3.4.3 Chargeable work includes audit reviews completed on behalf of the Birmingham Children's Trust, Acivico, and grant certification.

- 3.5 The remainder of our available resource is allocated based on our assessment of risk. We use our risking model to 'score' all potential 'auditable' areas and then rank them in order of priority. There are a number of factors that are considered as part of the risk model:
- assessment of the adequacy of the control environment;
 - strategic alignment to organisation priorities;
 - materiality;
 - sensitivity/reputational risk;
 - assessment of management controls;
 - management concerns;
 - assurance based on internal audit work / knowledge and how recent that was;
 - inclusion in the corporate risk register;
 - assurance based on scrutiny reviews;
 - assurance based on external audit or other inspectorate work and how recent that was; and
 - assurance gained from other sources, including that gained from operational and performance management.
- 3.6 The risk assessment is dynamic and responsive to changing circumstances. As we continually review and update this assessment the audit plan will change and evolve in line with emerging risks and priorities.
- 3.7 In order to assist us in maintaining a focus on the important strategic issues that the Council faces, the proportion of the plan set aside to cover contingencies and follow-up work has been slightly increased for 19/20. This is to help us 'flex' the plan and respond to emerging issues during the year and ensure that significant audit issues are actioned.
- 3.8 A summary of the 2019/20 audit plan, based on our current assessment of risk is detailed in Appendix A, previous year figures are provided for comparative purposes. A detailed plan, outlining the proposed areas of review, is detailed in Appendix B. We are continuing to revise and update this plan, based on discussions and feedback with senior managers.

- 3.9 The views and engagement of the Audit Committee are important to the internal audit planning process. Members are requested to consider the proposed internal audit coverage and identify any areas they wish to suggest for inclusion in the risking process.
- 3.10 Any significant updates to the plan will be reported to the Audit Committee at the next meeting (June 2019). Progress in delivering the plan, together with any significant issues identified, will be reported to Audit Committee. Audit report schedules, detailing the final reports issued during the month and their assurance and risk ratings, will be issued to Committee Members throughout the year. Members can request a copy of any report.

Appendix A

Internal Audit Plan Summary

	17/18		18/19		19/20	
	%	Days	%	Days	%	Day
Number of Audit Days in Annual Plan	100%	5113	100%	4681	100%	4691
Main Financial Systems	18%	905	16%	730	15%	725
Business Controls Assurance	34%	1735	39%	1830	38%	1770
Investigations	16%	830	18%	830	18%	830
Schools (Non Visits)	3%	155	2%	105	1%	60
Schools (Visits)	19%	945	15%	720	15%	720
Follow up Work	4%	200	3%	150	4%	175
Ad-hoc Work / Contingency	3%	178	4%	186	6%	286
Planning & Reporting	2%	125	3%	120	3%	120
City Initiatives	1%	40	0%	10	0%	5

Appendix B
Internal Audit Plan 2019/20

	Days	Total
Financial Systems (including computer audits where appropriate)		
Accounts Payable	50	
Accounts Receivable	50	
Asset Management	50	
Audit Letter	5	
Benefits	50	
Carefirst / Eclipse	30	
Cash Income / Cashiers	30	
Direct Payments	30	
Housing Rents	25	
Income / Expenditure - Schools	20	
IT Related Financial Systems Work	85	
Main Accounting	50	
Payroll/HR	50	
Procurement, Contract Audit and PFI	140	
Revenue (Council Tax and NNDR)	60	725
Business Controls Assurance		
Work in Progress b/fwd. from 2018/19	50	
IT Related Non-Financial Systems Work	375	
Data Analysis	200	
Corporate Risk Management Facilitation	50	

	Days	Total
Chargeable Work - Acivico	40	
Chargeable Work - Birmingham Children's Trust	145	
Chargeable Work – Grant Certification	80	940
<u>Adults Social Care</u>		
Assessment & Support Planning	25	
Commissioning	20	
Placements	20	
Enablement	15	
Specialist Care Services	25	105
<u>Assistant Chief Executives</u>		
Public Health	30	
Resilience	20	
Improvement Agenda	20	
Project Management	30	100
<u>Education and Skills</u>		
Contract Monitoring - Birmingham Children's Trust	40	
Safeguarding & Development – BCSB	30	
Safeguarding Corporate Overview	30	
Commissioning & Contract Management Framework	20	
Pupil Premium	10	
Not in Education Employment or Training (NEETS)	10	
SEND - Working with Health & Tri-partite Funding	20	
Management of Properties	25	
Children without a School Place	15	
Exclusions process	5	
Youth Provision Outcomes	15	220

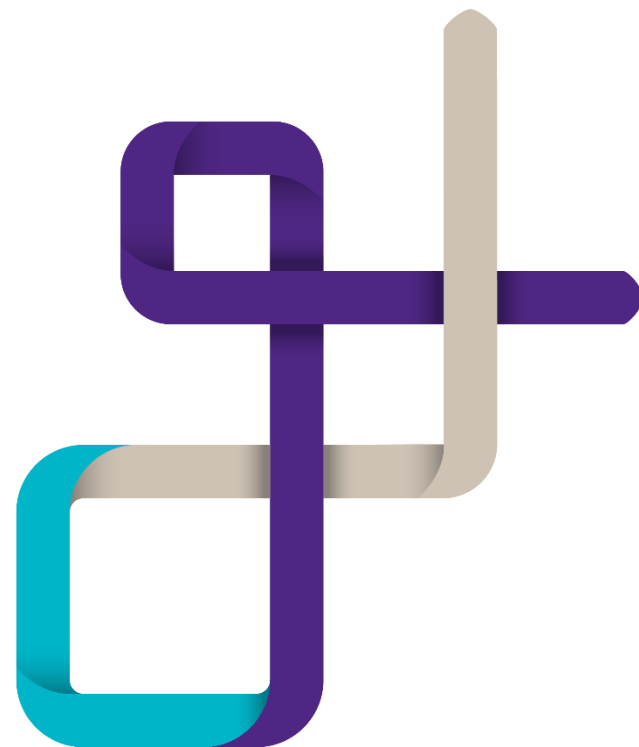
	Days	Total
<u>Finance and Governance</u>		
Local Enterprise Partnership	15	
Governance	20	
Ethics	10	
Commercial Activities	30	
Risk Management	10	
Self-Assessment - AGS Process	10	95
<u>Inclusive Growth</u>		
Accountable Body	30	
Flood Management	10	40
<u>Neighbourhoods</u>		
Leaseholder Service Charges	10	
House Sales	15	
Homelessness	20	
Waste Management	25	
Housing Repairs – Contract Compliance / Assurance (funded through HRA)	200	270
		1770
Investigations		
Reactive investigations	630	
Proactive work / Fraud Awareness	200	830
Schools - Non Visits		
School Improvement (BEP) - Contract Management/Delivery	5	
Pupil Placements: Alternative Provision	10	

	Days	Total
Virtual School	10	
Admissions and Appeals	5	
Themed Work	30	60
Schools - Visits	720	720
Follow Up Work		175
Ad Hoc Work / Contingency		286
Planning and Reporting		120
City Initiatives		5
TOTAL		4691

External Audit Plan

Year ending 31 March 2019

Birmingham City Council
March 2019



Contents



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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 as part of our audit planning process. 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.

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Birmingham City Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Birmingham City Council. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based. We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation.

Group Accounts

The Council is required to prepare group financial statements that consolidate the financial information of

- Acivico Limited
- Birmingham City Propco Limited
- Innovation Birmingham Limited (disposed of in April 2018)
- InReach (Birmingham) Limited
- National Exhibition Centre (Developments) Plc
- PETPS (Birmingham) Limited
- PETPS (Birmingham) Pension Fund Scottish Limited Partnership
- Birmingham Children's Trust CIC
- Birmingham Airport Holdings Limited (Associate)
- Paradise Circus General Partner Limited (Joint Venture)

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- The non-rebuttable presumed risk under ISA 240 that the risk of management over-ride of controls is present in all entities
- Valuation of property, plant and equipment
- Valuation of pension fund net liability
- Valuation of equal pay provision

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Introduction & headlines

Materiality	We have determined planning materiality to be £44.5m (PY £43.8m) for the group and £44.4m (PY £43.6m) for the Council, which equates to 1.5% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £2.2m (PY £2.2m).
Value for Money arrangements	<p>Our risk assessment regarding your arrangements to secure value for money was reported to the Audit Committee in January 2019. We have identified the following VFM significant risks:</p> <ul style="list-style-type: none">• Financial Sustainability• Risk Management and Governance Arrangements• Improvement Panel• Services for Vulnerable Children• Management of Schools• Commonwealth Games• Amey Contract
Audit logistics	<p>Our interim visit will take place in February and March and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.</p> <p>Our fee for the audit will be £241,909 (PY: £314,618) for the Council, subject to the Council meeting our requirements set out on page 13.</p>
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Key matters impacting our audit

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Birmingham City Council, there are significant ongoing financial pressures as well as risks such as the waste strike, Equal Pay and the Commonwealth Games.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in. The Council will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

Changes to the 2018/19 CIPFA Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

Creation of new subsidiaries

The Children's Trust became operational in 2018/19 and will be consolidated in the Council's group accounts for the first time. The Council has also provided a guarantee to the Children's Trust relating to the West Midlands Local Government Pension Scheme.

Other duties under legislation and the Code

We issued written recommendations to the Council in July 2018 under section 24 of the Local Audit and Accountability Act 2014.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Council and will review related disclosures in the financial statements.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

- We will consider the group accounts consolidation including the Children's Trust
- We will review the accounting treatment and valuation of the pension guarantee

- We have carried out work to determine whether it is necessary to consider the exercise of our formal audit powers in relation to aspects of finance and governance. This work will be concluded shortly.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Birmingham City Council	Yes		Please, see page 3	Full scope UK statutory audit performed by Grant Thornton UK LLP.
Birmingham Children's Trust	No	Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of the group financial statements.	Valuation of pension net liability Accuracy of expenditure	Specific scope procedures to be performed on the valuation of the pension net liability and the accuracy of expenditure incurred by the Trust during the year. These procedures will be performed either by the group auditor or the component auditor.
Birmingham City Propco Ltd	No	Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of the group financial statements.	Investment properties valuation	Specific scope procedures to be performed on the valuation of investment properties by the group auditor. However, if investment properties are immaterial at year end then we will perform analytical procedures at a group level.
InReach Ltd	No	Analytical procedures	Consolidation process	We plan to perform analytical procedures at a group level. However, if investment properties are material at year end, we will perform specific scope procedures on investment properties valuation to be performed by the group auditor.
NEC (Developments) Plc	No	Analytical procedures	Consolidation process	We will perform analytical procedures at a group level.
Acivico Ltd	No	Analytical procedures	Consolidation process	We will perform analytical procedures at a group level.

Group audit scope and risk assessment

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Innovation Birmingham Ltd (disposed of in April 2018)	No	Analytical procedures	Consolidation process	We will perform analytical procedures at a group level.
PETPS (Birmingham) Pension Fund Scottish Limited Partnership	No	Analytical procedures	Consolidation process	We will perform analytical procedures on a group level.
PETPS (Birmingham) Ltd	No	Analytical procedures	Consolidation process	We will perform analytical procedures at a group level.
Paradise Circus General Partner Limited (Joint Venture)	No	Analytical procedures	Consolidation process	We will perform analytical procedures on a group level.
Birmingham Airport Holdings Ltd (Associate)	No	Analytical procedures	Consolidation process	We will perform analytical procedures on a group level.

Key changes within the group:

- Birmingham Children's Trust has been established
- Innovation Birmingham Ltd was disposed of during 2018/19

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 revenue risk (rebutted)	Group and Council	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Birmingham City Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Birmingham City Council.</p>
Management over-ride of controls	Group and Council	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and it could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk Relates to	Key aspects of our proposed response to the risk	
Valuation of pension net liability	Group and Council	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£2.6 billion in the Council's balance sheet in 2017/18) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of the West Midlands Local Government Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data, benefits data and fund assets data sent to the actuary by the pension fund.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Significant risks identified

Risk	Risk Relates to	Key aspects of our proposed response to the risk	
Valuation of property, plant and equipment (specifically council dwellings, other land and buildings, and surplus assets)	Group and Council	<p>The Council revalues its land and buildings on a rolling five-yearly basis.. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£4.8 billion in 2017/18) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluate the assumptions made by management for those assets not revalued during the year and those valued at 1st April 2018, and how management has satisfied themselves that these are not materially different to current value at year end.
Valuation of equal pay liability	Group and Council	<p>Under ISA540 (Auditing Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures), the auditor is required to make a judgement as to whether any accounting estimate with a high degree of estimation uncertainty gives rise to a significant risk.</p> <p>We identified the valuation of the equal pay provision as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our documentation of the process and undertake a walkthrough of the controls in place to estimate the equal pay provision; • review the assumptions on which the equal pay provision estimate was based; • consider the events or conditions that could have changed the basis of estimation; • reperform the calculation of the estimate on a sampling basis; • check that the estimate has been determined and recognised in accordance with accounting standards; • determine how management assessed the estimation uncertainty; and • consider the impact of any subsequent transactions or events.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other matters

Other work

In addition to our responsibilities under the NAO Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the NAO Code of Practice, as and when required, including:
 - giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
 - issue of a report in the public interest or written recommendations to the Council under section 24 of the Act, copied to the Secretary of State.
 - application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the group's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

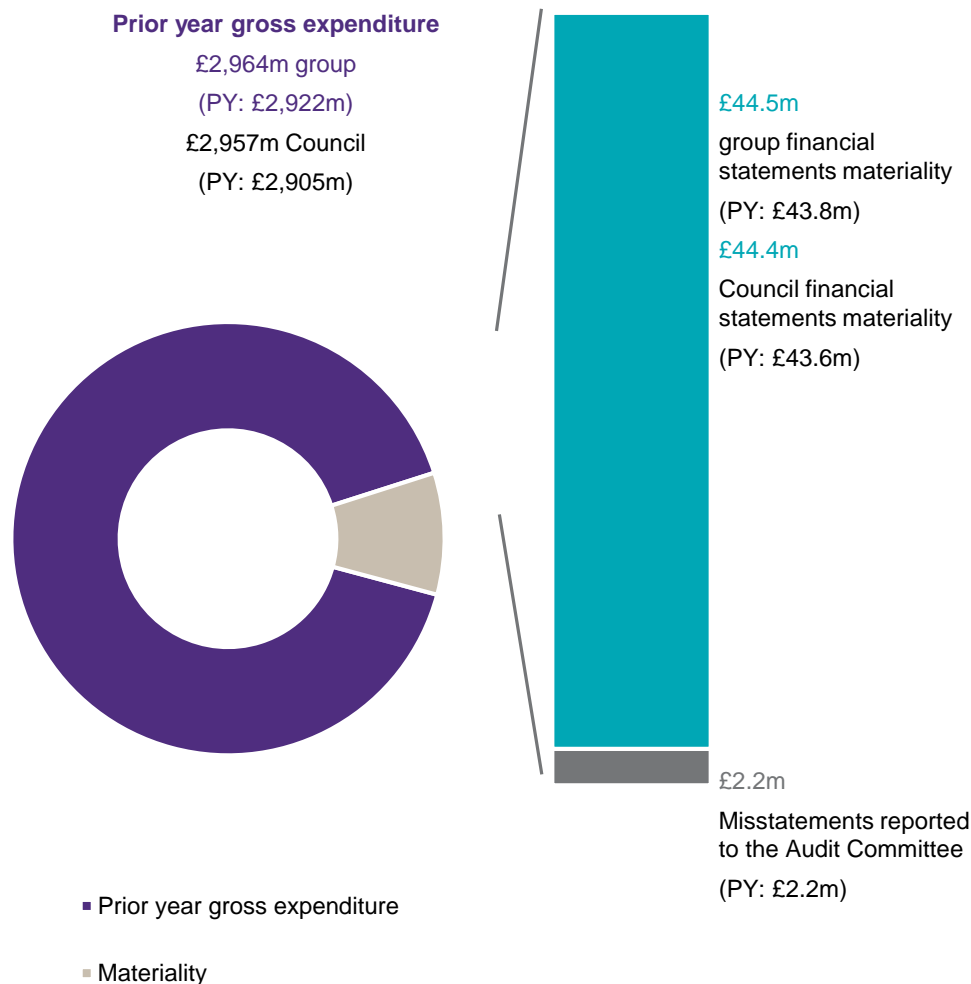
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £44.5m (PY £43.8m) for the group and £44.4m (PY £43.6m) for the Council, which equates to 1.5% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £100k for senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £2.2m (PY £2.2m).

If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



Audit logistics, team & fees



Phil Jones, Engagement Lead



Laura Hinsley, Audit Senior Manager



Tess Barker-Phillips, Audit Manager

Audit fees

The planned audit fees are £241,909 (PY: £314,168) for the financial statements audit completed under the Code, which are inline with the scale fee published by PSAA. £22,750 of fees are planned for audit-related services and £17,000 for non-audit related services which constitute non NAO Code work by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

Where additional audit work is required to address any additional risks identified, we will consider the need to charge fees in addition to the audit fee on a case by case basis. Any additional fees will be discussed and agreed with management and require PSAA approval.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

Birmingham City Council achieved early close in 2017/18 and the audit was completed in line with the earlier deadline.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 13). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Risks identified

We have discussed the year end timetable with finance officers. We understand that the final accounts team and other parts of the finance function are currently extremely short-staffed due to an unprecedented number of staff experiencing serious and unexpected illnesses, resulting in these staff being off work at short notice and with uncertain return dates.

The finance team have flagged to us that this represents a risk to the year end accounts delivery. This therefore presents a risk to the delivery of the audit, both in terms of being able to commence the audit in a timely manner, and the potential for increased errors. If the accounts are late or contain significant errors there is a risk that the audit deadline may not be met.

We will continue to discuss plans with finance officers to identify potential risks to delivery of the accounts in line with expected deadlines, and any mitigations that can be put into place to avoid delays to the audit. At present we are planning to commence the audit on 27th May 2019 but we will keep this under review.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Independence & non-audit services

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and its subsidiaries. The following other services were identified.

Service	£	Threats	Safeguards
Audit related			
Certification of housing benefits claim, pooled housing capital receipts, teachers' pensions	33,844	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £33,844 in comparison to the total fee for the audit of £241,909 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of grant claims (non-Code work as defined by PSAA)	22,750	Self-Interest (because this is a potentially recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £22,750 in comparison to the total fee for the audit of £241,909 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFOi (non-Code work as defined by PSAA)	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £241,909 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
CASS reporting – Finance Birmingham (non-Code work as defined by PSAA)	7,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,000 in comparison to the total fee for the audit of £241,909 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Appendices

A. Audit Approach

Audit approach

Use of audit, data interrogation and analytics software

LEAP



Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft



IDEA



- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

Appian



Business process management

- Clear timeline for account review:
 - disclosure dealing
 - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

Inflo



Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.



REQUEST & SHARE

- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring



ASSESS & SCOPE

- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment



VERIFY & REVIEW

- Automate sampling requests
- Download automated work papers



INTERROGATE & EVALUATE

- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs



FOCUS & ASSURE

- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance



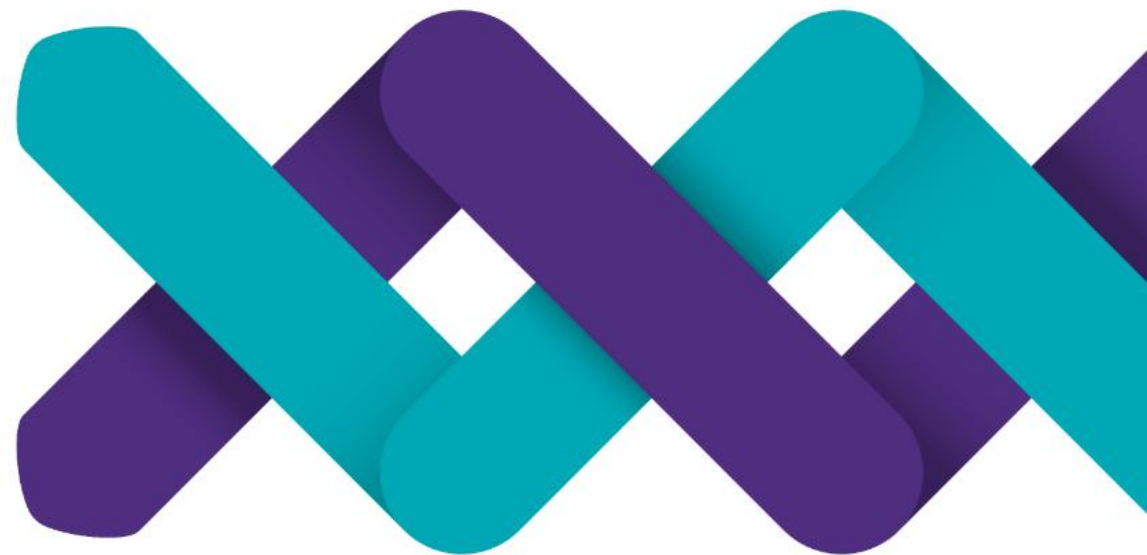
INSIGHTS

- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons

Audit Progress Report and Sector Update

Birmingham City Council
Year ending 31 March 2019

March 2019



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Introduction



Phil Jones

Engagement Lead

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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)



Tess Barker-Phillips

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Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk ..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at January 2019

Financial Statements Audit

We have started planning for the 2018/19 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2018/19 financial statements. This is included as a separate agenda item.

We commenced our interim audit in February 2019. Our interim fieldwork visit included:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

We have reported initial findings from the interim audit to you in this report.

The statutory deadline for the issue of the 2018/19 opinion is 31 July 2018. We will discuss our plan and timetable with officers.

The final accounts audit is due to begin on the 27th May with findings reported to you in the Audit Findings Report by the deadline in July 2019.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach are included in our Audit Plan. This was reported to the audit committee in January 2019.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2018.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2017/18 claim was concluded in November 2018.

The results of the certification work were reported to you in our certification letter, presented to the Audit Committee in January 2019.

Meetings

We have regular liaison meetings with Finance Officers and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Monitoring Officer in October to discuss areas relevant to our audit.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Finance Officers attended our financial reporting update workshop in January 2019.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	January 2019	Complete
2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	January 2019	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	Complete
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019 (Draft to be provided to July Audit Committee if possible)	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2019	Not yet due

Results of interim audit work

Area of focus	Work performed	Conclusions and recommendations
Control environment and business processes	We have obtained an understanding of the overall control environment and business processes relevant to the preparation of the financial statements.	Our work to date has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
Control activities	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a significant risk of material misstatement to the financial statements. Walkthroughs have been completed in the following areas: pension liabilities, equal pay and valuation of PPE (land and buildings including HRA).</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work to date has not identified any weaknesses which impact on our audit approach.</p> <p>We will conclude the walkthroughs and controls at the year end, due to the fact that a number of controls in these areas are performed as part of the year end closing process.</p>
Journal entry controls	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	<p>Our work to date has not identified any weaknesses which impacts on our audit approach.</p> <p>We have been informed that the finance team have undertaken a review of a sample of journals that were self authorised, however we have not yet been provided with evidence to support this. We will perform this work during our visit in April.</p> <p>At our final accounts visit we will complete our testing of journals by extracting entries deemed to be high risk for further review.</p>

Results of interim audit work (continued)

Area of focus	Work performed	Conclusions and recommendations
Early substantive testing	<p>We have commenced early substantive testing on key income and expenditure streams from months 1-9. This testing includes but is not limited to operating expenditure, other fees and charges, grant income, PPE additions, precepts, and payroll.</p>	<p>Our early testing to month 9 is in progress and we will update our work to cover the full year at the final accounts visit.</p> <p>No issues have been identified to date from our testing that we wish to bring to your attention.</p>
Emerging accounting issues	<p>We have requested and not yet received accounting papers for the following areas:</p> <ul style="list-style-type: none"> • Pension guarantees including Children's Trust • Impact of new accounting standards (IFRS 9, IFRS 15) <p>The Council has also identified a need for paper relating to charitable trusts where the Council is Corporate Trustee.</p> <p>Once we are provided with these papers, we will review and discuss with the Council whether there is any impact on the proposed treatment in the draft financial statements.</p> <p>We also understand that the dispute with Amey is likely to have an impact on the related PFI calculations. Once we are provided with the updated PFI model, we will review the proposed treatment in further detail.</p>	<p>We have not yet received the requested accounting papers. We request that these are available prior to year end in order to allow us sufficient time to review the proposals and to involve our internal technical specialists if necessary.</p> <p>We will continue to work with the Council on these areas to agree the appropriate accounting treatment.</p>

Data security breach

We would like to inform the Audit Committee of a recent data security breach. A document containing Birmingham City Council confidential data was uploaded in error on to an online document sharing portal for another client.

Grant Thornton UK LLP (the firm) data security procedures require that we carry out a full investigation and make a detailed assessment of the potential loss or harm that you could suffer as a result of the breach. The breach involved the disclosure of information from BCC's general ledger. The information contained:

- Amounts paid for certain purchases
- Description of purchase
- Date of purchases
- Other general ledger specific coding

The information did not include any personal information.

The information has since been deleted from our online document sharing portal Info.

After careful consideration of the facts and the circumstances, we believe the risks to BCC as a result of this breach are low.

We apologise for this breach - the confidentiality of your data is of paramount importance. We are of the opinion that this occurred as a result of human error and not because of any material failures in our systems.

We have however identified the following additional processes which we will put in place to further safeguard your data and prevent this error reoccurring:

- We will send a reminder to all members of the audit team about the need to double check any data sent to external parties
- We will ask members of the audit team to ensure all file names contain reference to 'BCC' so that it is immediately clear which client the file relates to

PSAA Contract Monitoring update

Birmingham City Council opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts in 2018/19. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, www.psaa.co.uk.

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out commitment to deliver a high quality audit service on the following two pages. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

Appendix A: Local Government audits 2018/19 and beyond

Grant Thornton's External Audit commitment

Audit 2018/19

Our team

Phil Jones
Engagement Lead



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Tess Barker-Phillips
Audit Manager



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"I have always been extremely pleased with the work done by colleagues from Grant Thornton, there is continuity of staff delivering the team who presented the bid. This continuity remains through the cycle of work that takes place during the year; allowing the team to continue to understand the corporate objectives whilst allowing us to ensure we comply with the required standards. The team are very friendly and approachable with an accommodating style".

Director of Finance, local audited body

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

"I have found Grant Thornton to be very impressive.....they bring a real understanding of the area. Their insights and support are excellent. They are responsive, pragmatic and, through their relationship and the quality of their work, support us in moving forward through increasingly challenging times. I wouldn't hesitate to work with them."

Director of Finance, County Council

Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLACE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.
- We propose a realistic fee, based on known local circumstances and requirements.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early engagement on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example financial management, reporting and governance
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies

Sector Update

Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

Public Sector Audit Appointments – Report on the results of auditors' work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors' work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies' financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies' financial statements are unqualified, as was the case for the 2016/17 accounts.

The report is available on the PSAA website:

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

PSAA Report

Challenge question:

Has your Authority identified improvements to be made to the 2018/19 financial statements audit and Value for Money Conclusion?



Report on the results of auditors' work 2017/18

Principal local government and police bodies

October 2018

National Audit Office – Local auditor reporting in England 2018

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the Comptroller & Auditor General (C&AG) took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors.

Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. External auditors have a key role in determining whether these arrangements are strong enough. The fact that only three of the bodies (5%) the NAO contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses reported suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

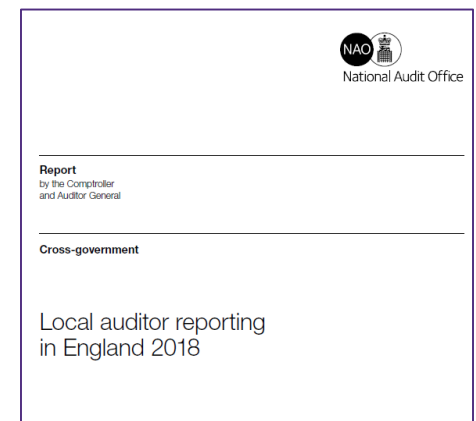
Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. As at 17 December 2018, auditors have yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18.

The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high. This is a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

Local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is serious, with trend lines pointing downwards.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>



NAO Report

Challenge question:

Has your Authority responded appropriately to any concerns or issued raised in the External Auditor's report for 2017/18?



National Audit Office – Local authority governance

The report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

Local government has faced considerable funding and demand challenges since 2010-11. This raises questions as to whether the local government governance system remains effective. As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures. The Department (Ministry of Housing, Communities and Local Government) places great weight on local arrangements in relation to value for money and financial sustainability, with limited engagement expected from government. For this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network

Not only are the risks from poor governance greater in the current context as the stakes are higher, but the process of governance itself is more challenging and complex. Governance arrangements have to be effective in a riskier, more time-pressured and less well-resourced context. For instance, authorities need to:

- maintain tight budgetary control and scrutiny to ensure overall financial sustainability at a time when potentially contentious savings decisions have to be taken and resources for corporate support are more limited; and
- ensure that they have robust risk management arrangements in place when making commercial investments to generate new income, and that oversight and accountability is clear when entering into shared service or outsourced arrangements in order to deliver savings.

Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures. Local authorities have seen a real-terms reduction in spending power (government grant and council tax) of 28.6% between 2010-11 and 2017-18. Demand in key service areas has also increased, including a 15.1% increase in the number of looked after children from 2010-11 to 2017-18. These pressures create risks to authorities' core objectives of remaining financially sustainable and meeting statutory service obligations. Furthermore, to mitigate these fundamental risks, many authorities have pursued strategies such as large-scale transformations or commercial investments that in themselves carry a risk of failure or under-performance.

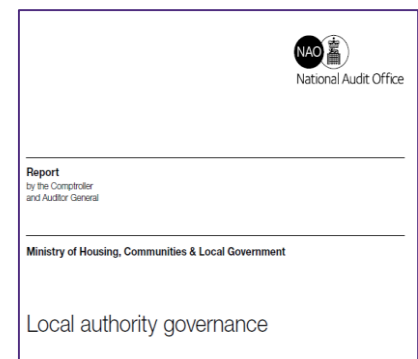
The report is available on the NAO website:

<https://www.nao.org.uk/report/local-authority-governance-2/>

NAO Report

Challenge question:

Has your Authority got appropriate governance and risk management arrangements in place to address the risks and challenges identified in the NAO report?



CIPFA – Financial Resilience Index plans revised

The Chartered Institute of Public Finance and Accountancy (CIPFA) has refined its plans for a financial resilience index for councils and is poised to rate bodies on a “suite of indicators” following a consultation with the sector.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector’s views, CIPFA invited all interested parties to respond to questions it put forward in the consultation by the 24 August.

CIPFA has also responded to concerns about the initial choice of indicators, updating the selection and will offer authorities an advanced viewing of results.

Plans for a financial resilience index were put forward by CIPFA in the summer. It is being designed to offer the sector some external guidance on their financial position.

CIPFA hailed the “unprecedented level of interest” in the consultation.

Responses were received from 189 parties, including individual local authorities, umbrella groups and auditors. Some respondents called for a more “forward-looking” assessment and raised fears over the possibility of “naming and shaming” councils.

CIPFA chief executive Rob Whiteman said with local government facing “unprecedented financial challenges” and weaknesses in public audit systems, the institute was stepping in to provide a leadership role in the public interest.

“Following the feedback we have received, we have modified and strengthened the tool so it will be even more helpful for local authorities with deteriorating financial positions,” he said.

“The tool will sit alongside CIPFA’s planned Financial Management Code, which aims to support good practice in the planning and execution of sustainable finances.”

CIPFA is now planning to introduce a “reserves depletion time” category as one of the indicators. This shows the length of time a council’s reserves will last if they deplete their reserves at the same rate as over the past three years.

The consultation response document said this new category showed that “generally most councils have either not depleted their reserves or their depletion has been low”.

“The tool will not now provide, as originally envisaged, a composite weighted index but within the suite of indicators it will include a red, amber, green (RAG) alert of specific proximity to insufficient reserve given recent trajectories,” it said.

It also highlighted the broad support from the sector for the creation of the index. “There was little dissent over the fact that CIPFA is doing the right thing in drawing attention to a matter of high national concern,” it said.

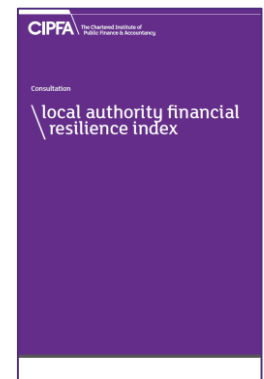
“Most respondents agreed to the need for transparency – but a sizable number had concerns over the possibly negative impacts of adverse indicators and many councils wanted to see their results prior to publication.”

As such, CIPFA plans to provide resilience measurements first to the local authorities and their auditors via the section 151 officer rather than publishing openly.

CIPFA Consultation

Challenge question:

Has your Chief Finance Officer briefed members on the Council’s response to the Financial Resilience Index consultation?



ICEAW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICEAW) has published a paper on the 'expectation gap' in the external audit of public bodies.

Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

What's the problem?

- **Short-term solvency vs. Longer-term value:** LG & NHS: Facing financial pressures, oversight & governance pressures
- **Limited usefulness of auditors reports:** 'The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money'
- **Other powers and duties:** implementing public interest reports in addition to VFM
- **Restricted role of questions and objections:** Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.
- **Audit qualification not always acted on by those charged with governance:** 'if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance'
- **Audit committees not consistently effective:** Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.
- **Decreased audit fees:** firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.
- **Impact of audit independence rules:** new independence rules don't allow for external auditors to take on additional work that could compromise their external audit role
- **Other stakeholders expectations not aligned with audit standards**

- **Increased auditor liability:** an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

Future financial viability of local public bodies

Local public bodies are being asked to deliver more with less and be more innovative and commercial. CFOs are, of course, nervous at taking risks in the current environment and therefore would like more involvement by their auditors. They want auditors to challenge their forward-looking plans and assumptions and comment on the financial resilience of the organisation..

The ICAEW puts forward two solutions:

Solution a) If CFO's want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

Solution b) Wider profession (IFAC, IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

More information can be found in the link below (click on the cover page)



The expectations gap

Challenge question:

How effectively is the audit meeting client expectations?



Brexit Room - Increasing readiness and resilience within your locality

Local authorities have always navigated uncertainty and faced challenges on behalf of communities and this role has never been more important than now. Whilst the outcome of Brexit remains uncertain at a national level, it is essential for councils to set a path to ensure the continued delivery of vital services and the best possible outcomes for their local communities and economies. Whatever happens over the coming weeks and months, it is important that councils identify key Brexit scenarios and use these to frame robust local contingency plans.

From our conversations with the sector we know that local authorities are at different stages in their preparation for this big change.

Here's a brief summary of the issues that we are seeing:

Organisations

- Engaging non-EEA nationals within the workforce to ensure they understand their residency rights and are not receiving incorrect information from other sources
- Loss of access to key EU databases on policing and trading standards and changes to data sharing arrangements
- Uncertainty around continuation of EU funding beyond 2020 and the implementation of the UK Shared Prosperity Fund.

Services and suppliers

- Engaging with key suppliers to assess their risk profiles and resilience
- Dealing with the immediate strain on key services such as social care and trading standards
- Potential disruption to live procurement activities and uncertainty around the national procurement rulebook post OJEU.

Place

- Considering scenarios for economic shock, the associated social impact in the short, medium and long-term and the potential impact on local authority financial resilience
- Potential impacts on major local employers, key infrastructure investment programmes and transport improvements
- Civil contingencies and providing reassurance and support to residents and businesses.

Our approach

The Brexit Room is a flexible and interactive half-day workshop designed to sharpen your thinking on the impact Brexit could have on:

Your organisation – including considerations on workforce, funding, and changes to legislation

Your services and suppliers – ensuring that critical services are protected and building resilience within supply chains

Your place – using our proprietary Place Analytics tools we will help you to understand potential impacts on your local communities and economy and develop a place-based response, working with partners where appropriate.

We can work with you to identify key risks and opportunities in each of these areas whilst building consensus on the priority actions to be taken forward. You will receive a concise and focused write-up of the discussion and action plan to help shape the next stages of your work on Brexit.

For more information, follow the link below:

<https://www.grantthornton.co.uk/insights/brexit-local-leadership-on-the-front-line/>

Brexit

Challenge question:

How well advanced are your authority's plans for Brexit?



A Caring Society – bringing together innovative thinking, people and practice

The Adult Social Care sector is at a crossroads. We have yet to find a sustainable system of care that is truly fit for purpose and for people. Our Caring Society programme takes a step back and creates a space to think, explore new ideas and draw on the most powerful and fresh influences we can find, as well as accelerate the innovative social care work already taking place.

We are bringing together a community of influencers, academics, investors, private care providers, charities and social housing providers and individuals who are committed to shaping the future of adult social care.

At the heart of the community are adult social care directors and this programme aims to provide them with space to think about, and design, a care system that meets the needs of the 21st Century, taking into account ethics, technology, governance and funding.

We are doing this by:

- hosting a 'scoping sprint' to determine the specific themes we should focus on
- running three sprints focused on the themes affecting the future of care provision
- publishing a series of articles drawing on opinion, innovative best practices and research to stimulate fresh thinking.

Our aim is to reach a consensus, that transcends party politics, about what future care should be for the good of society and for the individual. This will be presented to directors of adult social care in Spring 2019, to decide how to take forward the resulting recommendations and policy changes.

Scoping Sprint (Oct 2018)

Following opening remarks by Hilary Cottam (social entrepreneur and author of Radical Help) and Cllr Georgia Gould (Leader of Camden Council) the subsequent debate identified three themes for Grant Thornton to take forward:

1. Ethics and philosophy: What is meant by care? Should the state love?

2. Care in a place: Where should the power lie? How are local power relationships different in a local place?
3. Promoting and upscaling effective programmes and innovation

Sprint 1 – What do we really mean by 'Care'? (Dec 2018)

Julia Unwin, Chair of the Civil Societies Futures Project, and Sam Newman of Partners4Change sparked debate on why we need society to be brave enough to talk about care and the different levels at which 'care' can be applied to create a Caring Society.

Sprint 2 – A new role for the state? (7 Feb 2019)

Donna Hall, CEO of Wigan Council and Andrew of Reform, will start the debate on how can the state – nationally and locally – develop and adapt itself to be in service to a caring society.

To find out more or get involved:

- Join the conversation at #acaringociety
- [Why we need to create a caring society](#)
- [Creating a caring society – the start of the debate](#) – the key themes from our first round table
- [Social care must take the starring role in its own story](#) – why the definition of social care is so important if the system is to change
- [Markets, trust & governance](#) – how social care can evolve to become a driver of local care economies
- [The future care leader](#) – Fiona Connolly, director of adult social care at Lambeth, discusses the importance of local care leaders working across the entire health system

Challenge question:

How is your authority engaging in the debate about the future of social care?



Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<https://www.grantthornton.co.uk/en/industries/public-sector/>

<https://www.grantthornton.co.uk/en/insights/a-caring-society/>

<https://www.grantthornton.co.uk/en/insights/care-homes-where-are-we-now/>

<https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/>

National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

<https://www.nao.org.uk/report/local-authority-governance-2/>

Ministry of Housing, Communities and Local Government links

<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

Public Sector Audit Appointments

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

Informing the audit risk assessment for Birmingham City Council

Year ended 31 March 2019

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Council's external auditors and the Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports them in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern
- accounting estimates
- related parties.

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

Fraud

Issue

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

Fraud risk assessment

Question	Management response
<p>Has the Council assessed the risk of material misstatement in the financial statements due to fraud, including the nature, extent and frequency of such assessments?</p>	<p>Although there is an on-going risk of fraud being committed against the Council, arrangements are in place to both prevent and detect fraud. These include work carried out by Internal Audit on high risk areas, and a dedicated Counter Fraud Team. The Counter Fraud Team undertake reactive and proactive investigations across the organisation, this includes high risk areas such as Social Housing and Council Tax. The risk of material misstatement of the accounts due to undetected fraud is low.</p>

Fraud risk assessment (continued)

Question	Management response
<p>What processes does the Council have in place to identify and respond to risks of fraud, including any identified specific risks of fraud and risks of fraud likely to exist?</p>	<p>The Council has an Anti-Fraud and Corruption Policy and Fraud Response Plan which set out the 'zero tolerance' stance to fraud. This is supported by Financial Regulations which require all suspicions of financial irregularity to be reported to Internal Audit. As well as participating in the bi-annual National Fraud Initiative (NFI), regular data matching exercises are undertaken through Internal Audit's Data Warehouse facility and proactive data analytical routines are run on a periodic basis to highlight exceptions in data that may be an indication of fraud or error.</p> <p>Internal Audit participate in the annual survey of fraud in local government undertaken by CIPFA and review the results to identify potentially new fraud risks.</p> <p>Internal Audit staff participate in various forums to exchange ideas around fraud related issues, as well as working more widely in co-operation with law enforcement agencies to exchange information for the purpose of preventing and detecting crime. Fraud Spotlight, a bulletin covering fraud related topics, is published bi-annually on the Intranet, and similar material is distributed termly to schools through The Auditor bulletin. In addition ad-hoc fraud alerts are issued to schools through the Schools Noticeboard whenever a particular concern arises.</p> <p>The Policies Standards Procedures and Guidelines (PSPG) database includes a Fraud Awareness chapter, which has been revised this year. Bespoke fraud awareness training for staff can be provided on specific fraud related issues. Procedures are in place for reporting fraud; which includes an on-line referral form, a fraud hotline and a whistle blowing process.</p> <p>Financial Regulations stipulate that all cases of fraud should be reported to Internal Audit. All fraud referrals are risk assessed to determine whether the matter should be investigated by Internal Audit or the matter referred to the directorate for action. The findings of Internal Audit investigations are reported with appropriate disciplinary and/or systems related recommendations. In addition Internal Audit will refer cases to the Police where there is firm evidence of criminality and will also work with Legal Services if seeking civil remedy.</p>



Fraud risk assessment (continued)

Question	Management response
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>Housing Benefit remains a high risk area however responsibility for investigating fraud in this area transferred to the Department for Work & Pensions (DWP) as part of the Government's introduction of the Single Fraud Investigation Service (SFIS) on 1st February 2015. The Council no longer has any authority or legal power to investigate in this area. Nevertheless, Internal Audit are proactive in identifying potential fraud and overpayments during the course of its other investigations and notify the Benefits Service and DWP accordingly. The Benefits Service is responsible for re-assessing benefit claims following a notification from Internal Audit, and determining any overpayments. The Council has taken part in NFI data matching exercises to identify fraudulent claims for Housing Benefit.</p> <p>Social housing fraud has been identified as a high risk area and significant counter-fraud resources have been committed to identify illegal sub-lets, non-residency of properties and fraudulent applications for social housing in respect of its own stock and that of Registered Provider partners. Internal Audit have worked with Housing to secure the gateway to obtaining a tenancy through increased use of the Data Warehouse to validate applications, and by embedding this facility in to the frontline housing application processes. A similar approach has been pursued with applications made under the Right to Buy Scheme.</p> <p>Council Tax is also considered to be a high risk area, particularly in respect of Council Tax Support, Single Person Discounts (SPD's) and the various exemptions. Counter fraud resources have been committed to identify and investigate fraud and error in this area. The Council has taken part in NFI data matching exercises to identify fraudulent claims for SPD's and Council Tax Support. The Revenues Division has also recently sought to use Credit Reference Agency data and the Data Warehouse to identify potential fraud and error on an ongoing basis.</p> <p>Social Care fraud is also considered to be a high risk area. Internal Audit continue to work closely with the Adults Social Care Directorate to combat Direct Payment fraud.</p>

Fraud risk assessment (continued)

Question	Management response
<p>Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>There are adequate internal controls within systems to help prevent, deter and detect fraud. Compliance with controls is monitored by management as part of day to day governance arrangements and is reviewed by Birmingham Audit as part of delivering the internal audit plan. Whilst occasional compliance failures are identified, in general controls are applied and are effective in practice. Data analytical techniques are used to proactively check compliance and identify exceptions.</p>
<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets) ?</p>	<p>The financial reporting process is a robust and precise process with numerous controls in place. Budget managers are ultimately responsible for managing their budget targets. City Finance staff challenge their assumptions and input the forecasts, these staff have a reporting line to the Chief Finance Officer. Directors sign off the forecasts at a directorate level. Corporate revenue and capital monitoring reports undergo various levels of quality control before publication and public reporting. Data from Voyager is used as part of the reports.</p>
<p>Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process ?</p>	<p>The financial reporting process is a robust and precise process with numerous controls in place. Budget managers are ultimately responsible for managing their budget targets. City Finance staff challenge their assumptions and input the forecasts, these staff have a reporting line to the Chief Finance Officer. Directors sign off the forecasts at a directorate level. Corporate revenue and capital monitoring reports undergo various levels of quality control before publication and public reporting. Data from Voyager is used as part of the reports.</p>
<p>How does the Council communicate with those charged with governance regarding their processes for identifying and responding to risks of fraud in the entity?</p>	<p>Internal Audit provides the Audit Committee with updates of their work on fraud prevention and detection, including any significant identified frauds and the action taken. The Committee approves the Anti-Fraud & Corruption Policy, Fraud Response Plan and Prosecution & Sanctions Policies. The Committee receives an annual report on fraud which includes updates on other initiatives such as NFI.</p>

Fraud risk assessment (continued)

Question	Management response
How does the Council communicate with staff regarding their views on ethical behaviour and business practices?	<p>The employee code of conduct forms part of the contract of employment. The Code sets out the standard of conduct and reflects the values and behaviours that all employees are expected to follow. There are specific guidelines for dealing with employee fraud relating to benefits, social housing, Council Tax and Blue Badges.</p> <p>Business practice are laid out in the Policies Standards Procedures and Guidelines (PSPG) database. This database is currently being reviewed and updated.</p>
<p>How do you encourage staff to report their concerns about fraud?</p> <p>Have any significant issues been reported ?</p>	<p>There is a requirement within Financial Regulations that staff report suspected financial irregularities. This should be included within the induction for all staff. There is a Whistleblowing Policy in place, which includes schools, and a dedicated Whistleblowing Reporting Mailbox. All recorded disclosures are administered through a senior member of staff in Legal Services. All fraud awareness literature, including that available on the Employee Portal, includes an email address and telephone numbers for fraud reporting. An on-line referral form is in place on the Employee Portal and Birmingham.gov.uk. In addition, Fraud Spotlight deals with general fraud issues, and encourages staff to be alert to fraud and to report any suspicions to Internal Audit.</p>
Are you aware of any related party relationships or transactions that could give rise to risks of fraud ?	<p>Members and senior officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Council and Committee meetings. Reports provided through NFI are being used to help identify undeclared relationships.</p>

Fraud risk assessment (continued)

Question	Management response
<p>Are you aware of any instances of actual, suspected or alleged fraud, either within the Council as a whole or within specific departments since 1 April 2018 ?</p>	<p>From 1st April 2018 to 28th February 2019, 103 referrals of potential fraud and error had been made to Internal Audit's Corporate Fraud Team. Each referral is risk assessed to determine whether the matter should be investigated by Internal Audit or the matter referred to the directorate for action. The findings of the Internal Audit investigations are reported with appropriate disciplinary and/or systems related recommendations. In addition, 119 cases have been raised in relation to Application Fraud (Social Housing and Council Tax). In the year to date 62 social housing properties have been recovered for re-letting, 201 housing applications cancelled and 2 Right to Buy applications stopped. In addition, Council Tax changes of £542,869 have been identified.</p>
<p>Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2018 ? If so, how has the Audit Committee responded to these ?</p>	<p>There is a Whistleblowing Policy in place, which includes schools, and dedicated Whistleblowing Reporting Mailbox. All recorded disclosures are administered through a senior member of staff in Legal Services.</p> <p>From 1st April 2018 to 28th February 2019, 38 referrals have been received and recorded as a whistleblowing disclosure.</p> <p>All recorded disclosures are reviewed and monitored by the Monitoring Officer, Chief Executive and Deputy Leader.</p> <p>The number of whistleblowing disclosures are also considered and reported within the Annual Governance Statement.</p>

Laws and regulations

Issue

Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations ?</p>	<p>The Monitoring officer is responsible for ensuring the Council is compliant with laws and regulations. The Council's constitution notes that these responsibilities cover:</p> <ul style="list-style-type: none"> Report on contraventions or likely contraventions of any enactment or rule of law. Report on any maladministration or injustice where Ombudsman has carried out an investigation. Receive copies of whistleblowing allegations of misconduct. Investigate and report any misconduct in compliance with Regulations. Advices on vices issues, maladministration, financial impropriety, probity and policy framework and budge issues to all members. <p>The Monitoring Officer has access to all Council committee reports and also raises awareness on legal requirements at meetings where needed. In addition, in terms of any specific legal issues, the Monitoring Officer would get I involved at an early stage including vetting reports for legal issues.</p> <p>Senior lawyers in Legal Services undertake corporate governance review of reports to Cabinet and Cabinet Members.</p>
<p>How does management gain assurance that all relevant laws and regulations have been complied with?</p>	<p>This dealt with in the Annual Governance Statement.</p> <p>All reports to Committees contain a section covering the legislation on the matter under consideration, which are reviewed by legal staff for Decision reports.</p>
<p>How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with ?</p>	<p>Through the Annual Governance Statement process that is approved separately by Audit Committee and forms part of the annual financial statements.</p> <p>Regular updates of the Council's Risk Register are considered by CMT and Audit Committee.</p> <p>The financial and legal implications are set out in committee reports.</p> <p>Reassurance to the Resources Overview and Scrutiny Committee would be through reports to the committee where they were appropriate.</p>

Impact of laws and regulations (continued)

Question	Management response
Have there been any instances of non-compliance or suspected non-compliance with laws and regulations since 1 April 2018, or earlier with an on-going impact on the Council's 2018/19 financial statements ?	The Council has been found to be in default of process and/or legal requirement through various legal challenges through Judicial Review, Health and Safety claims, Information Commissioner and Ombudsman findings and both civil and criminal proceedings brought against the Council.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims ?	<p>Claims involving the Highest Risk to the Council are regularly monitored by the Legal and Governance Management team and reported to the Council Corporate Management Team.</p> <p>Where appropriate the impact of litigation or claims is recognised either in creditors/provisions or contingent liabilities where there is uncertainty about any payment.</p>
Are there any actual or potential litigation or claims that would affect the financial statements ?	Any potential significant litigation is disclosed through either provisions or contingent liabilities within the financial statements. Legal services maintain details of claims against the Council.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance ?	As above – Ombudsman, Information Commissioner and Health & Safety Executive.

Going Concern

Issue

Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
Is the going concern basis of accounting a fundamental principle in the preparation of the financial statements ?	The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code), paragraph 2.1.2.6 requires that the Council's financial statements are prepared on the going concern basis because it is assumed that the functions of the Council will continue in operational existence for the foreseeable future.
Has a preliminary assessment of the entity's ability to continue as a going concern been performed ?	The Council Plan 2019-2023 is a robust basis for identifying the Council as a going concern in 2019/20. Please see in particular chapter 3 section 22 (p.46 to p.50), which includes a detailed discussion and tabular summary of the financial risks which management are aware of. This analysis informs the level of reserves and balances included in the Plan (p.50 to p.56), and supports the S151 officer's assessment of the robustness of budget estimates and the level of reserves and balances on p.82.
What is the basis for the intended use of the going concern assumption, and are management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern ?	As described above, in addition to the requirement under the Code to prepare financial statements on the going concern basis, the Council Plan 2019-2023 is a robust basis for identifying the Council as a going concern in 2019/20. In addition to the risk assessment contained in chapter 3, the Council's Risk Register review process monitors ongoing risks and issues which management are aware of. Government announcements regarding future grant levels are monitored closely and projections are updated regularly. The Council is part of the West Midlands 100% Business Rates Pilot , which will enable it to keep business rates growth in the City.
Are arrangements in place to report the going concern assessment to the Audit Committee ?	Yes. Regular monitoring reports, including statements on revenue, capital and treasury management positions, are considered at Cabinet with call-in by scrutiny where determined. Audit Committee receives reports on matters that may have a significant impact on the financial position of the Council.
Are the financial assumptions in that report (e.g. future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year ?	The Council Plan 2019-2023 includes financial assumptions in relation to all Council commitments and liabilities, and is consistent with the reports taken to Audit Committee and the briefings given to its members. The Statement of Accounts includes details of the reported outturn for the year under review and sets out the issues considered to determine that the Council continues as a Going Concern.

Going concern considerations (continued)

Question	Management response
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern ?	The Council Plan 2019-2023+ explicitly takes into account the changes in Government grants. The financial figures were also derived from the policies and priorities for the Council as a whole and in each directorate's plans. Expenditure pressures are also built into the medium-and long-term plans.
Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made ? (Examples include adverse comments raised by Internal Audit regarding financial performance or significant weaknesses in systems of financial control).	<p>Audit Committee has received, and continues to receive, reports on significant issues facing the Council. During the last year, Audit Committee has received updates on matters relating to the Highways PFI contract, Paradise Circus redevelopment and Equal Pay</p> <p>Regular update reports are provided by Birmingham Audit to Audit Committee.</p>
Does a review of available financial information identify any adverse financial indicators including negative cash flow ? If so, what action is being taken to improve financial performance ?	<p>The Council's arrangements for its management of cashflows are set out in its Treasury Management Policy and Strategy. Because of its ready access to loan finance (in common with all other local authorities), negative cashflows are not necessarily an adverse financial indicator. Ultimately, negative cashflow is controlled by the balanced budget requirement and the prudential limit and indicators.</p> <p>The Council's arrangements for budget monitoring, including the implementation of the savings programme, ensure that close attention is paid to the need to deliver services within budgets available. This includes frequent reporting to Cabinet.</p> <p>Experience of the delivery of the previous savings programme has been taken into account in re-shaping the revised programme.</p>
Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives ? If not, what action is being taken to obtain those skills ?	The Council has in place management arrangements in respect of any risk of the non-delivery of its savings programme, including more robust monitoring and governance arrangements, assisted by additional resources in the programme management office, contingency planning, a non-delivery contingency budget and the maintenance of reserve balances to mitigate any residual risk.

Related Parties

Issue

Matters in relation to Related Parties

Local Authorities are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council (i.e. subsidiaries);
- associates;
- joint ventures;
- an entity that has an interest in the Council that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties (continued)

Question	Management response
What controls does the Council have in place to identify, account for and disclose related party transactions and relationships?	<p>Members and Senior Officers are required to complete an annual register of interests. Members and officers are also required to declare any interests relating to matters to be discussed in each meeting.</p> <p>The Council nominates representatives to organisations which are approved via Cabinet and other committees. Reports on representation on organisations boards are reported to Cabinet Committee – Group Company Governance.</p> <p>The Council also has relationships with organisations where it is a shareholder or member of that organisation. These relationships are reported to CC-GCG on a regular basis.</p>
Who are the entity's related parties, including changes from prior period?	<p>The Council has a number of subsidiary and associate companies and joint operations which are consolidated into its group accounts. The entities involved are:</p> <p>Acivico Limited, Birmingham Children's Trust CIC, Birmingham City Propco Limited, Innovation Birmingham Limited, InReach (Birmingham) Limited, National Exhibition Centre (Developments) Plc, PETPS (Birmingham) Limited, PETPS (Birmingham) Pension Funding Scottish Limited Partnership, Birmingham Airport Holdings Limited (BAH), Paradise Circus General Partner Limited,</p> <p>Birmingham Children's Trust became operational from 1 April 2018.</p> <p>The Council operates pooled budget arrangements with two Clinical Commissioning Groups, NHS Birmingham & Solihull CCG and NHS Sandwell & West Birmingham CCG</p> <p>(continued overleaf)</p>

Related Parties (continued)

Question	Management response
Who are the entity's related parties, including changes from prior period? (continued)	<p>The Council has a relationship with a number of where it has 100% share ownership or where it is sole member of a company limited by guarantee, which are not consolidated into the Council's group accounts. Details of the organisations where transactions with the Council exceeded £100k are:</p> <p>Birmingham Museums Trust, Birmingham Venture Capital Limited, Birmingham Wheels Ltd, Finance Birmingham Limited, Performances (Birmingham) Limited.</p> <p>The Council is involved with a number of companies where it is a minority shareholder and the level of activity is not material to the Council's group accounts. Details of the organisations where transactions with the Council exceeded £100k are:</p> <p>Auctus, Birmingham LEP Company (also known as Birmingham Lend Lease Partnership), Birmingham Schools SPC Phase 1A Limited, Birmingham Schools SPC Phase 1B Limited, Birmingham Wholesale Market Company Limited, Veolia Environmental Services Birmingham Ltd, West Midlands Growth Company Limited,</p> <p>The Council has representation on the board of a number of organisations but has no shareholding or entitlement to returns from the organisation. Details of the organisations where transactions with the Council exceeded £100k are:</p> <p>Acocks Green Primary School Academy, Alston Primary School Academy, Ark Tindal Primary School Academy, Bartley Green School Academy, Birmingham Citizens Advice Bureau Service Ltd, Birmingham Repertory Theatre, Birmingham Royal Ballet, Bournville College, Bournville School, City of Birmingham Symphony Orchestra, Cockshut Hill Technology College Academy, Heathfield Primary School Academy, Joseph Chamberlain College, King Edward VI Academy Trust, Leigh Primary School Academy, Midlands Arts Centre, Millennium Point Property Ltd, Prince Albert Primary School Academy, St Basils, St. Paul's Community Development Trust, St. Paul's Community Development Trust, Shenley School Academy, Tile Cross Academy School, Warren Farm Primary School Academy, Warwickshire County Cricket Club, West Midlands Combined Authority, Wilson Stuart School Academy, Witton Lodge Community Association Ltd, Wyndcliffe Primary School</p>



Related Parties (continued)

Question	Management response
Who are the entity's related parties, including changes from prior period? (continued)	<p>The Council has representation on Business Improvement District boards. Details of the organisations that had transactions with the Council in excess of £100k are:</p> <p>Acocks Green Village BID, Retail Birmingham Limited, Colmore Business District BID, Southside BID, Sutton Coldfield Town Centre BID, Westside Partnership Limited,</p> <p>The Council, whilst not having any shareholding, has significant influence over a number of bodies due to their funding arrangements. Details of the organisations that had transactions with the Council in excess of £100k are:</p> <p>Bloomsbury Estate Management Board, Manor Close Residents' Management Organisation, Four Towers TMO, Roman Way Estate Community Interest Company</p> <p>The Council has had transactions of over £100k with the following organisations which fall within the definition of related parties, but where the influence is indirect and limited.</p> <p>Anthony Collins Solicitors, Norton Hall Children and Family Centre, Birmingham and Solihull Mental Health Trust, Sandwell and West Birmingham Hospitals NHST, Birmingham and Solihull Women's Aid, Shencare Community Transport Trust, Birmingham Community Healthcare Trust, Sir Josiah Mason Trust, Birmingham YMCA, South and City College (Birmingham) Limited, Thompsons Solicitors, Focus Birmingham, University Hospital Birmingham Foundation Trust, Highclare Independent School, Yardley Great Trust, Leigh Trust</p>
What is the nature of the relationships with these related parties?	As detailed above
Has the Council entered into any transactions with these related parties during the period, if so, what are the type on purpose of these transactions?	As detailed above



Accounting estimates

Issue

Matters in relation to accounting estimates

Local Authorities apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Council is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting estimates (continued)

Question	Management response
Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable ?	Yes. Experts in particular fields are used to provide estimates and there is a reasonableness check on the advice given. Also our external auditors have reviewed the basis of estimates in previous years and confirmed that the council's financial statements are materially correct.
How are transactions, events, and conditions identified that may give rise to the need for accounting estimates to be recognised or disclosed in the financial statements ?	The Council has dedicated finance business partners supporting services with appropriate levels of financial support. There are also central teams dealing with activity such as capital expenditure, treasury management and commercial activities. Each finance team has detailed knowledge of their area and appropriate financial skills to recognise where recognition and disclosure is appropriate.
Are there any changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates ?	The implementation of IFRS 9 has meant a thorough review of the implications of holding financial assets has been undertaken to ensure that the Council continues to comply with accounting standards.
How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Regular monitoring reports are considered by Cabinet and are subject to call in by scrutiny for further review. Reports on specific areas are considered by Audit Committee, for example, on equal pay, highways PFI and Paradise redevelopment.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property Valuations	<p>A five year rolling revaluation programme supplemented by annual reviews of significant changes in market values, is used for all property assets apart from HRA assets.</p> <p>HRA assets are subject to a full revaluation every five years in line with guidance from the Ministry of Health, Communities and Local Government. In intervening years a desktop review of the valuation is carried out.</p> <p>All assets are valued at current value.</p>	The valuer is issued with instructions as to the basis of valuation in line with the Cipfa Code of Practice and RICS guidance. The resultant valuations are reviewed by a qualified RICS surveyor and then by Finance as to their reasonableness compared with previous years.	Valuations are carried out by the Council's own valuer, who is a member of the Royal Institution of Chartered Surveyors. Where it is necessary to use external valuers for either specialist assets or for managing fluctuations in demand, it is a requirement that the valuations are carried out by a RICS qualified valuer.	Asset valuations, by their very nature, are subject to uncertainty due to market fluctuations. Estimates are provided by the valuer in line with RICS requirements and taking into account prevailing market conditions	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Estimated remaining useful Lives of PPE	<p>The estimated Useful Economic Life (UEL) of an asset is considered as part of the five year rolling valuation process undertaken by the RICS qualified surveyor. Their judgement is included in the report provided to support the carrying values within the financial statements.</p> <p>Each year, an internal asset review is undertaken by services to determine whether there have been any changes to assets, part of which would focus on the UEL of the asset. Where there are significant changes, this information is provided to the valuer.</p>	By its nature the UEL is an estimate but the use of an expert will provide comfort that on average assets will be able to meet service requirements over their UEL	UEL is considered by the RICS qualified valuer as part of the annual report.	The Council uses standard parameters for the UEL of assets and if the valuer were to identify a UEL outside the usual range then additional information would be sought to determine the reason for the variance.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation	<p>Depreciation is charged on a straight line basis over the remaining UEL of an asset. Depreciation is not charged in the year of the asset purchase/creation but charged in full in the year of disposal.</p> <p>The level of annual depreciation will also be affected by any assessment of a residual value of an asset at the end of its UEL. This can only be an estimate based on the professional knowledge of the value.</p> <p>Depreciation is the outcome from two estimates, the valuation and the UEL.</p>	Given that the constituent parts of the determination of depreciation are estimates then depreciation will be an estimate.	A qualified RICS valuer has identified the most appropriate valuation and UEL of an asset and these have been used to determine depreciation.	Depreciation can be determined on a number of differing bases. The Council feels that the charge to revenue for depreciation is best met by charging on a straight line basis over the UEL.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Property – impairment is considered through two methods. The first is as part of the cyclical valuation undertaken by qualified valuers and the second is through an asset review undertaken by services in respect of their own properties. Once an asset has been identified as being impaired, the qualified valuers then undertake an assessment of the impact of that impairment.	The resultant impairments are reviewed by a qualified RICS surveyor.	Valuations are carried out by the Council's own valuer, who is a member of the Royal Institution of Chartered Surveyors. Where it is necessary to use external valuers for either specialist assets or for managing fluctuations in demand, it is a requirement that the valuations are carried out by a RICS qualified valuer.	Asset valuations, by their very nature, are subject to uncertainty due to market fluctuations. Estimates are provided by the valuer in line with RICS requirements and taking into account prevailing market conditions	No
	Financial Assets – impairment is considered through two methods. From the investments made by the Council as non-treasury investments advice is sought experts within Finance Birmingham who have appropriate experience whilst with Treasury investments advice is sought from Arlingclose.	Any resultant impairments are reviewed and challenged where the Council has relevant information	Yes.	As knowledge can only ever be partial in considering the financial position of external organisations, the Council has to rely on guidance from its external advisors with a check back for reasonableness on the basis of local knowledge.	Yes, partially. The implementation of IFRS 9 is making the Council look at expected credit losses earlier than previously which relied on evidence of impairment rather than knowledge that a proportion of investments are likely to fail when the investment is made.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provision for doubtful debts	An analysis has been made of the repayment profile of invoices raised in a single financial year, broken down by the type of service being provided. This has then been used to inform the judgement as to the level of bad debt provision required taking into account the nature of the debtors and whether there is any security over the debt.	The estimates determined from the exercise have been compared to the amount of debt written off in prior years to ensure that estimates remained reasonable. Assumptions have been challenged on the robustness of provisions proposed.	A range of relevant Council staff have been consulted where appropriate. Training has been provided on the new methodologies required under IFRS 9		

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	As above in the consideration of impairment in investments, advice is sought from external partners on the value of financial instruments.	As above in the consideration of impairment of investments	Yes	As above in the consideration of impairment of investments	As above in the consideration of impairment of investments
Creditor accruals	Robust forecasting is undertaken of the financial outturn for the Council. Creditor accruals are based on the best knowledge available when forecasting outturn. Where there is more up to date information at the year end, then accruals are amended to reflect actual activity delivered in the financial year.	As well as linking back to the robust forecasting undertaken, checks are made to ensure that there are no significant items that should also be accrued for that were not known at the time of the forecast.	Forecasting is undertaken with services who have detailed knowledge on the level of activity committed in the financial year.	As with all estimates, knowledge can never be perfect but checks are undertaken on the anticipated level of activity compared to trends in spend and by checking activity undertaken in the new year to ensure that any significant items have not been excluded.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund Actuarial gains/losses	The estimates of actuarial movements in the pension fund liabilities are undertaken by a qualified actuary. The actuary uses estimates based on their professional knowledge within accepted parameters used by the sector.	The Council reviews the factors used by the actuary to determine that they are within the standard sector parameters and are reasonable.	A qualified actuary from Barnett Waddingham LLP, actuary to the West Midlands Pension Fund, is used to provide the information.	The underlying assumptions are based on the actuary's judgement within the standard sector parameters. Given the length of the liabilities a small change to one of the parameters could have a significant impact on the level of liabilities reported. The professional actuary is used to ensure that the estimate has been based on an appropriate basis.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Overhead allocation	<p>The total budget for the City's Central Directorates is split across</p> <ul style="list-style-type: none"> • Democratic Core • Non-distributed costs • Services to the Public • Other non-CSC • Central Support Charges <p>The element identified as Central Support Charges is recharged to Directorates apportioned on one of a number of appropriate data sets, including headcount, gross expenditure, etc.</p>	The estimates are produced from a download of the draft budget and as such reflect the controls and assumptions within BCC's financial planning process at that point.	CIPFA/CCAB qualified accountant	The current basis of allocation has been in place for the last few years. It is proposed that this will be reviewed in 2019/20.	No



Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension liability of senior officers	Senior officers, where they are members of a pension scheme, are members of either the Local Government Pension Scheme, the Teachers Pension Scheme or the NHS Pension Scheme. The latter two schemes are treated as defined contribution schemes. The assessment of any liabilities for senior officers would form part of the assessment of the overall scheme liabilities.	The Council reviews the factors used by the actuary to determine that they are within the standard sector parameters and are reasonable.	A qualified actuary from Barnett Waddingham LLP, actuary to the West Midlands Pension Fund, is used to provide the information.	The underlying assumptions are based on the actuary's judgement within the standard sector parameters. Given the length of the liabilities a small change to one of the parameters could have a significant impact on the level of liabilities reported. The professional actuary is used to ensure that the estimate has been based on an appropriate basis.	No

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	AUDIT COMMITTEE
Report of:	Chief Finance Officer
Date of Decision:	26 March 2019
Subject:	Adoption of Accounting Policies for 2018/19
1	Purpose of Report
1.1	To seek Members' approval to the adoption of accounting policies for the completion of the Council's accounts for 2018/19.
1.2	To notify Members of the changes in accounting standards that will impact on the Council's accounts in future years.
2	Decisions recommended
	That Audit Committee:
2.1	Consider and adopt the accounting policies for the determination of the Council's accounts for 2018/19.
2.2	Note the implications for future years' accounts arising from the changes in accounting standards.

Contact Officers:

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3 Compliance Issues

- 3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies:
Yes.
- 3.2 Relevant Ward and other Members/Officers etc. have been consulted on this matter:
The Chair of Audit Committee has been consulted.
- 3.3 Relevant legal powers, personnel, equalities and other relevant implications:
Sections 3(3) and 3(4) of the Local Audit and Accountability Act 2014 require the Council to prepare financial accounts for each 12 month period ending 31 March.
- 3.4 Will decisions be carried out within existing finances and resources:
Yes.
- 3.5 Main Risk Management and Equality Impact Assessment Issues:
The Council is required to produce its annual accounts within statutory deadlines. The adoption of its accounting policies at an early stage will ensure that there are clear guidelines on recording accounting entries.

4 Background

- 4.1 The Council is required to prepare its accounts with regard to:
- a) Relevant accounting standards
 - b) The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 published by the Chartered Institute of Public Finance and Accountancy (the Code), which is updated annually
 - c) Relevant Statutes
- 4.2 Whilst accounting standards provide the framework for the preparation of accounts, they are subject to interpretation and judgement, for example, the period over which non-current assets are depreciated. The Council's accounting policies set out the Council's interpretation of the application of relevant accounting standards and form a consistent basis for recording activities.
- 4.3 The proposed accounting policies for consideration by Members are set out in Appendix 1 to this report.

5 New Accounting Standards for 2018/19

5.1 There are two new major standards that are applicable for the 2018/19 financial statements for the first time:

- IFRS 9 – Financial Instruments
- IFRS 15 – Revenue from Contracts with Customers

5.2 IFRS 9 will impact significantly on local authorities through changes in treatment of assets held as financial instruments in a number of ways.

For loans and receivables within the accounts, an assessment of the ability to recover the debt will now have to be undertaken at inception and be based on expected credit loss rather than when there is evidence of potential default. This, therefore, forces organisations to recognise potential default significantly earlier than it would previously have done.

For financial assets, the accounting arrangements previously categorised them into three categories:

- Loans and Receivables
- Available for Sale, and
- Fair Value through Profit and Loss

In the future, financial assets will be categorised into three new categories:

- Amortised Cost, where recovery is through solely payments of principal and interest (SPPI)
- Fair Value through Other Comprehensive Income, where recovery is through SPPI or through sale of the asset
- Fair Value through Profit and Loss, where recovery is through means other than SPPI, eg equity instruments,

Any movements in the carrying value of financial assets in the first and third categories will impact General Fund or HRA balances immediately unless the assets are capital in nature. In the second category the impact of any movements will not hit balances until the financial asset is disposed of.

5.3 IFRS 15 requires organisations to account for income when the service generating that income is delivered. An example of the impact would be a sale of a vacuum cleaner with a three year warranty period. The income from the sale would need to be split into the sale of the product and then an annual income in respect of the warranty. This accounting standard is likely to have a minimal impact on local authorities.

5.4 The accounting policies have been amended to reflect the new accounting standards.

6 Accounting Standards Changes in Future Years

- 6.1 IFRS 16 – Leases – impact on the accounts in 2020/21.
- 6.2 The implementation of this standard has been deferred a year as whilst it has no impact on balances for local authorities it does have for other organisations that form part of the Whole of Government Accounts (WGA). As a result of the impact on the bottom line for certain organisations, it was decided that implementation would be deferred for part of the public sector for one year. This would have meant that local authorities would have to produce their accounts under the new accounting standard and then provide information for the WGA on the old accounting basis. Therefore, it was agreed that implementation would be deferred for local authorities for one year.
- 6.3 This standard does not impact on an entity that is a lessor but does have an impact where it is a lessee. Once the standard is implemented lessees will have to account for leases greater than 12 months for substantial assets by recognising an asset, with an associated liability for the present value of the unavoidable lease payments, on its balance sheet. Effectively operating leases would be treated in the same way as finance leases are at present.

The change in approach is likely to mean that all new substantial leases of a lessee would be treated as capital expenditure and fall within the Prudential Framework.

7 Accounting Implications

- 7.1 The potential implications for future years' accounts as a result of the implementation of the new accounting standards will be reported to Members as the standards are published and additional information becomes available.

8 Recommendations

- 8.1 It is recommended that Members:
- a) adopt the accounting policies for 2018/19 as detailed in Appendix 1.
 - b) note the implications for future years of the introduction of new accounting standards.

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Clive Heaphy, Chief Finance Officer

Accounting Policies**i. General Principles**

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The Accounts and Audit Regulations 2015, require the Council to prepare an annual statement of accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the statement of accounts is principally historical cost, modified by the revaluation of certain categorised non-current assets and financial instruments. Historical cost is deemed to be the carrying amount of an asset as at 1 April 2007 (that is, brought forward from 31 March 2007) or at the date of acquisition, whichever date is the later, and if applicable is adjusted for subsequent depreciation or impairment.

ii. Accruals of Income and Expenditure

Service activity is accounted for in the year it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Revenue from the provision of services is recognised when the Council can reliably measure the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet, for example, fuel and transport parts;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- When income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

The Council has based its general accruals on the difference between the forecast revenue outturn for the year and the actual income/expenditure recorded by 31 March. Specific accruals are included for material items and for items relating to:

- Statutory accounts, for example, the Collection Fund, Precepts;
- Grants received by the Council that are conditional on expenditure within the year.

This is intended to improve the efficiency of the final accounts process in order that earlier closedown deadlines can be achieved.

iii. Fair Value Measurement

The Council measures some of its non-financial assets, such as investment properties, and some of its financial instruments, such as equity shareholdings, at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised with the fair value hierarchy as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 – unobservable inputs for the asset or liability.

iv. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

v. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively,

that is, in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, or events and conditions, on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

vi. Employee Benefits

Benefits Payable During Employment

Short Term Benefits

Short term employee benefits are those due to be settled within 12 months of the year-end. They include benefits such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits, for example cars for current employees, and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of annual leave entitlements (or any other form of leave, for example time off in lieu) earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus/Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that leave benefits are charged to revenue in the financial year in which the leave of absence occurs.

Other Long Term Benefits

Other long term employee benefits are benefits, other than post-employment and termination benefits, that are not expected to be settled in full before 12 months after the end of the annual reporting period for which employees have rendered the related service. Within local authorities the value of these benefits are not expected to be significant. Such long term benefits may include:

- Long term paid absence or sabbatical leave;
- Long term disability benefits;
- Bonuses;
- Deferred remuneration.

Long term benefits would be accounted for on a similar basis to post-employment benefits.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an employee's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate Directorate at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund and Housing Revenue Account balances to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement, appropriations are required to and from the Pension Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

Employees of the Council are members of one of three separate pension schemes:

- The Local Government Pension Scheme, administered by the West Midlands Pension Fund offices at Wolverhampton City Council;
- The Teachers' Pension Scheme administered by Capita Teachers' Pensions on behalf of the Department for Education;
- The NHS Pensions Scheme, administered by NHS Pensions.

Each scheme provides defined benefits to members (retirement lump sums and pensions), earned during employment with the Council.

The arrangements for the Teachers' Pension Scheme and the NHS Pensions Scheme mean liabilities for these benefits cannot ordinarily be identified specifically to the Council. These schemes are, therefore, accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet.

The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the West Midlands Local Government Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – that is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees;
- Liabilities are discounted to their value at current prices, using a discount rate of X.XX based on the indicative rate of return on AA rated corporate bond yields;
- The assets of the West Midlands Local Government Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
 - quoted securities – current bid price;
 - unquoted securities – professional estimate;
 - unitised securities – current bid price;
 - property – market value.
- The change in the net pensions liability is analysed into the following elements:

Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the Directorates for which the employees worked;

- past service cost – the increase in liabilities arising from current year decisions whose effect related to years of service earned in earlier years – allocated to Directorates in the Comprehensive Income and Expenditure Statement;
- net interest on the net defined benefit liability/(asset), that is the net interest expense for the Council – the change during the reporting period in the net defined benefit liability/(asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/(asset) at the beginning of the period – taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contribution and benefit payments.

Re-measurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability/(asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the West Midlands Local Government Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund and Housing Revenue Account balances to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners, and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund and Housing Revenue Account arising from the requirement to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff, including teachers and public health employees, are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

vii. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but which does not result in the creation of a non-current asset, has been charged as

expenditure to the relevant Directorate in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer through the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

viii. Charges to Revenue for Non-Current Assets

Directorates and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- Amortisation of intangible non-current assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. An adjustment is, therefore, made to remove depreciation, amortisation and revaluation and impairment losses from the General Fund and Housing Revenue Account through Note XX, Adjustments Between Accounting Basis and Funding Basis under Regulations, and the Movement in Reserves Statement and to replace them by the statutory contribution from the General Fund or Housing Revenue Account Balance to the Capital Adjustment Account.

ix. Government Grants and Contributions

Government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments; and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution are considered more likely than not to be satisfied in the future. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions are unlikely to be satisfied are carried in the Balance Sheet as creditors. Where conditions are satisfied or expected to be satisfied, the grant or contribution is credited to the relevant Directorate (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account as they are applied to fund capital expenditure.

x. Overheads and Support Services

The costs of overheads and support services are charged to Directorates in accordance with the Council's arrangements for accountability and performance.

xi. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (for example, repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council capitalises borrowing costs incurred whilst material assets are under construction. Material assets are considered to be those where total planned (multi-year) borrowing for a single asset (including land and building components) exceeds £20m, and where there is a 'substantial period of time' from the first capital expenditure financed from borrowing until the asset is ready to be brought into use. A substantial period of time is considered to mean in excess of two years. Both of these tests will be determined using estimated figures at the time of preparing the accounts in the first year of capitalisation. Should either test fail in subsequent financial years, the prior year's treatment will not be adjusted retrospectively.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (that is, it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are subsequently carried in the Balance Sheet using the following measurement bases:

- infrastructure assets, vehicles, plant, furniture and equipment (excluding Tyseley Energy Recovery Facility) – depreciated historical cost;
- community assets and assets under construction – historical cost;
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);
- where cleared land has been designated for social housing use, that land is valued using the basis of EUV-SH;
- all other assets – current value, determined as the price that would be received to sell an asset in its existing use. Where there is no market based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in asset valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end for any indication that an asset may be impaired. Where indications exist and any possible difference is estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where revaluation and impairment losses are identified, and where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the reduction in value is charged against that balance until it is used up. Thereafter, or if there is no balance of revaluation gains, the loss is charged against the relevant Directorate in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant Directorate in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for the depreciation that would have been charged if the loss had not been recognised.

Useful Life

The Council estimates that assets, at new, have remaining useful lives within the parameters as detailed below:

- Council Dwellings – separated into the key components
 - Land – indefinite life;
 - Kitchens – 20 years;
 - Bathrooms – 40 years;
 - Doors/Windows/Rainwater, Soffits and Facias – 35 years;
 - Central Heating/Boilers – 15 to 30 years;
 - Roofs – 25 to 60 years;
 - Remaining components (Host) – 30 to 60 years;
- Buildings – up to 50 years;
- Vehicles, Plant, Furniture and Equipment – up to 50 years;
- Infrastructure – up to 40 years.

The useful life of each relevant asset is reviewed as part of the Council's five year cycle of revaluation by an appropriately qualified valuer.

Where a school is proposing to transfer to Academy School Trust status after the year end, the Council maintains the useful life of the school's assets on the basis of the last valuation undertaken.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets, including components, by the systematic straight line allocation of their depreciable amounts over their useful lives. Assets without a determinable finite useful life, and assets that are not yet available for use, are not depreciated. Depreciation is charged in the year of disposal. Depreciation is not charged in the year of purchase.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Componentisation

Where an asset is material (over £5m) and has major components whose cost is significant to the total cost of the asset, and which have markedly different useful lives, components are separately identified and depreciated. Also, additions are considered for components, whereby as components are added, any component being replaced is derecognised. Where the historical cost of the old component is not readily determinable, it has been estimated by comparing the remaining useful economic life of the component to the original useful economic life and the cost of the replacement component. A pro rata of both the depreciation and any applicable Revaluation Reserve is also derecognised.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and carrying value less the cost of sale. Where there is a subsequent decrease to carrying value less the cost of sale, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in current value are recognised only up to the amount of any previous losses recognised in the Surplus/Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

Where assets are no longer used by a Directorate, these assets are offered to other Directorates for use. Those assets which are surplus are made available for sale and will be classified as Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet and the gain or loss on disposal is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. Gains and losses on disposal of assets are not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance through the Movement in Reserves Statement.

Amounts, in excess of £10,000, received from a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals (for 2018/19, 75% of the receipt net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve. Receipts are appropriated to the Reserve from the General Fund Balance through the Movement in Reserves Statement.

xii. Heritage Assets

Heritage assets are assets that have historical, artistic, scientific, technological, geographical or environmental qualities that are held in trust for future generations because of their cultural, environmental or historical associations and contribution to knowledge and culture. They include museums' and libraries' heritage collections, historic buildings and the historical environment, public works of art and civic regalia and plate.

Where assets of a heritage nature are used in the ongoing delivery of the Council's services, such as historically interesting buildings and parks and open space, they have not been categorised as heritage assets but remain as other land and buildings or as community assets within Property, Plant and Equipment.

For the Museum, Library and Civic Plate Collections, insurance valuations are used due to the unique nature, diversity and quantity of the assets, and lack of historical cost information. For other types of Heritage Assets, historical cost information is used where available when compiling the balance sheet.. In some cases, neither reliable valuation information nor historical cost information is available, in which case the asset has been excluded from the balance sheet.

The Council considers that heritage assets will have indeterminate lives and a high residual value; and therefore does not consider it appropriate to charge depreciation on the assets. Any impairment or disposal of heritage assets is recognised and measured in accordance with the Council's relevant policies (see section xi. Property, Plant and Equipment in this note).

xiii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (for example, software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost and the depreciable amount is amortised over the useful life of the asset on a straight line basis and charges to the relevant Directorate in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

xiv. Investment Properties

Investment properties are those that are held by the Council solely to earn rentals and/or for capital appreciation. An asset does not meet the definition of being an investment property if it is used in any way to facilitate the delivery of services, for the production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently carried at current value, measured at highest and best use. Investment properties are not depreciated but are revalued annually based on market conditions at the year-end. Gains/losses on revaluation, or on disposal, are posted to Financing Income and Expenditure in the Comprehensive Income and Expenditure Statement.

Rentals received in relation to investment properties are credited to Financing Investment Income in the Comprehensive Income and Expenditure Statement and result in a gain for the General Fund Balance. However, revaluation and disposal gains/losses are not permitted by statutory arrangements on the General Fund Balance and are therefore reversed out through the Movement in Reserves Statement and posted to the Capital Adjustment Account.

Whilst discharging its role the Council works to ensure that the stewardship of all property assets is such that they are managed in a way that is economic, efficient and effective. The Council has a site that meets the definition of 'Investment Properties'.

The Council has a number of lease arrangements with subsidiary companies that are not treated as investment properties in line with IAS 40, Investment Property.

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

xv. Service Concession Arrangements

Service concession arrangements (formerly classed as PFI and similar contracts) are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the contractor. As the Council is deemed to control the services that are provided under the arrangement, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to

the scheme operator to pay for the capital investment. The Council includes the cost of establishing Special Purpose Vehicles in the calculation of the liabilities.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the contractor each year are analysed into five elements:

- Fair value of the services procured during the year – debited to the relevant Directorate in the Comprehensive Income and Expenditure Statement;
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Contingent rent – inflationary increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Payment towards liability – applied to write down the Balance Sheet liability towards the contractor;
- Lifecycle replacement costs – usually recognised as an addition to Property, Plant and Equipment when the relevant works are carried out in line with the operator's model spending profiles.

xvi. Leases

Leases are classified as either finance or operating leases at the inception of the lease. Classification as a finance lease occurs where the terms of the lease transfer substantially all the risks and rewards incidental to the ownership of the asset from lessor to lessee and where the lease term is for the major part of the economic life of the asset in question, whether or not title is eventually transferred. Those leases not classified as finance leases are deemed to be operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant or equipment held under a finance lease is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premia paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which

they are incurred. Property, Plant and Equipment recognised under finance leases are accounted for using the policies generally applied to such assets (see section xi above).

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- A finance charge – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the Directorate benefiting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments.

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement as part of the gain/loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain/loss on disposal, matched by a lease (long term debtor) asset in the Balance Sheet

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor; and
- Finance income - credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to impact the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve through the Movement in Reserves Statement. Where the amount due in relation to the lease asset is settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve through the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease for an asset, it is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xvii. Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint operations and proper accounting practices require it to prepare group accounts. In the Council's own single entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

xviii. Accounting for Schools

Local authority maintained schools, in line with relevant accounting standards and the Code, are considered to be separate entities with the balance of control lying with the Council. As such the Council should consolidate the activities of schools into its group accounts. However, the Code requires that the income, expenditure, assets and liabilities of maintained schools be accounted for in local authority entity accounts rather than requiring the preparation of group accounts.

The Council has the following types of maintained schools under its control:

- Community schools;
- Voluntary Controlled schools;
- Voluntary Aided schools;
- Foundation schools.

Given the nature of the control of the entities and the control of the service potential from the non-current assets of the maintained schools, the Council has recognised buildings and other non-current assets on its balance sheet. The Council has recognised all land for Community Schools on its balance sheet and recognised that land for Voluntary Aided, Voluntary Controlled and Foundation Schools where it can be demonstrated that the Council has control over the land through restrictive covenants within site deeds or where there is reasonable evidence that restrictive covenants are in place.

Academies and Free Schools are not considered to be controlled by the Council and are not consolidated into the entity or group accounts.

xix. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are initially measured at fair

value and are carried at their amortised cost. Non-borrowing creditors are carried at contract amount. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments to the instrument over the life of the instrument to the amount at which it was originally recognised.

For most of the Council's borrowings, this means the amount presented in the Balance Sheet is the outstanding principal repayable, plus accrued interest; and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

However, the Birmingham City Council 2030 bonds, issued in exchange for NEC loan stock in 2005, were issued at a fair value in excess of the principal repayable. Interest is being charged on an amortised cost accounting basis, which writes the value down to zero at maturity.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

Where premia and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was repayable or discount received when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI). The Council does not currently have any financial assets designated at FVOCI.

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the

instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains and losses that arise on derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost [or where relevant FVOCI], either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

Where it is possible to determine a fair value, measurement of the financial assets is based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority Council can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Instruments Entered Into Before 1 April 2006

The Council has entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in the section on Provisions, Contingent Liabilities and Contingent Assets.

xx. Cash and Cash Equivalents

Cash and Cash Equivalents are represented by cash in hand and deposits with financial institutions, which must be repayable immediately without penalty. Any deposits with financial institutions that may be repaid after the immediate day are considered to be investments, not cash equivalents.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand, where there are pooling arrangements across the accounts with the same institution, and form an integral part of the Council's cash management.

xxi. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For example, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate Directorate in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. Provisions are not discounted to their value at current prices unless material.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant Directorate.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (for example, from an insurance claim), this is only recognised as income for the relevant Directorate if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Provision for Back Pay Arising from Equal Pay Claims

The Council has made a provision for the costs of back pay arising from claims made under the Equal Pay Act 1970, as amended by the Equal Pay Act (Amendment) Regulations 2003. The Council bases the estimate of its provision on the expected costs of settlement for claims received up to the point of production of its financial statements.

The Council has received capitalisation directions to support an element of the provision made. However, statutory arrangements allow settlements to be financed from the General Fund and Housing Revenue Account in the year that the payments actually take place, not when the provision is established. The additional provision made above the capitalisation directions given is, therefore, balanced by an Equal Pay Back Pay Account created from amounts credited to the General Fund and Housing Revenue Account balances in the year that the provision was made or modified. The balance on the Equal Pay Back Pay Account will be debited back to the General Fund and Housing Revenue Account balances through the Movement in Reserves Statement in future financial years as payments are made.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation that will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in Note XX to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in Note XX to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xxii. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate Directorate in that year to score against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

xxiii. Council Tax and Business Rates

Billing authorities are required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and Business Rates. The Collection Fund's key features relevant to the accounting for Council Tax and Business Rates in the core financial statements are:

- In its capacity as a Billing Authority the Council acts as an agent, collecting and distributing Council Tax on behalf of the major preceptors and as principal for itself;
- While the Council Tax and Business Rates income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is the Council's demand on the Fund for that year, plus/(less) the Council's share of any surplus/(deficit) on the Collection Fund for the previous year. This amount may be more or less than the accrued income for the year in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Comprehensive Income and Expenditure Statement

The Council Tax and Business Rates income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement. In addition, that part of Business Rates retained as the cost of collection allowance under regulation is treated as the Council's income and appears in the Comprehensive and Income Expenditure Statement as are any costs added to Business Rates in respect of recovery action.

Balance Sheet

Since the collection of Council Tax and Business Rates are in substance agency arrangements, any year end balances relating to arrears, impairment allowances for doubtful debts, overpayment and prepayments are apportioned between the major preceptors and the Council by the creation of a debtor/creditor relationship. Similarly, the cash collected by the Council belongs proportionately to itself and the major preceptors. There will, therefore, be a debtor/creditor position between the Council and the major preceptors since the cash paid to the latter in the year will not be equal to their share of the total cash collected. If the net cash paid to the major preceptors in the year is more than their proportionate share of the cash collected the Council will recognise a debit adjustment for the amount overpaid. Conversely, if the cash paid to the major preceptors in the year is less than their proportionate share of the amount collected then the Council will recognise a credit adjustment for the amount underpaid.

Cash Flow Statement

The Council's Cash Flow Statement includes in 'Operating Activities' cash flows only its own share of the Council Tax and Business Rates collected during the year, and the amount included for precepts paid excludes amounts paid to the major preceptors. In addition that part of Business Rates retained as the cost of collection allowance under regulation appears in the Council's Cash Flow Statement. The difference between the major preceptors' share of the cash collected and that paid to them as precepts and settlement of the previous year's

surplus or deficit on the Collection Fund, is included as a net increase/decrease in cash and cash equivalents.

xxiv. Business Improvement Districts

In accordance with the provisions of the Business Improvement District Regulations (England) 2004 ballots of local businesses within specific areas of the City have resulted in the creation of distinct Business Improvement Districts. Business ratepayers in these areas pay a levy in addition to the Business Rate to fund a range of specified additional services which are provided by specific companies set up for the purpose.

In line with Code guidance the Council has determined that it acts as agent to the Business Improvement District authorities and therefore neither the proceeds of the levy nor the payment to the Business Improvement District Company are shown in the Council's accounts.

xxv. Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund infrastructure projects to support the development of the City.

CIL is received without outstanding conditions; it is, therefore, recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with section ix. Government Grants and Contributions of this note. CIL charges will be largely used to fund capital expenditure although an element may be used to support infrastructure maintenance and a small proportion of the charges may be used to fund the costs of administration associated with the CIL.

xxvi. Events After the Reporting Period

Events after the Balance Sheet date are those material events, both favourable and adverse, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of Audit Committee adoption of the accounts are not reflected in the Statement of Accounts.

xxvii. Joint Operations and Jointly Controlled Assets

Joint operations are activities undertaken by the Council in conjunction with other ventures that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets it controls and the liabilities it incurs, and debits and credits the Comprehensive Income and

Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and the expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

xxviii. Council Acting as Agent

The Council does not include transactions that relate to its role in acting as an agent on behalf of other bodies. In such cases the Council is acting as an intermediary and does not have exposure to significant risks and rewards from the activities being undertaken.

xxix. Value Added Tax

Value Added Tax payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. Value Added Tax receivable is excluded from income.

xxx. Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effected. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xxxi. Acquired Operations

Acquired operations are identified separately in the Comprehensive Income and Expenditure Statement in the year of transfer. In subsequent years, the acquired services are included in the relevant Directorate in continuing operations for comparative purposes.

Where non-current assets are transferred as part of an acquired operation at less than fair value, historical cost is deemed to be the fair value at the date of acquisition with the financial support recognised as a contribution and included in the Capital Adjustment Account.

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	AUDIT COMMITTEE
Report of:	Chief Finance Officer
Date of Decision:	26 March 2019
Subject:	HRA Funding of Waste Collection
Wards affected: All	
1	Purpose
1.1	A Whistleblowing complaint was received in relation to the 2017 Waste dispute. The complaint alleged that there had been unlawful expenditure insofar as some refuse collection costs relating to tower blocks had been funded from the HRA.
1.2	As Section 151 Officer, any allegation of unlawful expenditure is a concern and I commissioned an investigation and report from Birmingham Audit. The report is attached as Appendix 1.
2	Decisions recommended:
2.1	To note the results of the investigation, namely that some of the charges are likely to be non-compliant with the statutory ring-fence and a level of reinstatement of HRA balances should be considered. In addition, a full review of HRA charges should be commissioned, including internal recharges.

Contact Officer: Clive Heaphy
Telephone No: 0121 303 2950
E-mail address: clive.heaphy@birmingham.gov.uk

3 Compliance Issues:

- 3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?
Yes.
- 3.2 Relevant Ward and other Members/Officers etc. consulted on this matter:
The Chairman of the Committee has been consulted.
- 3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):
The relevant guidance remains Department of the Environment Circular 8/95 - The Housing Revenue Account.

The Internal Audit service is undertaken in accordance with the requirements of section 151 of the Local Government Act and the Accounts and Audit Regulations 2015. The work is carried out in compliance with Public Sector Internal Audit Standards.

- 3.4 Will decisions be carried out within existing finances and resources?
The investigation report recommends that consideration should be given to reimbursement of the HRA at a level where the housing repairs service became a replacement refuse service.
- 3.5 Main Risk Management and Equality Impact Assessment Issues (if any):
The risk relating to the Grenfell Tower enquiry is a corporate risk, reported to Audit Committee.

4 Relevant background/chronology of key events:

- 4.1 During the 2017 Waste dispute, arrangements were made for Housing Repairs contractors to clear uncollected refuse from BCC tower blocks. The industrial action created a fire risk from accumulations of refuse which was of particular concern to tenants in the wake of the Grenfell Tower fire. The total cost of this arrangement was £817,980 and the costs were HRA funded in 2017/18.
- 4.2 A whistleblower alerted the chair of the Resources Overview and Scrutiny Committee to the expenditure and it was raised at the November committee. I subsequently asked for an audit investigation to explore the allegation.
- 4.3 The audit findings are that the costs “defaulted” to the HRA rather than being a strategic decision. The use of the Housing Repairs contract was a legitimate response, the contract specification being wide enough to accommodate the requests to clear backlogs (initially) and put in place a regular service when it was clear that it would be needed longer-term.
- 4.4 The payment mechanism for housing repairs is through a cost collection workbook – this creates a feeder file and charges the relevant cost centres. An express decision would have had to have been made to move the costs to a General Fund code. This was not done before the closure of the accounts.

The focus of Housing Management was on the health and safety aspects primarily.

- 4.5 The audit included an extensive review of legislation and guidance around the HRA which found no direct reference to these costs being allowable within the statutory ring-fence or otherwise. There is a degree of discretion within the costs chargeable by the Council in the discharge of its landlord function and where the costs can be demonstrated as representing an additional service to the benefit of tenants, they can be legitimately charged to the HRA. Several London Borough Councils charge some waste collection and/or waste disposal to their HRA.
- 4.6 The overriding principle is that council taxpayers do not subsidise services specifically for the benefit of tenants and that rent is not used to subsidise functions which are for the benefit of the wider local community.
- 4.7 Ultimately it will not be straightforward to determine what proportion of the total costs should be reimbursed to the HRA. This will be subject to discussion with Grant Thornton during the 2018/19 audit.
- 4.8 Costs of collections from tower blocks for the current dispute are to be funded from the General Fund, as set out in the January 2019 Cabinet Report.
- 4.9 Having found that elements of the charges are potentially unlawful, I have to consider the implications under S114, The sums involved are not likely to be material and the accounting entries are capable of being corrected so at this stage I am not inclined to issue a report.

Signature:

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Clive Heaphy – Chief Finance Officer

Birmingham Audit

Final Audit Report

Waste Costs charged to the Housing Revenue Account

Place Directorate

15 March 2019

Contents

1. Introduction
2. Objective and Scope
3. Executive Summary
4. Interviews
5. Documentary/System Evidence
6. Conclusions
7. Recommendations

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Information is gathered on a confidential basis and should not be released in response to a Data Protection or Freedom of Information request without prior consultation with Birmingham Audit.

1. Introduction

- 1.1 During the waste dispute in 2017 and in the immediate aftermath of the Grenfell Tower fire, arrangements were made with the Housing Repairs contractors to collect waste from BCC Tower Blocks to address Health & Safety concerns regarding accumulating waste being a fire risk.
- 1.2 Costs of this service totalled £0.8m and were accounted for in the Housing Revenue Account (HRA) in 2017/18.
- 1.3 A senior councillor has made a public statement that charging the costs to the HRA was unlawful.

2. Objective and Scope

Objective of Review: To establish if the costs can be justified as remaining in the HRA

Scope of Review: We obtained information relevant to the service provided to BCC tower blocks during the 2017 waste dispute. We reviewed financial reports, e-mails and materials relating to the Housing Revenue Account.

3. Executive Summary

Councillor Sir Albert Bore raised at Resources Overview and Scrutiny Committee that he was concerned that money from the Housing Revenue Account was used to pay contract refuse collectors last year and that this would be an illegal use of those monies.

BCC tower blocks receive 2 or 3 waste collections per week. During the 2017 strike, Housing Repairs contractors were asked to remove waste on the days that normal collections were not scheduled for, generally 2 collections per week during August, September and October. In July at the start of the industrial action the housing repairs contractors reacted to requests regarding overflowing bins, accumulations from bin rooms and within chutes where they had backed-up and by August had put a regular collection rota in place to keep combustible materials at acceptable levels.

There is no evidence that non-BCC housing or tower blocks were included in this arrangement although there is a report that local residents became aware of the collections and added to the fire risk by dumping their rubbish at the base of the blocks as a means of getting their own rubbish removed.

A review of legislation and guidance around the HRA has found no direct reference to these costs being allowable within the statutory ring-fence or otherwise. There is a degree of discretion within the costs chargeable by the Council in the discharge of its landlord function and where the

costs can be demonstrated as representing an additional service to the benefit of tenants, they can be legitimately charged to the HRA. Several London Borough Councils charge some waste collection and/or waste disposal to the HRA.

A case could be made for some of the costs to be complaint with the statutory ringfence but not all. The level of reimbursement to the HRA is likely to be immaterial in the context of S114 or prior year adjustments to the accounts.

The top issues for management are:

- The Directorate should evidence the additionality of the service from the standard refuse collection service and if this action needs to recur, ensure works orders are transparent and specify health and safety.
- The Directorate should consult tenants as part of rent consultation to formalise the arrangement in future.
- The Directorate should consider reimbursing the HRA with a sum equivalent to the savings accruing to the General Fund from the strike action in relation to non-collection from tower blocks.
- Feedback should be provided to Resources Overview and Scrutiny Committee and / or Audit Committee.

4. Interviews

No	Interview	Summary	Evidence Ref.
4.1	Meeting with Finance Business Partner GO 21 November 2018	<p>GO provided background as to what is allowable to be charged to the HRA and pointed to circular 8/95 as still relevant. He felt it would be difficult to justify charging waste collection and provided a month 9 monitoring report where this had been pointed out to Housing Management Team.</p> <p>GO confirmed the housing repairs contracts are written widely enough to cover the inclusion of waste collection and there would not therefore be a procurement issue. The Head of Service (East/ South) would have raised the job and given instructions to contractors.</p>	W1
4.2	Meeting with Head of Service (East / South) MT and Head of Housing Management TR 7 December 2018	<p>TR confirmed that waste is collected from tower blocks by different crews to the ones that do wheelie bins because they need a different mechanism to lift the paladin bins. Initially FWM put a temporary provision in place for hot spots including high rise properties but it wasn't working 100% and there was a high level of concern from tenants. Grenfell fire happened on 14 June 2017 and the waste dispute started 30 June. TR clarified that while some waste bins are outside, others are in locked rooms under blocks and caretakers provide access to the waste crews. When these are not collected, waste backs up in the chutes. Tenants will leave waste in communal areas when the chutes are blocked and this is another fire risk.</p> <p>MT said that his role had been to arrange for the housing repairs contractors to clear the rubbish. E-mails dated between July and August 2018 show that this was at short notice and there were some initial issues with contractors not having the appropriate equipment and having to sub-contract.</p> <p>MT had referred all costs to the Directors of Housing and Waste Management to get the go-ahead. He had not considered the funding source to be his decision.</p>	W2

No	Interview	Summary	Evidence Ref.
4.3	<p>Meeting with Head of Service North / West (JJ)</p> <p>7 December 2018</p>	<p>JJ said that his and MT's roles involved managing 2 of the 4 contract areas plus specialisms. MT and TR led on tower block health and safety. He would argue as a responsible landlord, immediately after Grenfell, that the response put in place was reasonable to ensure the safety of tenants.</p> <p>The Cost Collection workbook was the most obvious vehicle for paying the contractors. <i>(This means that the costs default to the HRA and a conscious decision to move them would have to have been made).</i></p> <p>Initially very reactive. Housing Management were monitoring missed collections and requesting contractors (via JJ and MT) to collect the following day.</p> <p>JJ did not recollect discussion of the M9 budget monitoring report but confirmed that it would normally be discussed at Housing Management Team.</p>	W2b
4.4	<p>Meeting with Rob James</p> <p>14 December 2018</p>	<p>Rob said his responsibilities were clear and as a landlord we could not see combustible materials mount up, especially when the tenants were at a high level of concern about fire two weeks after Grenfell. Rob had expected the costs to be recharged to waste. Rob had sent the final costs to Jacqui Kennedy in April 18 for her to make a decision but did not think that she had replied.</p> <p>Rob was confident that there would be support if there was the need to consult residents about these recharges. He also suggested that Housing Associations would have put similar measures in place and only had rents to fund such costs from.</p>	W3

5. Documentary/System Evidence

No.	Documentation /System	Summary	Evidence Ref
5.1	Financial Performance Report December 2017/18 (Month 09)	<p>Finance drew attention to the funding of the refuse collection costs in their financial monitoring reports. Month 9 contained the final costs:</p> <p>“Due to the Refuse Collection dispute, additional costs have been incurred in clearing rubbish from Multi-Storey properties to reduce fire risks in light of the Grenfell Tower fire earlier this year. The current year end projection of £0.8m is based on costs to date, and assumes no further costs are incurred for the rest of the financial year.</p> <p>“Whilst these costs have currently been charged to the HRA, it is unclear how this can be demonstrated as compliant with the statutory ring-fence. Consideration should be given to alternative funding arrangements for these costs.”</p>	S1
5.2	Cabinet Report 24 August 2017 – Appendix 1	<p>Estimated weekly costs are quoted</p> <p>Costs Funded by General Fund 235.8</p> <p>Costs Funded by HRA (housing External contractors & staff) 82.1</p> <p>Table and note produced by AD Place Finance ref SK4779a</p>	S2
5.3	e-mail summarising contractors quoted rates	<p>MT e-mailed the reponses from the housing contractors before collections commenced to Acting Director of Waste Management and asked if he was comfortable with the proposals. The implication is that at the outset the expectation is that Waste would pick up the costs.</p>	S3

No.	Documentation /System	Summary	Evidence Ref
5.4	e-mail summarising final costs 27/3/2018 "Bin Collection cost for City Wide"	MT confirmed the final costs to Head of Housing Management (TR) and Acting Director Waste Management (DS) as follows: East £131,097.24 West £134,000 North £42,000 South £510,883.25 TR forwarded the e-mail to Rob James and DS "I assume that you are both dealing with this?" and Rob James replied "Yes I am discussing with Jacqui"	S4
5.5	Circular 8/95	This circular is still the relevant advice for local authorities.	S5
5.6	Implementing Self-Financing for Council Housing, CLG, Feb 2011	"5.1 Local authorities will still be required to account to their tenants for income from and expenditure to council housing separately from income and spending on other functions and services. This ensures that council taxpayers do not subsidise services specifically for the benefit of tenants and that rent is not used to subsidise functions which are for the benefit of the wider local community. 5.2 In line with our emphasis on localism we do not intend to issue new guidance on the operation of the ring-fence. We expect local authorities to take their own decisions, rooted in the principle that 'who benefits pays'."	S6
5.7	Review of the Recharging Arrangements between the General Fund and Housing Revenue	"The charges for refuse storage and collection reflect the cost of additional services to housing estates over and above the standard collection service. These include the provision and maintenance of refuse containers, the delivery of black refuse sacks, multilevel collections and additional collections requested by estate managers. This is a legitimate HRA charge and reflects contract costs" – Grant Thornton review Oct 2011	S7

No.	Documentation /System	Summary	Evidence Ref
	Account – London Borough of Southwark		
5.8	Schedules of flats issued to contractors	Variety of e-mails between Housing Repairs contractors and Housing Management detailing the properties to be collected from and the normal collection days which the contractors were to avoid. Periods cover ad hoc arrangements in July and at the start of August with more regularised arrangements from early to mid-August 2017. All properties are BCC tower blocks.	S8

6. Conclusions

- 6.1 There is sufficient discretion within HRA guidance to make a case for exceptional health and safety works to be a valid HRA expense. Had this been the intention from the outset, the Finance team and Housing Management could have worked together to look at the limitations and risks of the funding source.

Our detailed review of this case, and discussions with operational managers, concludes that the focus of Housing was on minimising fire risk, and operational managers understood that funding decisions were being referred to the Strategic Director. The costs defaulted to the HRA due to the lack of any instruction to move them. **Some of the costs are potentially non-compliant with the statutory ringfence.**

- 6.2 Certain costs, as far as they are additional to the universal refuse service, can be legitimately charged to the HRA. However, there was no consultation with rent payers and a lack of clarity in the way the services were procured insofar as the instructions did not refer to them being essential health and safety works.
- 6.3 The overriding principle behind the HRA ring-fence is that **there should be no cross-subsidisation of General Fund services**. The provision of the service in the later months of the strike was less of a reactive service and had more elements of a replacement waste service. If there were savings

to the General Fund over these months as a result then reimbursement should be made from the Waste budget to the HRA. The nature of the dispute (working to rule / striking for a few hours a day) makes arriving at a General Fund saving more complex to calculate.

- 6.4 A number of London boroughs charge an element of refuse collection to their HRA. A Grant Thornton report concluded that they are legitimate HRA charges as long as they are over and above the standard refuse collection service. It is clear that BCC tower blocks received a more regular service than the standard during the industrial action (given that the standard service resulted in thousands of reports of missed collections) but it is unclear what that level of service would have been if alternative arrangements had not been made with Housing Repairs contractors.

7. Recommendations

- 7.1 The Directorate should review the level of additionality provided between July 2017 and October 2017 compared to the Council Tax funded service received by other Birmingham households. Costs that cannot be justified as additionality or exceptional health and safety works should be reimbursed to the HRA.
- 7.2 The Directorate may wish to consider formally consulting on the HRA funding waste costs of an exceptional nature during the next rent consultation.
- 7.3 Orders for health and safety works should be more specifically worded and an audit trail should be preserved that will back up and justify exceptional costs. The Finance team need to be robust in challenging compliance with the statutory ringfence.
- 7.4 It would be advisable to commission a review of all HRA recharges from the General Fund to gain a definitive view on current practice. This review should cover direct charges and internal recharges.

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	AUDIT COMMITTEE	
Report of:	CORPORATE DIRECTOR FINANCE AND GOVERNANCE	
SUBJECT:	EQUAL PAY UPDATE MARCH 2019	
Key Decision: No		
If not in the Forward Plan: (please "X" box)	Chief Executive approved	<input type="checkbox"/> Not relevant
	O&S Chairman approved	<input type="checkbox"/> Not relevant
Relevant Cabinet Member(s)		
Relevant O&S Chairman:		
Wards affected:	ALL	

1. Purpose of report:
<p>1.1 The purpose of this report is provide an update to Audit Committee in March 2019 relating to the on-going liability of the Council in respect of equal pay claims under the Equal Pay Act 1970. Equal Pay continues to present a challenge for the Council. It should be noted that significant progress has been made in terms of managing the risks associated with lodged claims and settlement negotiations.</p>

2. Decision(s) recommended:
<p>That the committee:-</p> <p>2.1 Note the contents of the Report and to agree that a further update should be made to the Committee at a future meeting, date to be agreed.</p>

Lead Contact Officer(s):	Clive Heaphy, Chief Finance Officer
Telephone No: E-mail address:	303 2950 Clive.Heaphy@birmingham .gov.uk

3.	Consultation
3.1	<p>Consultation should include those that have an interest in the decisions recommended</p> <p><u>Internal</u></p> <p>The Equal Pay Cabinet Sub Committee is provided with updates as part of the quarterly meetings.</p>
4.	Compliance Issues:
4.1	<p><u>Are the recommended decisions consistent with the Council's policies, plans and strategies?</u></p> <p>This report is for noting.</p>
4.2	<p><u>Financial Implications</u> <u>(Will decisions be carried out within existing finance and Resources?)</u></p> <p>The Council has made provision in its 2018/19 Statement of Accounts for the settlement and litigation costs of any outstanding validly pleaded Equal Pay claims. The cost of meeting the equal pay liabilities will be predominantly funded from capital receipts under the flexibilities granted by Central Government. The provision and the adequacy of planned funding are kept under regular review.</p> <p>The revenue implications of Equal Pay settlements have been reflected in both budget and in the Council's Financial Plan in relation to later years. This includes capital financing costs arising from previous years' capital expenditure, loss of income and other costs arising from asset sales and the repayment of any temporary borrowing from reserves.</p>
4.3	<p><u>Legal Implications</u></p> <p>The power conferred by S222 Local Government Act 1972 'Power to prosecute or defend in court in the interest of the public' enables the Council to seek to settle equal pay claims.</p>
4.4	<p><u>Public Sector Equality Duty (see separate guidance note)</u></p> <p>All settlement strategies to date have endeavoured to limit any adverse equality impact.</p>

5. Relevant background/chronology of key events:

- 5.1 The Equal Pay Act 1970 (the Equal Pay Act) was an under-utilised piece of legislation with few claims for many years. Following the National Single Status Agreement in 1997, attention was focused on pay structures within Local Authorities and NHS Trusts. "No win no fee" lawyers started issuing claims for Equal Pay in the late 1990s, and brought equal pay into the public arena.
- 5.2 Over the last twelve years there have been significant developments as a result of case law which have dramatically changed the scope of the Equal Pay Act and the ability of Local Authorities to deal with the resultant equal pay litigation
- 5.3 The Council's intention has always been to produce a gender fair salary structure. Indeed the process of producing and implementing a fair salary structure disclosed the inequalities and inconsistencies of the pay arrangements that existed prior to implementation of the Council's Pay and Grading scheme in 2008. Equal pay claims have been issued despite the Council actively pursuing a 'Single Status' agenda for its employees in 2008 and in 2011 and 2016 using the new Birmingham Workforce Contract for Council and School Managed employees. The Council's Pay & Grading Scheme has prevented, or should have prevented, any further claims as all employees were to be fairly and equally remunerated for work of equal value.
- 5.4 Currently equal pay claims broadly fall into the following categories:
- (a) Rated as Equivalent (RAE) – prior to Single Status these claimants usually referred to as 'manual' or 'blue collar'; claimants, invariably female, choose a 'manual' male employee as their comparator and the comparators chosen in local government are almost always male employees with the benefit of bonus schemes from which they derive much higher levels of pay than the female claimants. These claimants would almost certainly have succeeded even if the bonus schemes were shown to be genuine productivity schemes; this is because female employees were 'rated as equivalent' under their old conditions of service and therefore entitled to the same rate of pay. However the women were not considered for bonus schemes in the same way as the male manual employees.
 - (b) Equal Value (EV) – prior to Single Status these claimants were referred to as 'non-manual' or 'white collar'; claimants, invariably female, choose a 'manual' male employee as their comparator - non-manual v manual. This was allowed by the Court of Appeal in 2008 and opens up the possibility of a large number of further equal pay claims using the same bonus earners as the 'comparator'.
- 5.5 Authority for the settlement of validly pleaded Equal Pay claims was first granted by Cabinet on 25th July 2011.
- 5.6 Further approval to an updated Equal Pay strategy was granted by Cabinet in July 2014, and again in August 2017. Approval was granted in April 2018 to establish the Equal Pay Cabinet Executive Committee and an updated strategy in December 2018. The Cabinet Sub Committee meets on a quarterly basis.
- 5.7 Further background information is set out in a Private briefing.

6. Evaluation of alternative option(s):

This report is for noting only.

7. Reasons for Decision(s):

This report is for noting only.

List of Background Documents used to compile this Report:

Cabinet reports July 2014 and 2015, August 2017, April 2018 and December 2018.

Audit reports September 2012, November 2013, November 2016 and January 2018.

List of Appendices accompanying this Report (if any): none

Report Version	V1	Dated	21st March 2019
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PROTOCOL PUBLIC SECTOR EQUALITY DUTY

- 1 The public sector equality duty drives the need for equality assessments (Initial and Full). An initial assessment should, be prepared from the outset based upon available knowledge and information.
- 2 If there is no adverse impact then that fact should be stated within the Report at section 4.4 and the initial assessment document appended to the Report duly signed and dated. A summary of the statutory duty is annexed to this Protocol and should be referred to in the standard section (4.4) of executive reports for decision and then attached in an appendix; the term 'adverse impact' refers to any decision-making by the Council which can be judged as likely to be contrary in whole or in part to the equality duty.
- 3 A full assessment should be prepared where necessary and consultation should then take place.
- 4 Consultation should address any possible adverse impact upon service users, providers and those within the scope of the report; questions need to assist to identify adverse impact which might be contrary to the equality duty and engage all such persons in a dialogue which might identify ways in which any adverse impact might be avoided or, if avoidance is not possible, reduced.
- 5 Responses to the consultation should be analysed in order to identify:
 - (a) whether there is adverse impact upon persons within the protected categories
 - (b) what is the nature of this adverse impact
 - (c) whether the adverse impact can be avoided and at what cost – and if not –
 - (d) what mitigating actions can be taken and at what cost
- 6 The impact assessment carried out at the outset will need to be amended to have due regard to the matters in (4) above.
- 7 Where there is adverse impact the final Report should contain:
 - a summary of the adverse impact and any possible mitigating actions (in section 4.4 or an appendix if necessary)
 - the full equality impact assessment (as an appendix)
 - the equality duty – see page 9 (as an appendix).

Equality Act 2010

The Executive must have due regard to the public sector equality duty when considering Council reports for decision.

The public sector equality duty is as follows:

1	<p>The Council must, in the exercise of its functions, have due regard to the need to:</p> <ul style="list-style-type: none"> (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by the Equality Act; (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
2	<p>Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:</p> <ul style="list-style-type: none"> (a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic; (b) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it; (c) encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.
3	<p>The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.</p>
4	<p>Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:</p> <ul style="list-style-type: none"> (a) tackle prejudice, and (b) promote understanding.
5	<p>The relevant protected characteristics are:</p> <ul style="list-style-type: none"> (a) age (b) disability (c) gender reassignment (d) pregnancy and maternity (e) race (f) religion or belief (g) sex (h) sexual orientation

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	AUDIT COMMITTEE
Report of:	Chief Finance Officer
Date of Decision:	26 March 2019
Subject:	STATUTORY RECOMMENDATIONS MARCH 2019
Wards affected: All	
1	Purpose
1.1	To inform Audit Committee of Grant Thornton's decision to issue Section 24 Recommendations in relation to Governance Issues.
2	Decisions recommended:
	Members are recommended to:
2.1	Note the S24 Recommendations which will be reported and responded to at a meeting of Full Council
2.2	To note the Committee's role in monitoring progress and implementation of the management actions proposed.

Contact Officer: Clive Heaphy
Telephone No: 0121 303 2950
E-mail address: clive.heaphy@birmingham.gov.uk

3 Compliance Issues:

- 3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?
The Council's policies, plans and strategies are underpinned by its governance arrangements and the Council's Medium Term Financial Strategy is aligned with Council priorities.
- 3.2 Relevant Ward and other Members/Officers etc. consulted on this matter:
The Chair of the Committee has been consulted.
- 3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):
The work of the external auditors is governed by the Code of Practice issued by the National Audit Office in accordance with the Local Audit and Accountability Act 2014.
- 3.4 Will decisions be carried out within existing finances and resources?
Yes
- 3.5 Main Risk Management and Equality Impact Assessment Issues (if any):
The issues raised are reflected in the Council's Corporate Risk Register.

4 Relevant background/chronology of key events:

- 4.1 The external auditor has concluded that it is appropriate to issue further S24 recommendations out of the normal annual audit cycle and ahead of any 2018/19 audit work being undertaken.
- 4.2 Whilst the auditor notes the progress made against the seven previous recommendations considered by Full Council on 11 September 2018, he considers that two issues require a further report: Governance and waste Services and the council's financial challenges,
- 4.3 The possibility of further Statutory Recommendations was first flagged up in writing on 14th January 2019, just 4 months after the council agreed its plan for the previous recommendations.
- 4.4 Audit Committee has been kept updated of the positive progress against the agreed plan at each subsequent meeting.
- 4.5 The City Council recognises its responsibility in responding to the Statutory Recommendation under section 24 of the Local Audit and Accountability Act 2014.

The Act requires the Council to:

- consider the recommendation at a meeting held within one month of the recommendation being sent to the Council; and
- at that meeting the Council must decide:

- i. whether the recommendation is to be accepted, and
- ii. what, if any, action to take in response to the recommendation.

4.6 The issues raised are serious ones which the Council will consider at its meeting of 2 April 2019 and which it will respond to at the earliest opportunity.

4.7 Further reports will be provided to this committee setting out the progress in implementing the proposed activity in response to the recommendations.

Signature:

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Clive Heaphy, Chief Finance Officer

Appendices

Appendix 1 – Statutory Recommendations Final Report

Statutory Recommendations

Final Report

March 2019

Birmingham City Council

Audit of Accounts 2018/19

Governance Issues

Birmingham City Council: Statutory Recommendations March 2019

Our responsibilities

1. As well as our responsibilities to give an opinion on the financial statements and assess the arrangements for securing economy, efficiency and effectiveness in the Council's use of resources, we have additional powers and duties under the Local Audit and Accountability Act 2014 ('The Act'). These include powers to issue a public interest report, make statutory recommendations and to apply to the Court for a declaration that an item of account is contrary to law. Electors also have the right the opportunity to raise questions about the Council's accounts and to make objections in relation to the accounts.
2. We have concluded that it is appropriate for us to use our powers to make statutory recommendations under section 24 of The Act (Schedule 7) due to the Council's financial and governance challenges.

Reasons for making the recommendation

3. We included statutory recommendations in July 2018 under paragraph 2 of Schedule of 'the Act' in both our 2017/18 Annual Audit Letter and Audit Findings Report relating to operational arrangements, finance and governance. This followed the issue of a statutory recommendation in October 2016 in respect of financial resilience. The statutory recommendations issued in July 2018 stated that the Council needed to:

Finance

- deliver its savings plans in 2018/19, in particular by identifying alternatives where existing plans are not deliverable, to mitigate the impact of the combined savings and budget pressure risks
- develop a realistic medium term financial plan for 2018/19 to 2021/22 which incorporates realistic and detailed savings plans and takes account of key budget and service risks
- ensure that it maintains an adequate level of reserves to mitigate the impact of budget risks, in particular one-off risks such as the Commonwealth Games and Equal Pay

Transparency and Governance

- ensure that its financial monitoring and budget reports are clear, transparent, and timely, particularly in relation to the use of reserves, whether in-year or at year-end
- report governance failures and emerging issues promptly and clearly to Members and local citizens

Subsidiary Bodies

- ensure that appropriate arrangements are implemented in relation to the Council's subsidiary bodies, including regular financial reporting and Council representation on subsidiary body boards, to ensure that emerging risks are monitored, reported and managed promptly

Place Directorate

- ensure that robust management and governance arrangements are put in place within the Place Directorate, particularly to ensure effective oversight of the waste service, to ensure that it delivers its financial and service objectives
4. This recommendation and the Council's formal response were considered at the Council meeting on 11th September 2018. A 12 month Action Plan was agreed and is being tracked by the Council's Audit Committee.
 5. We have now concluded that whilst good progress has been made in a number of areas in delivering against the recommendations, progress in relation to the refuse collection service, in particular, has been hampered by a new wave of industrial action. The Council, in addition, continues to face a number of very significant risks, which it is seeking to manage. Accordingly, we now consider it appropriate to make further statutory recommendations under 'the Act'. This is the third set of such recommendations that we have considered it appropriate to issue in just under two years.
 6. It is encouraging that the Council has made progress in the following areas:
 - Ofsted has, for the first time in recent history, recognised improvements in children's services. The service is still judged to require improvement, but this is an important and significant step forward.
 - the Council's Management Team (CMT) has been strengthened and refreshed, including, in the last year, a new Chief Executive, Chief Finance Officer and Assistant Chief Executive, all with considerable sector experience, which has increased capacity.
 - there is a new focus on delivering service improvements and robust financial management.
 - a new council plan and workforce strategy have been developed, reflecting the Council's priorities.
 - in-year financial reporting is more transparent, particularly concerning the use of reserves and the annual Financial Plan provides greater detail than previous plans.
 - the 2018/19 budget is on target to be delivered, with a smaller call on reserves than the budgeted £30m, with greater focus on budget management and financial accountability in Directorates.
 - CIPFA has been brought in as an improvement partner to help strengthen the finance function and move it towards a top quartile performing function.
 - governance has been strengthened in relation to the oversight of the Council's subsidiary bodies, which has involved Member training and a re-focus on the importance of the 'shareholder' function; and
 - there is to be a renewed focus on the customer and customer experience.
 7. This progress is not to be underestimated and represents a step forward by a new team of officers and members in a short period of time. We accept that it would be unrealistic to expect that a relatively new management team would be able to address, overnight, the deep-seated problems which have dogged the Council for over a decade. This will take time. The independent Improvement Panel's remit finishes in March 2019 and its concluding report will provide the Panel's own final assessment of progress made against the improvement challenge set by the Kerslake report.

8. Despite the progress made, however, our view, is that the Council faces some particular challenges which need to be tackled now. The way in which recent events in relation to the waste dispute is resolved will determine how much of a corner has been turned. Strong political leadership is required to implement the hard decisions required to deliver the transformational savings needed to protect financial resilience, and to mitigate the significant financial risks that the Council is facing.
9. Accordingly, we have made the following recommendations.

Recommendation made under paragraph 2 of Schedule 7 of the Local Audit and Accountability Act 2014 ('the Act')

The Council is recommended to:

Governance and the Waste Service

- ensure that the terms of reference for the planned review of future options for the delivery of the refuse collection service, provide for the review to be carried out in a timely fashion, and include an examination of all options for delivering the refuse collection service going forward, in order that the service can demonstrate value for money in the delivery of its financial and service objectives; including, for instance:
 - looking to best practice models across the sector
 - examining different staffing and working arrangements
 - combining collection and disposal functions
 - other potential options, such as outsourcing
- build industrial relations capability within the Council to ensure that it is able to maintain consistent and effective relations with its trade union partners.
- commission a review of the new working practices in place within the refuse service to ensure that they are embedded and monitored robustly to minimise the potential for further Equal Pay claims

Finance

- continue to reduce the likelihood of the non-delivery of savings plans for 2019/20 and beyond through the delivery of clear plans and robust programme management arrangements
- broaden transformational work across the Council's financial plan for 2019/20 to 2022/23, to help deliver savings at scale to address the impact of the combined savings and budget pressure risks
- keep under close review the potential impact of one-off budget risks, such as the Commonwealth Games, Equal Pay and Amey, by:
 - continuing to strengthen its level of reserves; and
 - completing the development of contingency plans to minimise the effects of these risks should they crystallise.

Governance and the Waste Service

10. The Kerslake Report of December 2014, concluded that:

‘For a number of years and successive administrations, the council’s members and senior officers have not gripped some very significant issues, such as children’s services, waste management and equal pay. Instead there have been a series of short term fixes and annual salami slicing of services which have kicked the can down the road [...] this is no longer sustainable.’

11. The report argued that successive administrations had swept deep-rooted problems ‘under the carpet’. It went on to argue that the most important thing that the Council needed to do to improve was to change its corporate culture. Some four years on, of the significant issues referenced by Kerslake, children’s services show signs of improvement, but waste management and equal pay remain significant challenges. It is therefore legitimate to question the extent to which corporate governance has improved in the last four years.

12. While corporate management capability and capacity has strengthened, the Council has, at times, continued to exhibit the same short-termism, and tendency to avoid managing deep-rooted problems, that Kerslake identified as being the biggest block to progress four years ago. Nowhere is this better illustrated than the Council’s approach to waste services. We were critical of the Council’s failure to manage its waste services effectively in July 2018 and issued the following statutory recommendation to address its shortcomings in this respect:

‘[the Council should] ensure that robust management and governance arrangements are put in place within the Place Directorate, particularly to ensure effective oversight of the waste service, to ensure that it delivers its financial and service objectives.’

13. Our 2017/18 Annual Audit letter noted that the events leading to the original waste strike being suspended on 16 August 2017, then re-instated on 1 September 2017 when 106 workers were handed their redundancy notices:

‘did not serve to enhance confidence in the Council’s systems of governance [...] Members will recall that a key strand of the Kerslake report related to the need to re-set member-officer relations. It is of concern that initial improvements in this area may not have been sustained.’

14. The original waste strike and the failure to introduce revised working arrangements until September 2018 (which have still not been formally signed off by the unions) have given rise to significant budget pressures in both 2017/18 and 2018/19. The total additional cost of the original waste strike was of the order of £6.6m.

15. Subsequently, the Council commissioned external solicitors to review the actions of the former Leader and Cabinet in relation to the conduct of the original waste dispute over the summer/autumn of 2017. The report, which the Council published in the public domain in December 2018, concluded that the former Leader had acted unlawfully in seeking to overturn a decision made by Cabinet on 27 June 2017 regarding the re-organisation of the waste service.

16. The report states that the Leader had purported to make an agreement with Unite at ACAS to reverse the Cabinet's decision to delete 113 grade 3 posts. It goes on to say that he subsequently sought to ratify his decision via an informal Cabinet meeting on 18 August 2017. The report concludes, however, that the informal Cabinet was not a formal decision-making body and therefore had no powers to ratify the Leader's decision. The report argues that the Council should have proceeded to implement the decisions made in the 27 June report or have made a decision at a formally instituted Cabinet to modify its original decision, which would then have been lawful.
17. The report's conclusions are stark and echo many of the findings of the original Kerslake Report in relation to the Council's systems of governance. In this respect, the report notes:
- 'At the heart of this matter lies an ongoing failure to accept the norms of decision-making. This is the DNA that is the day to day governance of a council and its heart and at the material time, namely in 2017 was missing/distorted at BCC [...] The Cabinet did not operate effectively during this time. It was dysfunctional not a cabinet [...] collectively they were not an effective team. They were also played off against each other by the Leader. Meetings when they did happen were ineffective. When presented with the ACAS meeting and outcome, Cabinet members did not challenge the Leader collectively over his actions and did not stop Cllr Clancy as might be expected. At least one said that they did not do so because they did not want to lose their job as a cabinet member [...] The senior officer management team (CLT) was dysfunctional during this time.'
18. It is a picture that Kerslake would have recognised.
19. Following the original waste dispute, the former Leader resigned and a new Leader was installed in the autumn of 2017. The action was suspended on 20 September 2017 when Unite the union ('Unite') won an injunction blocking the proposed redundancies. The Court ordered the re-instatement of the dismissed workers but also the immediate implementation of the proposed revised working arrangements, incorporating in particular, a move to five day working. Whilst the dismissed workers were reinstated in different roles in January 2018, the revised working arrangements were not introduced until September 2018 and have still not been formally signed off by the unions.
20. Subsequently Unite commenced industrial action on 14 December 2018, by announcing that members would work to rule. Unite had learned that the Council had made payments totaling £68,645 to GMB members in the waste service in May 2018 on the grounds that the Council had failed to consult GMB over proposals to dismiss waste service employees as redundant, contrary to s.188 of The Trade Union and Labour Relations (Consolidation) Act 1992. According to the Cabinet report of 15 January 2019, the exclusion of GMB had been at the insistence of Unite, which Unite denies. The Council has subsequently conceded that Unite was correct in this assertion. The payments to GMB members were made under delegated arrangements and were accordingly not set out in a report to Cabinet.

21. Unite argued that there was no breach of s.188, alleged blacklisting and trade union discrimination, and demanded that its members receive similar payments to those made to GMB members. The total cost of this claim was of the order of £1.7m, as payments would also have to be made to Unison waste service members. Certain Unite members have also brought ET proceedings against the Council, alleging that the payments to GMB have been to the detriment of Unite members, on a variety of grounds. ET proceedings were timetabled for February 2020. On 11 January 2019 Unite informed the Council of its intention to begin continuous industrial action, based around working to rule, commencing 25 January 2019. The industrial action had the potential to run for some time and was causing considerable disruption to services, with additional costs running at up to £0.35m per week to bring in external contractors to remedy incomplete work.
22. In response, a public and a private report were presented to Cabinet on 15 January 2019, setting out the Council's proposed plans to deal with the industrial action. The public report stated that 'the Council does not in any way agree with Unite's position', and that it had little merit, in the Council's view. It set out four options to address the industrial dispute:
- do nothing;
 - make the payments to Unite members
 - seek binding arbitration; and
 - obtain a Court order (or 'injunction') to prevent the industrial action continuing on the grounds that it was unlawful.
23. The first two options were not recommended in the report. In particular, the second option of making payments to Unite members, was not supported, principally because, as the report states, there was 'no legitimate reason' to make payments to these workers, indeed, 'to make equivalent payments to them could be ultra vires.' The report also stated that making such payments could also represent a 'contagion' risk as other groups of Council staff might also, in future, resist any initiatives to reconfigure services to reduce costs in a similar way. The public paper states that the Council's options to respond to Unite 'are set out in this report and also the Private Report.'
24. Following the Cabinet meeting it was announced in the press and local media that the Council was to adopt a twin-track approach by pursuing arbitration, with the agreement of both parties, and by seeking a Court order to prevent the industrial action. The Council was concerned that, given a Court hearing date of February 2020 for the ET proceedings, significant additional costs might accrue, assuming that industrial action continued. The Cabinet member for Clean Streets, Waste and Recycling, however, promptly resigned as he was opposed to the proposed injunction. Unite then issued proceedings to obtain an injunction, later to be joined by Unison. Unite also announced a new programme of industrial action.
25. While the Council's legal advisers had advised that the industrial action was unlawful, the Council took subsequent legal advice which argued that it would be lawful for the Council to make payments to Union members, if they were made, pursuant to settling litigation, rather than being made in recognition of the validity of Unite's claim. Our own legal opinion broadly reflected the Council's legal advice. Negotiations on a 'without prejudice' basis were then conducted with the Unions with a view to agreeing suitable payments to end the dispute. These were not successful.

26. A suite of options was then included in a report for Cabinet to consider on 12 February 2019 to resolve the dispute, which broadly reflected the options provided within the Cabinet report of 15 January 2019. The report included no officer recommendation. On the day of the Cabinet meeting, however, a late hybrid option was included in the report, option 5, which was to seek a negotiated settlement through ACAS. This involved making the offer of payments to Unite and Unison members to end the dispute. It also stipulated, however, that, should the offer not be accepted by close of play on February 12, the Council would move to injunct the unions. Discussions subsequently broke down and the Council accordingly put in place its plans to take legal action by way of injunction. This was a difficult decision for the administration to take.
27. On 28 February 2019, the case was heard and the Council was not successful in its application for an injunction preventing the current industrial action of Unite and Unison from continuing. In summary, the Court held that s.222 (1) (b) TULRCA required the Court to look at a union's reasons for undertaking industrial action. What mattered, the Court held, was the belief of the union. He concluded in this instance that the unions believed that industrial action was to seek parity payments for their members. The Council decided against appealing the Court judgment.
28. Subsequently, following discussions at ACAS, the Council and Unite agreed, on a without prejudice basis, a draft Heads of Terms which was approved by Cabinet on 15 March 2019. These proposals are intended to settle all litigation and all industrial disputes including ceasing all current industrial action. The public Cabinet report states that the Council will pay to Unison and Unite members, in summary, £3,000 to all valid individual claimants, and an additional payment of £500 to all individuals who were members of each union as set out in the Heads of Terms agreed by cabinet on 15th March 2019. The amounts are likely to be net of any applicable tax or national insurance. The gross amount payable to a standard rate taxpayer if tax and NI were payable, would be £5,754 to each individual. This will cost £1.864m in total. The proposed settlement needs now to be formally signed off by all parties.
29. Whilst a potential end to the industrial dispute, is a welcome outcome, it comes at a cost:
- the failure to consult with GMB in 2017 over the changes to working arrangements led the Council to make payments to GMB of £68,645, of itself a relatively modest sum. However, this was to have far-reaching and 'unintended consequences', in the Council's own words, resulting in the industrial action taken by Unite and Unison, disruption to services, and additional costs amounting to £6m to hire agency staff and other costs and to settle the dispute.
 - in addition, the Council will also have to pay £1.864m to bring to an end the dispute to Unite and Unison members.
30. A positive outcome, is that the draft Heads of Terms provide for an independent review of future options for the waste service to be carried out. The terms of reference for the review will be set by the Council on 26th March 2019. A Joint Services Improvement Board will be established and will be consulted upon in relation to the terms of reference. The Board will be chaired by a Cabinet Member and the membership will include all joint trade unions GMB, Unison and Unite.

31. This is, an important moment for Council and its politicians, in particular, to demonstrate, that they can act in a decisive manner to tackle a long-standing issue. The way in which the review is managed will impact on the Council's ability to contain the 'contagion' risk referred to in the Cabinet report of 15 January 2019. The Council has a challenging industrial relations history as the ongoing strike action involving the enablement service, which commenced in 2017, demonstrates.
32. The Council now has a chance to improve its relations with trade union partners by building industrial relations capability and also to look at options to ensure that the waste service delivers value for money for local citizens. In this respect, it is important that the independent review, agreed as part of the Terms of Settlement, should include all options for delivering the service going forward, so that any decision is informed by a comprehensive analysis of the choices available to the Council.
33. Assuming that the present dispute is resolved satisfactorily, it will still remain the case that the service is not as efficient as it could be. For instance, few councils that we are aware of, employ a waste reduction collection officer on each refuse freighter. Refuse collection also has a history of service disruption which does not represent a good stewardship of public funds.
34. In addition, looking back over the history of the waste dispute, the Council's unwillingness over a long period to tackle working practices within the waste refuse service has also cost it dearly. In particular, over the last decade, many of the Council's Equal Pay claims have resulted from comparisons between male refuse workers and female workers deemed to be in comparable posts who were paid significantly less. The Council has received claims under the Equal Pay Act 1970 and recognised total Equal Pay (EP) liabilities totalling £1.2bn, which relate to working practices and changes to terms and conditions which have been in place for more than a decade. This has involved successive political administrations. Funding the payment of these claims has proved a significant ongoing drain on the Council's finances.
35. The Council has put in place revised working arrangements in the waste service, and monitoring arrangements, to ensure that they minimise the potential for further Equal Pay claims. The Council also agreed a Mitigation Strategy on 24 August 2018 to include review of working practices Council-wide, to ensure compliance with equal pay requirements. It would seem sensible to gain further assurance around the robustness of these arrangements, as they pertain to waste services, by commissioning a review to ensure that they are embedded and are being monitored robustly.

36. For these reasons we make the following recommendations:

The Council is recommended to:

- **ensure that the terms of reference for the planned review of future options for the delivery of the refuse collection service, provide for the review to be carried out in a timely fashion, and include an examination of all options for delivering the refuse collection service going forward, in order that the service can demonstrate value for money in the delivery of its financial and service objectives; including, for instance:**
 - **looking to best practice models across the sector**
 - **examining different staffing and working arrangements**
 - **combining collection and disposal functions**
 - **other potential options, such as outsourcing**
- **build industrial relations capability within the Council to ensure that it is able to maintain consistent and effective relations with its trade union partners**
- **commission a review of the new working practices in place within the refuse service to ensure that they are embedded and monitored robustly to minimise the potential for further Equal Pay claims**

Finance

Savings Plan delivery

37. The Council has not delivered all of its planned savings in recent years. In 2017/18, the Council reported a net overspend of £4.9m after use of £63.1m of reserves (£42.2m of which were planned) plus £11.7m to fund pension guarantees. The Council applied £116.8m of reserves in 2016/17 and 2017/18 to deliver a cumulative deficit of £35m. We noted in our Audit Findings report for 2017/18:

‘If the Council had not applied any reserves over the last two years, it would have had to deliver £150m more in cumulative savings to achieve balance. It has effectively been running an annual deficit of £75m.’

38. The Council has, however, made progress in the last 12 months. The Council’s financial plan provides for £52.9m of savings in the current year, 2018/19, after applying £30.5m of reserves. In this respect, the month 9 budget report is forecasting a £2m overspend, which is a stronger position than at the same stage this time last year, when the Council reported a £4.5m overspend after the utilisation of £75m of reserves. It is also expected that not all of the £30.5m will need to be utilised to support the budget. Under delivery of savings in 2018/19 is likely to amount to £9.7m (18% of planned savings) which is a better position than in previous years. In 2017/18 under delivery of savings amounted to £22.6m (32% of planned savings) and £55.8m (63% of planned savings) in 2016/17. Bearing down on non-delivery of planned savings will continue to be a very important area of focus for the Council.

39. 2019/20 and beyond, however, continues to look extremely challenging. The Council is seeking to strengthen its monitoring processes and embed accountability for delivery of savings more strongly within Directorates. The Council needs to deliver £86m in savings by 2022/23. To put this into context, this is equivalent to around 8% of its current controllable budget (that is, excluding non-controllable costs such as delegated expenditure to schools). £36m of savings needs to be delivered in the next financial year, 2019/20, but £18m in savings, are still being consulted on. Savings to be consulted on in the following three years amount to £73m.
40. The Financial Plan for 2019/20 to 2020/23 includes mostly medium-scale savings plans but includes few 'transformational' savings plans. The Council argues that it has learnt lessons from the non-delivery of large savings plans in the past and that it will now only include transformational plans in its Financial Plan that are properly worked up. This is a sensible approach, but the absence of transformational plans within the current Financial Plan, will become more important in later years as it may become more difficult to achieve significant savings through less ambitious schemes. There are a number of one-off budget risks, (referred to later) which if they crystallised, might require an increase in the amount of savings to be delivered. Equally the Council needs budget headroom programme to meet any other changes in business assumptions in the overall medium term financial plan.
41. In this respect, there is an opportunity to broaden existing transformational work across the Council's financial plan for 2019/20 to 2020/23 to help deliver additional savings at scale to address the impact of the combined savings and budget risk pressures. The current financial plan includes a savings plan to reduce the costs of social care high-cost provision by £6.25m in 2019/20, but this plan remains an exception.
42. There is also an opportunity to learn from past experience. Some large projects have delivered more substantial savings, others have not. For instance, the 2017+ Financial Plan provided for an ambitious plan to radically reorganise the Early Years Service. This was one of the largest of the Council's transformational plans. The initiative was intended to deliver £10m in savings. A recent Internal Audit Report of January 2019 explained that a key element of the reorganisation plans involved the TUPE transfer of 140 Council staff to four partner organisations. However, due to late concerns expressed in relation to collective bargaining rights, staff have been, instead, seconded and not TUPE'd to the partner organisations. As a result, according to the Internal Audit report, the £10m predicted savings from the initiative will 'almost certainly not be achieved.' The delay in starting the contract has cost £4.7m according to the report.
43. It is right to exclude any project from the Financial Plan which is not sufficiently well-developed. The example of the Early Years Service project, however, should not deter the Council from continuing to develop similarly ambitious projects. The experience of that project, and, indeed the waste services dispute, suggest that cost reduction schemes involving significant service re-configuration, may require more effective engagement with staff and unions at the outset, and better joint understanding of the objectives of the change plans by Members and officers. The approach that the Council intends to take review the future operation of the waste service, reflects this approach, and if well-managed, could provide a model for other service reviews.

Medium Term Financial Plan (MTFP)

44. The Council is seeking to develop a more robust MTFP which is less dependent on the use of reserves to support budget delivery. Whilst the original 2018/19 plan, as noted, was reliant on £30.5m of reserves, the Council argues that this was a recognition that it needs time and capacity to transform its services. The Council is seeking to strengthen financial resilience by setting a maximum council tax increase of 4.99% for 2019/20.
45. The MTFP is central to delivering financial balance over the medium term. It reflects current assumptions about future service and financial pressures and likely fee, government grant and other income trends. Developing more transformational savings plans may be one way in which the Council can build in headroom to accommodate financial pressures arising from increases in service demand, legislative requirements and, in particular the large one-off risks, such as The Commonwealth Games and Equal Pay, which are only two of the potential financial pinch-points referred to in the next section.

Adequacy of Reserves

46. The Draft Financial Plan 2019-2023 notes that the Council will hold £152.8m in general reserves and £121m in earmarked reserves at the end of 2019/20. A Policy Contingency of £42.2m is also available 'to protect against unplanned expenditure.' The earmarked reserves are planned for specific uses and are therefore not available to support the general budget. Therefore, in reality, the Council has effectively £195m to support the budget and to meet contingencies.
47. The Council has recognised that it cannot continue to use reserves to support the revenue position, as it has done up to 2018-19. It also plans to make a net contribution to reserves of £17m in 2019/20. The Council's new reserves policy makes it clear that general reserves should not be used to mitigate the requirement to make ongoing savings. The 2019-20 budget, however, relies upon the use of £5.9m in general reserves to support the budget, and £21.1m (net) of earmarked and other reserves will also be applied elsewhere, for instance, to pump-prime savings schemes.
48. While the Council's reserves, earmarked and un-earmarked, are substantial, they should be viewed in the context of the unique financial risks that the Council faces, which are more considerable than those faced by most other local authorities. These remain significant; key risks have emerged as follows:
- **Equal Pay:** remains a significant financial risk, although it is difficult to quantify the extent of the risk as there are inherent uncertainties surrounding the potential volume, timing and chances of success of any future claims. The incidence of claims has reduced in recent years and the Council has been negotiating an agreement with the main unions which will mitigate risk.
 - **Commonwealth Games:** at December 2017, the Council had committed to providing £184.7m for the project, £145.1m in capital funding and £39.6m to meet revenue expenditure. These are considerable commitments. The Council will also incur additional costs during the Games and the project assumes partnership funding of £75m of which £30m still needs to be agreed by partners. The Council has budgeted for the expected cost of the games and, in addition has provided a £4.7m provision in 2018/19 to further mitigate timing risk. Pressure must be maintained to ensure that the overall budget is not exceeded, either through construction projects not coming in on budget, or through escalation of costs elsewhere. Accordingly, there remains a risk that the Council might have to meet further liabilities if costs are not well controlled.

- **Amey Contract:** this contract was one of the first Highways PFI contracts and commenced in 2010. It is a £2.7bn project over 25 years, involving a £328m refurbishment of the highway infrastructure. Following a series of legal challenges, the Court of Appeal determined that Amey's interpretation of the contract from 2014 had the effect of reducing its workload. The Court ruled that this interpretation was incorrect. Subsequently Amey and the Council have been in dispute regarding amounts due to the Council, following the Court ruling, and the Council has, in turn, withheld contractual payments from Amey. Negotiations are ongoing to resolve the dispute but there remains a risk that Amey could exit the contract which could result in financial liabilities accruing to the Council. In particular, the Council remains highly dependent on Government-funded PFI credits which contribute £50m towards the annual £80m unitary charge for the highways services provided. If the PFI arrangement could not be continued, the Council would face a very significant financial liability.
- **Paradise Circus:** is a Local Enterprise Partnership (LEP) programme started in 2014, carried out under the auspices of the City Enterprise Zone (EZ). It will develop office space, hotel and car-parking around Paradise Circus, a City Centre site under three anticipated phases. Phase 1 has overspent by £29.1m (from £37.68m to £66.79m) and Phase 2 costs are anticipated to increase by £21.43m (from £28m to £49.45m) yielding a total cost overrun of £50.53m. The Council's own arrangement for oversight of the project, as problems emerged, were inadequate. The project finances have now been restructured and remains fully funded through Business Rate growth via the EZ programme within the GBSLEP. The restructured deal provides additional benefits and risk mitigations to the Council and strong management is needed between BCC, GBSLEP and the PCLP to ensure that no further overspends occur on the remainder of the project. The Council is the Accountable Body.
- **Acivico:** is a Council wholly-owned company which has been poorly managed in recent years. The Council funded the write-off of a £10m deficit in 2017-18. The Council has put in place a refreshed management team during 2018-19 and involved a turnaround team to help the company attain greater financial stability. The Council will then make a decision as to the company's longer-term future. Early signs are that progress is being made and the Council's financial exposure is now better understood and more actively managed. It remains, however, a financial risk for the Council, albeit not on the scale of the risks outlined above.

49. There are other potential financial risks which are signposted in the Council's Draft Financial Plan 2019-2023, including the potential need to increase employer pension contributions, as well as additional service cost pressures, particularly in relation to social care service. The Council is prudent in recognising and articulating these risks.
50. However, the Council in our view faces a unique level of one-off risks. In addition, any failure to deliver on planned savings over the next three years, could also lead to a depletion of reserves. Having regard to these risks, we make the following recommendation:

The Council is recommended to:

Finance

- **continue to reduce the likelihood of the non-delivery of savings plans for 2019/20 and beyond through the delivery of clear plans and robust programme management arrangements**
- **broaden transformational work across the Council's financial plan for 2019/20 to 2022/23, to help deliver savings at scale to address the impact of the combined savings and budget pressure risks**
- **keep under close review the potential impact of one-off budget risks, such as the Commonwealth Games, Equal Pay and Amey, by:**
 - **continuing to strengthen its level of reserves; and**
 - **completing the development of contingency plans to minimise the effects of these risks should they crystallise.**

What does the Council need to do next?

51. Section 24 of The Local Audit and Accountability Act 2014 (Schedule 7), requires the Council to:

- consider our recommendations at a meeting held within one month of the recommendations being sent to the Council; and
- at that meeting the Council must decide:
 - (a) whether the recommendations are to be accepted, and
 - (b) what, if any, action to take in response to the recommendations.

52. Following the meeting the Council needs to notify us, as the Council's auditors, of its decisions and publish a notice containing a summary of its decisions which has been approved by us.

